

## Response to World Development Report 2004 Outline

### **Making services work for poor people – an urgent priority**

ActionAid welcomes the focus of the WDR 2004 on making services work for poor people. The condition of basic services in many of the world's poorest countries is a moral outrage, and a gross violation of human rights. It is also a critical barrier to the achievement of international commitments on poverty eradication. Millions of people in the South – a disproportionate number of them rural and female – lack access to the most basic healthcare, education, water and sanitation. Millions more have access in name only, to understaffed, ill-equipped, dilapidated or unaffordable facilities.

Non-existent, and inadequate access to basic services in poor countries has a life-and-death impact. Thousands of avoidable deaths in early childhood, pregnancy and childbirth occur daily because of an absence of effective medical care, and a lack of clean water. Millions of adults lack key tools for their economic and political empowerment, because their schooling was too short, or of such poor quality, that they are without even basic literacy. Addressing the problem of access, and the associated challenges of quality, efficiency, funding and accountability in basic services in poor countries is an urgent priority. In our view, the 2004 WDR has the potential to make a strong and positive contribution to efforts to make services work for poor people. However, in its current form, the outline contains many ambiguities, and points to a number of policy recommendations we believe would further undermine poor people's access to services. We therefore urge the WDR team to revisit the outline's underlying premises, and strengthen some key issues that are currently neglected.

In our view, the WDR needs to:

1. balance the analysis of **state failure** with an analysis of market failure
2. have a more thorough discussion of **public and private goods**
3. test the link between **choice** and efficiency
4. define the parameters of **community participation**
5. strengthen its analysis of **poverty and equity**
6. clarify its position on **universal, as against targeted, basic services**
7. engage with the **rights-based approach** to basic services
8. frame the discussion in terms of the **MDGs**
9. recognise the urgent need for more **resources**, including from the donors
10. take a clear position opposing **user fees** for basic services
11. provide a far more balanced account of the **political barriers to reform**

### **1. State failure**

The starting point of the WDR outline is that states have generally failed in their efforts to deliver basic services to poor people, and therefore that improving these services requires a fundamental redefinition of the state's proper responsibilities. For the most part, this involves the state playing a much reduced role in providing basic services, and instead shifting towards a regulatory role, that enables (more efficient) private sector actors to enter a liberalised market, in which clients can choose between competing providers.

This assumption of state failure, upon which much of the report's subsequent argument rests, needs testing much more seriously. First, it is important to recognise that state failure, where it happens, does not in itself make a case for expanded private sector involvement. It is certainly true that in many poor countries, public sector service providers prioritise the interests of urban, upper income groups over the poor, and deliver extremely poor outcomes, often at a relatively high unit cost. It is also true that public expenditure management in many poor countries is extremely weak, and that poor people end up paying heavily for state failure.

However, the appropriate response to state failure may well be to strengthen state capacity, rather than to reduce and/or redefine its role in basic services, as the WDR outline proposes.

Taking an historical perspective, this would appear to be the more effective approach to ensuring universal access to public goods. Today's industrialised countries, almost without exception, achieved universal access to quality basic services through the efforts of an increasingly activist state. There were various reasons for this growing involvement of the state in social provision in the late 19<sup>th</sup> and 20<sup>th</sup> century, but it stemmed in large part from a recognition that the market's response to both effective and social demand for public goods is limited. Similarly, the experiences of poorer countries that have made significant progress towards making services work for poor people - Cuba, Vietnam, Kerala, China and Sri Lanka among the most significant achievers – support the case for an activist state.

It is important to recognise the achievements of the last 5 decades in halving child mortality, and tripling literacy rates, even in the world's poorest regions. The massive post-colonial expansion of publicly funded and provided basic services was a critical factor in this success. More recently, many countries – particularly in sub-Saharan Africa - have failed to sustain these advances. Although systemic inefficiencies in public services are one reason for a widespread decline in quality and access, the broader development context – of little or no economic growth, widespread conflict, declining terms of trade, falling investment flows, indebtedness, and deflationary adjustment programmes – has had a critical impact on the state's ability to deliver basic services. These factors, at least as much as incentives, accountability and efficiency within service delivery systems, are a barrier to making services work for poor people. Yet the outline appears not to question these broader parameters within which reform is being proposed.

Despite the serious efficiency, quality and equity challenges which the outline rightly identifies, in many – if not most – developing countries the state remains the most effective, and often the *only* agent capable of mobilising the technical and financial resources needed to introduce public goods such as clean water, or literacy, to an entire population. It is also the usually the only agent with the institutional capacity to protect universal provision once it has been achieved. This does not make an a priori case for the state to act as service provider, as distinct from its role as guarantor of access. Clearly, there are situations where the state lacks the commitment, capacity or flexibility to deliver a basic service effectively, and where a non-state provider can do a better job at a given unit cost. However, the fundamental, long-term challenge facing all development partners is how to give citizens the political voice to claim their basic rights from the state, and how simultaneously to build the state's technical and financial capacity, and foster the political commitment and responsiveness needed to make public services work for poor people. The current WDR outline does not appear to take this perspective.

## **2. Public and private goods**

More generally, the outline is unclear about where the boundary should lie between public and private responsibility. The outline's focus is on those basic services that have traditionally been regarded as a state responsibility. The reason being that these areas – literacy, disease control, clean water – have a high public goods content. Yet the economics of public goods is conspicuously missing from the outline, with the report coming close to implying that water is a private good that should be fully marketised, albeit in a regulated way. Little is said about the shared and particular characteristics of health, education and water, and the implications this has for the boundary between public and private responsibility. These characteristics include the significant externalities associated with health, education and water; asymmetries of information between consumer and provider; the time lag – especially in education and preventative healthcare – between making a purchase and realising the returns to that purchase; the limits on the use of consumer sanctions, particularly 'exit' from schooling or a course of treatment; the frequently unavoidable local monopolies and monopsonies in health,

education and water, especially in rural areas; and the widespread presence of the agent-principal problem.

Linked to this, the analysis of state failure needs to be balanced by a more honest appraisal of the experiences of privatisation in poor countries. In practice, experiments in contracting out of basic services private sector have at best been mixed. Too often, public monopolies have simply been replaced by private monopolies, while risk has been transferred onto service users, in the form of higher user charges. Too little is said about the problems encountered in negotiating and enforcing contracts between government and service providers. This is a particular problem in the water sector, where the providers are often large international corporations, negotiating with governments from a position of highly unequal strength. Familiar problems have included the negotiation of tax concessions and incentive packages that represent huge hidden transfers from the public to the private sector, the re-negotiation of contracts once corporations have established a monopoly position, and the sheer complexity of contractual arrangements, in some cases rendering them unenforceable.

### **3. Choice and competition**

The WDR outline argues for choice and competition to be made the organising principles of service provision. Choice, it is implied, makes service delivery systems more responsive and efficient, and can therefore be expected to increase quality. But the relationship is far from straightforward. Little is actually known about the impact of increased choice on access, quality and equity in basic services in low-income countries, or how practical it is, especially in rural areas. Linked to this, it is unclear which model of decentralisation is being proposed in the WDR. Communal decentralisation, which emphasises community empowerment and political accountability, works very differently from liberal decentralisation, with its focus on individual consumer choice. At times, the WDR outline appears to be endorsing both models, without recognising that they can work against each other. For example, in much of Africa parents are exercising individual choice by withdrawing children from the public school system. This has often eroded ties between income groups within communities, and threatened the viability of community based education programmes, since wealthier parents lose interest in supporting schools they no longer use.

The current outline would also be strengthened by a stronger analysis of the political economy of reform. Far-reaching reforms of the sort envisaged in the outline – for example, major intra-sectoral budget reallocations - involve considerable technical and political costs, and take time. Similarly, it cannot be assumed that switching from a provider role to a regulatory role places less of a burden on states – the evidence, including from developed countries such as Australia and the UK that have experimented widely with liberalisation of service provision – is perhaps the opposite. Equally, once established, ongoing regulation of liberalised service provision is costly and complex, and these costs need to be fully factored into cost-benefit analyses of sub-contracting to the private sector.

### **4. Community participation**

In general, the WDR outline lionises community participation as a route to improved basic services for poor people. But it is often unclear what is meant by community participation – is decentralisation to the community primarily an administrative exercise in transferring management and financial responsibility to the local level, or is it a political exercise in moving decision-making power? In short, decentralisation can mean many different things – administrative deconcentration without a shift in political power can extend the reach of government (or the private sector) downwards, without any change in transparency or responsiveness of service delivery systems. Paradoxically, ‘community participation’ can be a fig leaf for a further centralisation of power, that ensures accountability and loyalty are directed upwards to a central government that continues to control the flow of resources.

The outline would also be strengthened if it recognised that community participation involves serious equity risks. For example, shifting responsibility from the state onto communities for activities like budget tracking, or the hiring and firing of teachers (as with EDUCO in El Salvador) can place an unreasonable burden on poor communities with scarce time and limited capacity, and reinforce existing inequalities in access to, and quality of, services. This needs to be properly safeguarded against. Although community participation is a necessary condition of achieving more transparent, accountable and responsive basic services, community oversight should only ever be seen as a complement, not a substitute, to an effective regime of checks and balances within the public sector.

### **5. Poverty and equity**

The outline would be strengthened by a deeper and broader analysis of what makes, and keeps people poor, and therefore what prevents them from using, and benefiting from, basic services. In particular, the outline relies too heavily on income group benefit incidence analysis. This is useful in demonstrating that public expenditure in many poor countries is regressive, but the outline needs to unpack this data. What the data for most countries in fact reflects is that effective basic services are largely missing from rural areas, where poverty is concentrated. The report needs to go much further in analysing why this is the case, and asking what are the specifically rural challenges to effective service delivery. Some of the challenges are logistical – especially in large, sparsely populated countries with difficult terrain and poor infrastructure. Physical and functional distance between central government and rural communities also tends to weaken accountability ties. Other problems stem from the fact that most service delivery models were developed to respond to urban, not rural realities. Again, the experience of countries such as Cuba and Vietnam, both in health and education, has a lot to teach other poor countries about how to adapt service delivery to rural conditions.

The ability to meet basic needs is influenced not only by income poverty, but by an inherited opportunity set, based on gender, class, caste, age group, ethnicity, race and religion. Yet with the exception of gender – discussed mainly in relation to demand for basic services – there is little mention in the outline of how these factors affect access services, or of how service delivery systems that are ‘blind’ to the needs and priorities of disadvantaged groups are in effect biased against them. Linked to this, the outline would benefit at the outset from a definition of poverty, which recognises that ‘the poor’ are a constantly changing and heterogeneous group of people, and that this poses its own challenges in terms of reaching poor people and protecting equity objectives.

Similarly, the WDR is unclear about how it is defining and measuring equity, which in turn is critical in defining efficiency (if equity is a key policy objective, then an inequitable service delivery system cannot be cost-efficient). The key question is whether equity objectives are directed principally at making the poor better off than they are currently, or at reducing human development gaps between income groups. The first approach is much more restricted, and allows for interventions that improve equity, without being equitable. For example, poor households in urban and peri-urban areas are often not connected to the mains water supply, and must make substantial out-of-pocket payments to small, private suppliers. Extending the mains water supply to these poor households, at the same flat rate as is paid by wealthier households – who use more water - may reduce the cost burden on poor households. This intervention would have improved equity in relation to the baseline, but it would also remain highly regressive. Although improving equity against a baseline is important, it cannot be the only test of whether a policy is equitable.

### **6. Universal services, or services for the poor?**

The WDR is concerned with making (basic, and at present, usually public) services work for poor people. It is ambiguous about whether this entails universal basic services, or services for the poor. Services for the poor raise two problems: one of practice, and one of principle. The practical obstacles are to do with targeting, which is costly, and is also conceptually and

technically difficult (what poverty criteria should be used to decide eligibility; how do you apply the criteria on the ground). More importantly, there is a question of principle. Targeting the poor easily becomes a policy of privileging the rich. Because the poor have little political voice, targeted public services are likely to become sub-standard services, used only by those who have no choice. In these circumstances, private providers also tend to cream off the most skilled and experienced staff from the public sector (where typically they were trained at public expense). By contrast, it is much more difficult for governments to run down genuinely universal, public services, since the most influential and vocal citizens have a strong stake in their effective functioning.

## **7. Basic rights**

The working premises, analysis and conclusions of the WDR are unduly economistic, to the exclusion of other, valid approaches to addressing the problem of how to make basic services work for poor people. This is not to argue that an economic analysis of the issues is not valuable, or that it does not make sense for the Bank – as a financial institution – to undertake it. However, the outline barely acknowledges, let alone engages with, the large rights-based literature on basic services, which offers an important analytical and legal framework for approaching the questions posed in the WDR. Most people do not prize education or healthcare simply, or primarily because they are economic goods, and justifying them solely on these grounds is risky. For example, if rates of return analysis in situation  $x$  showed lower private and social returns to girls' schooling, or schooling for disabled children, should this be treated as a policy guide? Using a rights-based approach, which treats good health, literacy and other development outcomes as goods in their own right, that enrich the lives of individuals, communities and society at large, provides perhaps the most powerful and compelling case for public action to achieve the MDGs. Documents enshrining the rights to education and health, such as the UN Declaration, the Convention on the Rights of the Child, and numerous national constitutions, can also spur public pressure, and legal action, to hold governments to account for the accessibility, quality and efficiency of basic services. At the very least, the Bank should treat a rights-based approach as a valuable complement to its own analytical framework.

## **8. MDGs and other international commitments**

The outline makes curiously little reference to the existing international commitments to halve poverty, and to deliver free universal basic education, achieve gender parity in enrolments, raise literacy levels, reduce child and maternal mortality rates, and expand provision of clean water and sanitation. These promises, made at successive UN summits, and brought together in the 9 Millennium Development Goals, have been signed up to by an overwhelming majority of the world's governments. They provide a clear benchmark for gauging progress, and a litmus test of commitment, both from Southern governments and the donor countries. The WDR would be strengthened by working within this framework, and assessing what needs to happen - in terms of the organisation and financing of basic services - to ensure that the goals are met.

## **9. Resources, and the role of donors**

Linked to this, the WDR outline is silent on how much public finance is needed to achieve universal access to quality basic services, and on where this money should come from. This is especially surprising given that the Bank's own *raison d'être* is development finance. The outline consistently downplays the significance of finance in making services work for poor people. It states only that money does not automatically improve outcomes, and that outcomes vary at a given unit cost, before moving into a discussion of efficiency. The points are true and need saying. It is clear that there is an urgent need for efficiency savings to be made in many public service delivery systems. However, it is less what is said, than what is left unsaid, or implied, or extrapolated from the analysis of resource issues, which is the problem.

For instance, the outline does not chart the precipitous decline in per capita public spending on basic services in many of the countries that are identified as prime examples of state failure, nor analyse the impact of this under-investment on efficiency, and on technical and administrative capacity. Education financing in sub-Saharan Africa is a case in point, where per capita public financing of primary education fell by 6 per cent between the mid-80's and 90's, while it rose threefold in every other developing region. The effect has been profound. Unit expenditures in most low-income countries education systems are simply too low to provide the minimum conditions necessary for meaningful learning to take place. In many African countries, teachers' salaries hover around the \$1 a day income poverty line used by the Bank, and there has been an exodus of skilled professionals out of teaching. Training, inspection, management and administrative systems have broken down, and the incentives for rent-seeking and corruption have grown. In these conditions, to suggest that the sole problem is a lack of reform, or that reform is needed before any additional money can be effectively absorbed, is simply not plausible. Reform – of whatever sort – is costly, and it is clear that in many of the poorest countries, little or no positive progress can be made within the current budget envelope.

It is clear that many countries can do much more to address under-funding of basic services, through intra-budget reallocations, and increases in revenue:GDP. But the current outline does not recognise the constraints placed on countries wanting to follow this course by debt service obligations, which mean that in countries such as Zambia, the discretionary budget is barely over half of the total budget envelope. Nor does it recognise the impact of trade and investment liberalisation on poor countries' range of revenue instruments. On average, trade taxes account for roughly one quarter of low-income country revenues (in contrast to less than 5% in most industrialised countries), but these are rapidly being eroded – partly as a result of Fund-Bank conditions. Increasingly, countries are shifting to consumption taxes, which often hit poor households, and – ironically – affect the affordability of basic services. Again, the outline does not devote space to the question of the broader policy constraints on national efforts to make services work for poor people.

The WDR will be a stronger document if it also acknowledges the current lack of coherence in development partners' approaches to improving and expanding service provision. On the one hand, donor and developing countries meeting at the Finance for Development summit in Monterrey declared that a lack of donor finance should not longer be a constraint to achieving the MDGs. On the other hand, the IMF and Bank continue to set macroeconomic and fiscal conditions that limit countries' abilities to increase social spending. A recent example is the multi-donor education Fast Track Initiative, where Bolivia's plan to get every child into school by 2015 was submitted to the Bank, and then was recalled by the Finance Ministry, because it had built in recurrent funding needs that threatened budget targets agreed with the IMF.

Finally, the Bank's own analysis shows that the international education, health, water and sanitation goals will not be reached unless aid volumes at least double. Yet the outline says almost nothing about the urgent need for additional donor resources. And in a document that devotes so much space to efficiency issues, it is remarkable that the outline fails to highlight the urgent need for more efficient aid, that is more predictable, coordinated and harmonised, and is untied, in order to achieve the MDGs.

## **10. User fees**

In light of recent policy statements from the Bank opposing user fees in basic health care and education, the outline's equivocation on the issue is a backward step. The quality problems encountered in education systems - such as Uganda's and Malawi's - that have eliminated fees are real and urgent. However, what this underscores is the need to plan, and fully finance the abolition of fees. Often, this will require substantial increases in donor support, both to

help substitute foregone revenue, and to cope with the resulting increase in demand. Too often, this donor support has not been forthcoming.

Second, while it is clear that eliminating fees is not a magic bullet that will remove all barriers to access, the evidence that fees are a barrier to access is conclusive. It should not need restating that user fees for basic services are inequitable and inefficient, nor that the surge in service use where fees have been lifted points to massive pent-up demand for education and health care amongst the poor.

### **11. Public sector vested interests**

The outline represents the public sector as a patronage vehicle controlled by powerful interest groups, especially public sector unions, whose influence is shown to distort policy making, capture disproportionate resources, and stymie reform. While a political analysis of the barriers to pro-poor reform is needed, what has instead been produced is a caricature. It is true that unions' interests are not always the same as those of poor people, but nor, it should be said, are those of the private sector. Little is said in the outline about the ways in which the corporate sector, with its huge and sophisticated lobby machine, steers policy in directions that damage the interests of the poor – the role of Bechtel corporation in the Cochabamba water privatisation fiasco is a case in point. Unlike private corporations, that have real financial and political clout, most public sector unions in low-income countries struggle with scarce resources to represent their members, and are making their case from a position of weakness, in the face of government hostility and high unemployment.

The outline fails also to recognise the extremely positive role that unions can play in working with government to develop policy change, or the fact that no reform can be implemented and sustained at the point of service delivery without the support of sector professionals. Given the positive role envisaged for civil society in the WDR outline, the depiction of unions is confusing. Public sector unions are some of the largest and most representative civil society organisations in developing countries, and have a critical role to play in building popular pressure for good quality, universal basic services.

Patrick Watt  
Policy Advisor  
UK Advocacy Team  
ActionAid  
Hamlyn House  
Macdonald Road  
LONDON N19 5PG

(44) 20 7561 7559  
pwatt@actionaid.org.uk