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SOCIAL DEVELOPMENT NOTES
ENVIRONMENTALLY AND SOCIALLY SUSTAINABLE DEVELOPMENT NETWORK

The Participation and Civic Engagement Team works to promote poverty reduction and sustainable development by empowering the poor to set their own priorities, control resources and influence the government, market and civil society institutions; and influencing governmental and private institutions to be responsive, inclusive, and accountable.

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Making Services Work for Poor People -The Role of Participatory Public Expenditure Management (PPEM)

I. Introduction

The public sector of most developing countries is often the target of numerous criticisms - lack of or no infrastructure, absenteeism of service providers like teachers and doctors, poor quality of services, corruption, non-transparency, favoritism, discrimination, etc. While several of these criticisms are usually attributed to lack of resources and the conflict between the needs of equity and those of efficiency, research has shown in general that the correlation between increased public expenditure and actual outcomes or improvements in service delivery is weak[1].

This gap between spending and development outcomes reflects more serious deficiencies of 'voice' and 'accountability' for citizens in general, and the poor in particular.

The need for making services work for poor people is therefore immense, and has provided the theme for the World Bank's World Development Report (WDR) for 2004. As part of its preliminary thinking on the topic, the WDR has highlighted at least four roots of the service delivery problem:

(i) *Either the government is misallocating resources* – that is, spending on the 'wrong' goods or the 'wrong' people. This effectively is a budgeting or resource allocation problem.

(ii) *Or, the resources never reach frontline service providers* – thus even if resource allocations are correct, expenditure 'leakages' mean that money doesn't reach its ultimate destination. This is an expenditure-tracking problem.

(iii) Even when the money reaches the service provider, *the incentives to provide the service may be weak.* This lack of incentives can be attributed to the problem of accountability and monitoring.

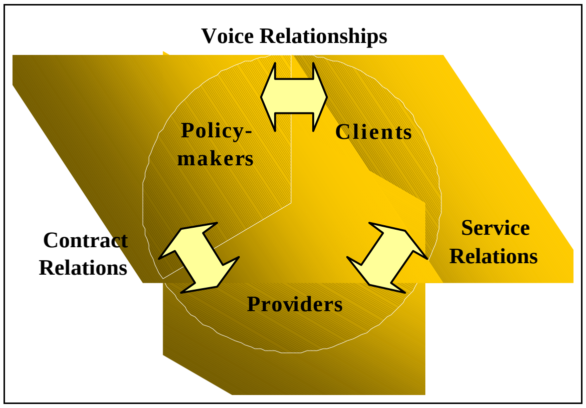
(iv) Finally, there may be a *demand side failure* – that is, people may not avail of the services provided to them. This is to a large extent a problem of awareness and participation.

[1] See for instance - Filmer, D., Hammer, J.S., and Pritchett, L. (2000): "*Weak Links in the Chain: A Diagnosis of Health Policy in Poor Countries,*" World Bank Research Observer 15(2).

This note was prepared by Janmejay Singh and Parmesh Shah of the Participation & Civic Engagement Group of the World Bank, as a summary of a contribution paper made to team preparing the World Development Report for 2004. The full version of the paper can be obtained by contacting the authors at jsingh1@worldbank.org and pshah@worldbank.org respectively.

To understand these problems analytically, the framework chosen by the WDR 2004 is one that unbundles the service delivery chain into a set of *voice*, *contract* and *service* relationships between three agents: (a) policy makers, (b) service providers, and (c) citizen-clients[2].

Figure-1: Unbundling the Service Delivery Chain[3]



As with any principal agent set-up the key problem of informational asymmetry between the principal and the agent characterizes the above relationships as well. However, they are further plagued with the problem of having to deal simultaneously with multiple principals and/or agents who have numerous and sometimes conflicting objectives. This results in huge difficulties of monitoring, defining objectives clearly, and ensuring accountability

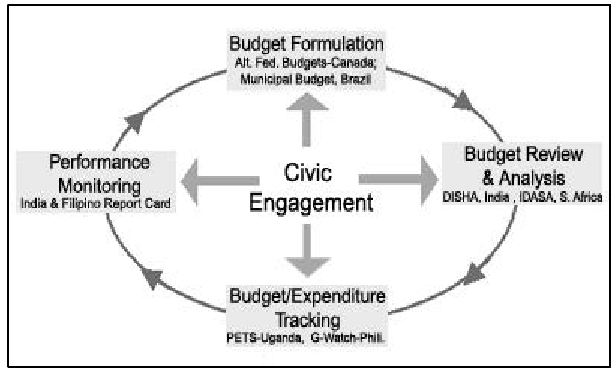
The way to improve upon public service delivery, especially for the poor, is thus to find mechanisms by which to surmount these difficulties. This note argues that <u>participatory public expenditure management (PPEM)</u> provides a set of such mechanisms[4].

[2] A fourth, more exogenous, agent in the service delivery chain is the 'donor'.
[3] We are grateful to Dr. Shekhar Shah of the Public Sector Group of the PREM network in the World Bank for providing us with this schematic.
[4] A clarification on terminology can be made here. The notion of 'PPEM' involves looking at things from the lens of public expenditure or financial management. The mechanisms involved in PPEM are, however, also powerful mechanisms for promoting *accountability, good governance, transparency*, and contributing towards *decentralization* and *empowerment.*

II. What is PPEM?

PPEM can be defined quite simply as the introduction of civic engagement into the general process of public expenditure management. Thus users, clients and citizens are able to get involved in the process of allocating, reviewing, tracking, and monitoring public expenditures. PPEM, therefore, has four components as depicted below.

Figure-2: The Four Stages of the PPEM Cycle



Each of the four stages is described below.

1. Participatory Budget Formulation (PBF)

Participatory Budget Formulation (PBF) can be undertaken in two main forms. The first, and more prominent method is that of *participatory budgeting*. The other is that of *formulating alternative budgets.* The former of these is mainly a *supply-side* or state "*responsiveness"* initiative, while the latter is in the nature of a *demand-side* or citizen "*voice"* type initiative.

Participatory Budgeting (PB) involves getting civil society to actually partake in the making of a public budget – citizens and CSOs propose spending projects, set priorities and decide which projects get funded. The quintessential example of PB is that of the Porto Alegre Municipality in Brazil[5]. The power of participatory budgeting is that it removes all agency costs and information barriers between the state and society in making a budget, thus yields (theoretically at least) the most efficient and transparent possible budget allocation.

The other important feature of PB, is the *almost complete transparency* it gives to the budget formulation process, thus making it more acceptable to the public.

[5] For more details see the Action Learning Program case study (#2) on PB in Porto Alegre at www.worldbank.org/participation

Alternative Budgets influence budget formulation indirectly. They present the priorities and preferences of citizen groups, which will hopefully influence the government's actual budget.

Participatory Budget Formulation (PBF):
Strengths:
- PB *passes the budget constraint of the public sector directly to citizens*
- PBF entails *capacity building* as citizens acquire knowledge on budget-making,
- PB also serves as a *strong political plank* for progressive parties,

Limitations:
- *Short-term and project/local level focus* due to capacity constraints
- *Dependence on government* and risk of manipulation

2. Participatory Budget Analysis (PBA):

The goal of Participator Budget Analysis/Review is to review the impact and implications of the allocations made in a budget once it is prepared. However, what makes it different from simple budget review, is that civil society is involved here with the specific focus of *demystifying the technical content of the budget* for common people as well as their elected representatives to understand. PBA also involves *budget training* to citizens and elected representatives, thus building their capacity to analyze the budget themselves.
Examples of PBA include the review of budget implications for tribal populations done by DISHA (Development Initiatives for Social & Human Action), an NGO in the Indian state of Gujarat and the Gender and Child Budget Projects by the Institute for Democracy in South Africa (IDASA).

Participatory Budget Analysis (PBA)
Strengths:
- PBA *opens a traditionally elitist political exercise* to ordinary citizens, especially poor ones
- It promotes budget debates that have led to *greater transparency and accountability,*
- PBA leads to *more powerful civil society advocacy* based on research and data.

Limitations:
- *Dependence on technical capacity of citizen groups*
- *Divergence of NGO resources* - from other programs with direct impact on the poor.

3. Participatory Budget Expenditure Tracking (PBET):

PBET involves the use of civil society to track how the public sector spends the money that was allocated to it. The tools for PBET include the '*input-tracking scorecard*' or the *social audit*[6].

Traditionally the review of expenditures of the public sector is a technical exercise undertaken via formal surveys. What makes PBET different and powerful is that there is *continuous public involvement* in the exercise. It is the actual users or beneficiaries of services (like parents of school-going children) that collect data on inputs and expenditures, rather than some technical agency, bureaucrat or external consultant. The results of the exercise are immediately disseminated to the public either via the media, or through publications in the local language. The public opinion generated by the exercise becomes a weapon for *directly* soliciting greater accountability and lowering corruption in the use of public funds.

Participatory Budget Expenditure Tracking (PBET)
Strengths:
- PBET *can provide concrete evidence* of mismanagement or leakage of funds by the government.
- The process of scrutinizing service providers, is in itself *a great empowering tool for the poor*, giving them both confidence and self-respect.
- PBET has a *significant role in lowering corruption* and leakage of public expenditure.

Limitations:
- *No legal guarantee/binding* for punishing the perpetrators of corrupt practices.
- *No safeguard for whistleblowers*

4. Participatory Performance Monitoring (PPM):

Performance monitoring of public services and projects actually involves both monitoring & evaluation. On the one hand, the aim is to oversee the implementation or delivery of public projects and services as they happen at ground level. This is the supervisory or managerial process of monitoring. Impact evaluation aims to reveal whether the money spent under various government policies had their intended outcomes or not.

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[6] These track inputs rather than actual expenditures, since the most readily available data is often on inventory records.

Despite being extremely useful, performance monitoring is not commonly undertaken. Even when it is, the traditional approach to both monitoring & evaluation has been "top-down" - that is, it has largely been dictated by the needs of the policy maker or project-funding agency, which decided what and how to measure. These traditional techniques do not, however, have the kind of impact that PPM can have, which involves monitoring and evaluation *by* citizens and *for* citizens.

Two important tools of participatory performance monitoring are the *community scorecard* and the *citizen report card*. The first entails communities choosing the performance indicators for a set of services themselves, rating their performance and analyzing their scores. The feedback of the community monitoring exercise is then presented immediately through an *interface meeting* to the relevant government agencies in the hope of a response.

The most commonly used instrument for participatory impact evaluation at the more macro level is the *citizen report card*. This is a survey instrument used to tap information on users' awareness, access to, and satisfaction with publicly provided services. It has information about the key constraints the poor face in assessing public services, their views about the quality of services, and details of their experience in interacting with public officials.

Participatory Performance Monitoring (PPM):

Strengths:

- PPM *brings direct supervision of citizen-clients* on basic services provided to them
- The chance to voice grievances and preferences directly to policy-makers has a *great empowering effect*.
- Citizen report cards *provide quantitative demand side* to inform policy.

Limitations:

- Depends on *critical mass of mobilization*
- Risk of *government resistance, manipulation or indifference*

III. Why do PPEM? – Six Arguments

The case for PPEM derives from its power in overcoming the informational barriers and agency costs involved in the different relationships of the service delivery chain. These benefits help us to make our first argument in favor of PPEM as follows:

Argument 1: *PPEM has a great potential in lowering the agency costs involved in the different P-A relationships of the service delivery chain. It thus leads to more accountable, transparent, efficient and equitable resource allocation and improved public service delivery.*

The assertion above basically states that PPEM works as a strategy for PEM and for making services work for the poor. But we can go further to argue that PPEM is a cost-effective strategy. What we mean by that is that the "bang for your buck" or marginal return to investments in PPEM are large and hence a case for including PPEM components in various Bank lending instruments can be made.

Although no formal cost-benefit study has been done to match the savings or benefits of a PPEM exercise with its costs, we can list at least *four* reasons why one would assume that an investment in PPEM would more than pay for itself. These reasons are:

- *Greater efficiency in allocation of resources* - There is less chance of wastage because of unmet demand or supply that was not needed,
- *Less corruption and leakage* from the system, leading to direct savings,
- *Increased tax collection* – Since PPEM shows the link between taxes and outcomes, people in general are more ready to pay taxes and finally,
- *Stimulus to private business* - because they now face less corruption, better infrastructure service delivery, and more confidence in the financial health of the public sector.

On the basis of these reasons, we can make our second argument:

Argument 2*: Not only is PPEM effective as a public expenditure management strategy, it also has high marginal returns to investment. That is, it is cost effective enough to be invested in, and incorporated in different Bank lending instruments.*

The role of PPEM extends beyond the purely economic advantages of efficiency in service delivery. This is because the elements of the PPEM strategy lead to an increase in *voice* of disadvantaged and vulnerable groups like the poor, and this enhanced voice invokes greater *responsiveness* on the part of the state to the needs of the poor. Activities like PBA or PBET give the power to hold unscrupulous public officials accountable. These *process* or *institutional outcomes* of PPEM that influence the social and political choices of the poor are as important, if not more so, than the economic benefits that PPEM yields. This draws us to our third argument:

> ***Argument 3:*** *PPEM is an integral mechanism for good governance and for deepening democracy and democratic rights - identified by the HDR 2002 as a development goal in itself, as well as a means for furthering human development in general. In this manner it tackles the social and political facets of poverty by promoting empowerment, security and opportunity - identified as the three strategic pillars for poverty reduction by the WDR 2001.*

The rationale for PPEM also stems from its role in decentralization. The ease and success of PPEM can be expected to be higher in a decentralized set up. The converse is also true - the success of decentralization is also more likely, and perhaps even continent upon, the accountability mechanisms involved in different PPEM components. Based on this we can make our fourth argument as follows:

> ***Argument 4***: *The accountability mechanisms involved in PPEM are a critical ingredient to the success and long-term impact of any decentralization initiative by the government.*

As the issue of decentralization has been brought up, it is important to note that the different components of PPEM operate at different levels of decentralization – indeed there is an optimal level at which each can and should be applied. These optimal levels are determined by balancing the trade-off between the efficiency gains of PPEM with the scale economies of decision making or information gathering at a central, and non-participatory level.

For PB and PBET the optimal level of implementation would probably be at a more local level. Other components of PPEM, like PBA and alternative budget formulation make sense only at a more macro level – and this has been the level at which they have tended to emerge in practice.

Performance monitoring is the one component, however, which can cater to both the national and local level. This is because one can have community scorecards at the facility level, but at the same time conduct a citizen report card on an entire sector at the national level.

This qualification to the rationale for PPEM provides our fifth argument for its use:

> ***Argument 5***: *Different components of PPEM have different optimal levels of decentralization at which they should be implemented to be most effective. Thus PPEM can ensure accountability ad transparency at all levels of service delivery – macro, micro and meso.*

Our final assertion is related to the practical implementation of PPEM. Although each of the components of PPEM that we have described above seem distinct and are capable of being implemented individually, our belief is that the maximum benefit can be derived when they are put into effect together as a package. These *forward* and *backward linkages* of the different stages in the cycle can significantly enhance their impact since they all complement and reinforce each other. Thus our sixth and final argument is:

> ***Argument 6***: *Our belief is that to be sustainable and to become institutionalized all 4 components of PPEM should eventually be introduced together, since the complimentary and reinforcing forward and backward linkages they entail would significantly increase their effectiveness and yield the best results.*

IV. The Critical Success Factors

Success of the PPEM does not follow automatically from implementation of the mechanisms we have described. Instead, it depends very heavily for it's success on factors, which if absent may yield no or at best modest results from these programs.

At a broad level, the process of PPEM as a whole is determined by factors that originate from *three* sources:

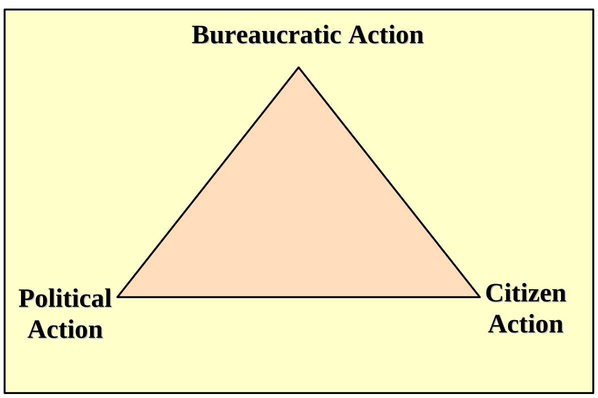
1. **Citizen action -** *the relative strength of the client lobby in civil society* - e.g., how broad it's membership is, whether it offers incentives for participation, how effectively it uses the media or

protests for its rights, whether it captures people's demands, etc…

2. **Political action** - *the nature of political competition in the country* - what party structure is there, the level of decentralization, how democratic are institutions, is their ideological diversity in politics, etc., and
3. **Bureaucratic action** - *the nature and effectiveness of state institutions* - how accessible and accountable are they to start with, is there room for consultation, what level of outreach is there, are there performance based incentives in place, etc..

A positive mix of civil, political and bureaucratic action can therefore form a reinforcing virtuous cycle that can make PPEM work effectively. But equally easily, an unfavorable combination can lead to a vicious cycle that would make the initiatives impotent. This suggests that the use of PPEM may well require complementary initiatives to support it, such as capacity building exercises for NGOs, new legislation in parliament, or a change in the incentive structures or implementation arrangements that exist in the public sector.

Figure-3: The 3 Critical Pillars for PPEM



V. Concluding Remarks

The need for innovative reforms to make services work for the poor is urgent. It is this need that motivates the WDR 2004, and this note on participatory public expenditure management or PPEM.

As we have described above, PPEM involves getting civil society into the business of managing public expenditure. Our contention has been that these activities can significantly reduce the agency costs in each of the principal-agent relationships in the service delivery chain.

We presented the case for PPEM in the form of six arguments that were given above. The experiences with PPEM initiatives in practice seem to validate these arguments. However, they have also brought to light a number of areas in which our knowledge is lacking, and indeed some limitations[7] and qualifications that provide a reality check to our advocacy in the light of practical evidence.

One major realization is that the combined efforts of *civic, bureaucratic*, and *political action* are critical for the success of each of the components of PPEM.

Another realization is that the *applicability of PPEM projects is quite diverse*. This greatly enhances the case for including these tools in different Bank lending instruments and incorporating them officially in major Bank strategies like the PRSPs, CASs, and perhaps even structural adjustment.

The history of PPEM processes has revealed their evolution to be quite chaotic. They have tended to start as small opportunistic endeavors, often in localized environments, which have then magnified to a larger and more forceful movement. The scalability and sustainability of these measures, is still to be properly tested since they are young and have yet to reach a level of maturity through which they get institutionalized in the form of say legal changes.

But this chaotic evolution presents several windows of opportunity for using PPEM mechanisms to bring social and public accountability and transparency into the delivery of public services. To take advantage of the opportunities that are waiting, institutions like the World Bank will have to play a major part. If we come true to this task, we would most certainly have taken a step in the direction of making services work for poor people.

[7] It must be said, however, that most of PPEM experiments are young, and so it is quite possible that with time strategies for implementing PPEM and its different components will get refined enough to overcome these limitations in the future. Some of these limitations are in fact intrinsic to any participatory exercise.

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