

FOUNDATIONS OF GROWTH: EDUCATION, LEGAL SERVICES AND HEALTH



POLICY LESSONS FROM THE iiG PROGRAMME

Several projects funded by the iiG programme shed light on what might be called ‘the foundations of growth’ – health, education and legal services. Although health and education are in themselves important avenues for investment in human capital, what these three broad forms of public service have in common is that they are arguably part of what creates the fertile environment required for investment to lead to growth.

KEY FINDINGS

- **Education policy is key to growth, but it must be designed with care.** In order to improve the returns to investment in human capital, governments should promote low-cost community monitoring of schools, allowing priorities to be chosen locally by consensus. Removing primary school fees may succeed in attracting more pupils from poorer backgrounds to the educational system, but may also engender an increase in private education and an increased risk of a multi-tier primary education system. However, education on its own may not be enough to promote growth. Entrepreneurship education combined with the transfer of income-generating assets may have stronger and longer lasting effects than a similar training programme combined with a pure food transfer.
- **The interaction between informal and formal legal systems is complex.** Although formal legal systems may be better suited to safeguarding the rights of vulnerable groups, they may also be more costly and inefficient than a traditional justice system. Extending the reach of the formal system may therefore have implications for efficiency as well as for welfare.
- **Ensuring sound regulation and carefully considering private incentives are important aspects of the design of health insurance schemes.** Inadequate insurance regulation may prevent poor people from safeguarding themselves against health risks by eroding trust in welfare schemes and causing low take-up rates. Public–private partnerships have the potential to improve efficiency in public service delivery, but should be carefully evaluated with respect to the incentives of the private provider. Information costs are an important bottleneck in the provision of public services. Both financial incentives and consideration of social characteristics can improve the transmission of knowledge about welfare schemes.
- **Improving the quality of public services may improve the government’s ability to raise taxes.** In addition to increasing the return on investment, effective provision of public services may facilitate the government’s ability to raise revenues through taxation, thereby permitting higher levels of public investment and growth.

FOUNDATIONS OF GROWTH

The institutional view of development is that the right conditions need to be in place for economic growth to happen. Growth may be a function of investment, but investing in a hostile institutional environment is akin to growing crops on a glacier: seeds, fertiliser, labour and other investments are wasted unless the environment is conducive to growth.

Health and education services play a dual role here. They are arguably the main inputs into the production of human capital, which in turn is typically regarded as one of the most important drivers of growth. But together with legal services, they can also be seen as forming part of the institutional 'soil': investment opportunities will be severely limited unless there is a supply of productive labour. Similarly, investment depends on contract enforcement, which in turn is a function of the legal system.

Within public services, there is an increasing realisation that quality matters. A high primary enrolment rate is no good if children leave school without being able to read. A fine-meshed network of primary health centres is wasted if health staff are never present to attend to patients. A judicial system is of no use unless it can be relied upon to resolve disputes. And a well-designed public insurance scheme is of no avail if nobody knows about it.

There is also another, more indirect, route from improved public services to economic growth. One piece of iiG research from Lagos, Nigeria, found that areas that had benefited from public investment were associated with a higher willingness to pay taxes. If growth depends in part on investment in public goods, then it is important to strengthen the government's ability to raise revenue through taxes. Demonstrating that public funds are being put to good use may be part of a sensible growth strategy.

Several iiG projects look at how to improve the quality of key public services that may be viewed as precursors of economic growth. This paper summarises some of the main findings.

EDUCATION

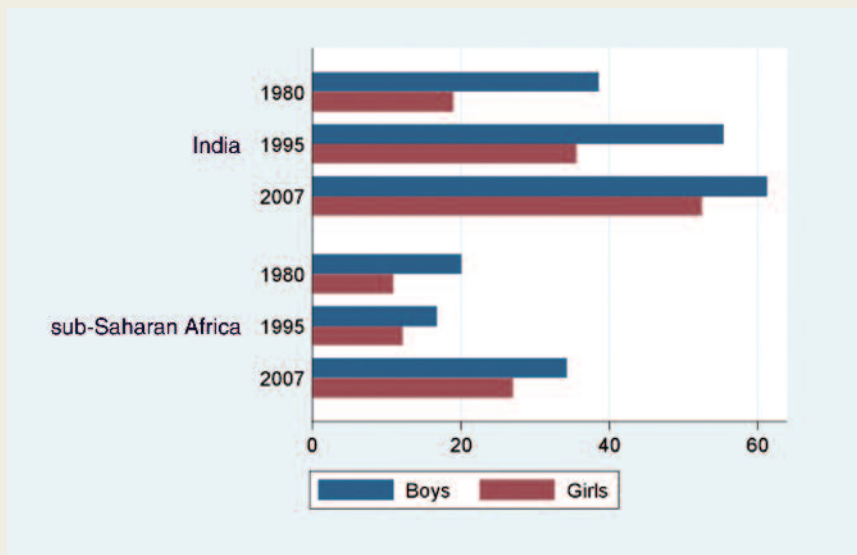
Many developing countries have invested heavily in primary schooling over several decades. As the figure below shows, primary gross enrolment rates have broadly increased both in India and in sub-Saharan Africa since 1980, and the primary school enrolment of girls has been catching up with that of boys. As of 2007, the gross enrolment rates were close to, or even exceeded, 100% in both regions. However, at the secondary level there is still far from universal enrolment, and girls' secondary enrolment is lagging behind that of boys. India has significantly higher secondary enrolment rates than Africa, but also a greater gender disparity.

Given the large-scale expansion in the quantity of education, the focus has naturally shifted to quality. In Uganda, the number of teachers doubled and 88,000 classrooms were added between 1996 and 2003, but the quality of education in Ugandan primary schools remained low. In one iiG project, researchers asked whether parent-teacher associations could be used to improve the quality. A



Source: World Development Indicators (2010) data. Weighted by population. Sub-Saharan Africa excludes South Africa

FIGURE 1 - Enrolment rates in primary school (percentage gross)



Source: World Development Indicators (2010) data. Weighted by population. Sub-Saharan Africa excludes South Africa

FIGURE 2 - Enrolment rates in secondary school (percentage gross)

number of schools were randomly divided into two treatment groups and a control group. In both treatment groups, School Management Committees – the local organisations that allow parents, teachers and other community members to express their opinions about school performance – were trained in how to use scorecards to help them monitor schools. In one group, these scorecards were designed by central organisations including NGOs and education authorities, whereas in the other, they were designed by committee participants themselves. In the control group, no scorecard was introduced.

The criteria selected by the local committees for inclusion in scorecards were different from those decided upon centrally. In particular, the locally designed scorecards paid little explicit attention to teacher absence, although underlying issues such as staff housing were frequently selected. Also, the importance of parent contributions to learning appeared high on the list of criteria in the locally designed scorecards, reflecting the need for parent-teacher participation and co-ordination.

Monitoring using community-designed scorecards made both students and teachers significantly less likely to be absent from the classroom – by 9 per cent and 13 per cent respectively – at the time of surprise visits by survey teams. There was also a significant increase in children's literacy and numeracy test scores. Pupil scores on national exams improved by 19 per cent of a standard deviation – enough to move the median student from the 50th to the 57.5th percentile. These improvements were achieved at relatively low cost and were not detected in schools using centrally designed scorecards. These results highlight the central importance of participatory approaches when formulating community monitoring schemes.

Another iiG project illustrates how education on its own may not be enough to propel people out of poverty, at least in the short run. iiG researchers evaluated asset transfer programmes run by BRAC, a large Bangladesh-based NGO. One programme was implemented in Bangladesh and the other in South Sudan. The Bangladesh programme aimed to make 'micro-entrepreneurs' out of extremely poor households by providing them with income-generating assets, typically livestock. The asset transfer was complemented by training in how to tend to the livestock and other micro-entrepreneurship skills. In South Sudan, participants received food aid rather than income-generating assets, while also receiving training in vegetable growing, tailoring and cattle raising.

The results of the experiment show large contrasts in the effects of the two types of treatment. The income of participants in Bangladesh increased, and they spent more time on entrepreneurial activities such as collecting cattle feed and selling milk. However, in South Sudan, there was no significant effect of the programme. This illustrates that education on its own (in this case, entrepreneurship training) is not always enough to transform lives.

Poor children often have lower school enrolment rates. Although this can be related to the poor quality of education (as discussed above) or low returns to investment in schooling for other reasons, it is also sometimes the case that parents cannot afford to send their children to school. School enrolment and attendance is often associated with some out-of-pocket expenditure related to, for example, school fees, school uniforms and stationery. The opportunity cost of children's labour at home or in the field may also be high enough to prevent enrolment even at a very young age.

In a separate analysis, the iiG researchers therefore looked at whether the Bangladesh transfer programme described above would have an effect on educational enrolment. However, although the programme led to improvements in income, assets, food consumption, housing, health practices and social awareness, there was no change in the school enrolment rate. The researchers suggest that future programmes should link the transfer of assets to children's attendance at school and health check-ups, as exemplified by the successful conditional cash transfer programmes in Latin America.

Another iiG project from Kenya looked at the effects of abolishing all school fees in state primary schools in 2003. The study finds that more of the poorest children attended school after the reform. At the same time, the number of children attending private schools nearly tripled. Moreover, overall enrolment in state schools fell somewhat, and so did average exam results in state schools. The researchers argue that the influx of poor children into state schools may have driven many better-off parents to opt for private education. The changing composition of state primary school pupils may explain the decline in exam results.

One important implication is that declining exam results may not always be a negative development. It may be the result of a broader pupil base. At the same time, policy makers should pay attention to the way in which the changing socio-economic characteristics of pupils entering state schools may affect the popularity of private schooling, as well as the possible effects of this on social stratification and the dangers of a two-tier educational system.

LEGAL SERVICES

In Liberia, iiG researchers looked at the interaction of formal and informal legal traditions. As in many developing countries, the Liberian formal judiciary has limited reach and is widely perceived as inefficient and slow. In contrast, the traditional system is both accessible and culturally acceptable, but operates under patriarchal and communal norms rather than the notions of individual rights enshrined in Liberian statutory law. In particular, the traditional system, based on the authority of local chiefs and village elders, employs trial by ordeal and local laws that run contrary to generally accepted notions of women's rights and the rights of vulnerable groups. In spite of this, the researchers present evidence that the customary system is generally preferred by most Liberians. They also show that plaintiffs tend to choose the system likely to be more sympathetic to them: men and people from majority ethnic groups prefer the traditional system, whereas women and minority groups tend to take their grievances to the formal judiciary.

The researchers argue that one reason why the traditional system is generally preferred is that it emphasises compensation to victims rather than punishment of the offender. They note that in this sense, customary remedies appear to be at the very least no worse than formal verdicts, because they provide greater satisfaction to plaintiffs while also leading to less dissatisfaction among defendants.

These findings have possible implications for growth policy: although legal institutions and 'the rule of law' are often regarded as essential preconditions for sustained growth, displacing customary legal traditions with formal courts should be done with great care. If formal courts are corrupt, slow and expensive, they may be less efficient than the compensation-oriented traditional courts. Weakening the traditional courts may therefore have a cost in terms of efficiency and, eventually, growth. At the same time, improving and extending the reach of the formal judiciary may disproportionately benefit groups that are marginalised by the traditional courts, including women and ethnic minorities.

HEALTH

Risk plays a large part in the lives of poor people, and one of the most important risks faced by households in developing countries is that of negative health shocks. Accidents and illnesses are not only associated with direct treatment expenses. If the affected individual is a productive member of the household, they also entail a potentially catastrophic loss of income or home production. Finally, children may drop out of school, because they are themselves ill, because the family can no longer afford the school fees and other expenses or because they are needed at home to tend to the sick. Earlier research has indicated that a negative health shock may be the most common direct cause of descent into poverty.

The importance of health risks is emphasised by iiG research from India. The researchers find that poor households are more likely to report going hungry after an incident involving hospitalisation. Poor households are also more likely than their richer counterparts to be in debt following a hospitalisation episode.

Given this, it may seem surprising that health insurance is not more widespread in developing countries. iiG research on tea growers in Kenya suggests that one reason for this may be a lack of trust in the insurer. A belief that the insurer may not honour a claim when it matters most may arise from a fear of unscrupulous behaviour by the insurer or service providers. The researchers point to the need for improved regulation to ensure that insurance companies can be trusted to pay valid claims.

iiG research from India highlights the fact that this is not an exclusively African phenomenon. A new, high-profile, subsidised health insurance scheme for the poor was recently launched by the Indian government. The scheme is run as public-private partnership in which the premium is largely paid by the government, whereas the insurance is provided by private providers. Treatment is available at a network of both government and private hospitals.

Looking at two districts in the southern state of Karnataka, the researchers found that take-up in the first year of operation was remarkably high. However, a survey of participating hospitals revealed that, six months into the first policy period, only a small minority of hospitals were ready to receive patients. Again, thoughtful regulation may provide a solution. It is striking that in this case the insurance company was incentivised to enrol as many households as possible in order to receive the premium from the government (representing revenue to the insurer), but not to facilitate utilisation (representing costs to the insurer). Requiring a first check-up at a hospital before releasing the subsidy associated with a beneficiary household might trigger a big shift in behaviour on the part of the insurer.

In a randomised controlled trial, iiG researchers found that employing a local woman as an 'information-spreading agent' in her village significantly increased the level of knowledge about the health insurance scheme among eligible households. Moreover, the more they knew about the scheme, the more likely households were to sign up for the scheme. Although research on public services in developing countries has hitherto focused on supply-side constraints, this work demonstrates that

information costs can be a major stumbling block in the provision of public services, particularly in an environment with widespread illiteracy.

Furthermore, agents who were paid according to performance were more effective in spreading awareness than agents receiving a fixed salary. Some of the agents were randomly allocated to receive a salary partly determined by average performance on a knowledge test about the insurance scheme, which was fielded to a random sample of households in each village. The average knowledge test score in these villages was significantly higher than in villages where the agents were paid a fixed wage. This aligns with earlier work showing that teacher absenteeism responds to incentives in the payments they receive. However, it was also found that agents performed better vis-à-vis households who were similar to themselves in terms of social characteristics. This highlights how social background is also an important consideration in spreading awareness about public services.

IMPLICATIONS FOR POLICY: FOUNDATIONS OF GROWTH

- Promote local monitoring of school performance.
- Consider interactions and reinforcements between different programmes. Education and asset transfers may not work separately, but together they could substantially benefit recipients.
- Consider supporting conditional cash transfer schemes.
- Consider funding the development of agricultural yield indices, which may stimulate the supply of and demand for agricultural insurance.
- Promoting effective insurance regulation may be a better use of resources than subsidising insurance.
- When funding public–private partnerships, carefully assess the incentives of the private-sector party.
- Put extra effort into information campaigns when knowledge transmission requires overcoming important social barriers.

FOR MORE INFORMATION

For more on how improved public services in Lagos, Nigeria, were found to be linked to an increased willingness to pay taxes, see iiG Briefing Paper 16, *'Raising revenue to reduce poverty'*, October 2011.

The study on centrally and locally designed scorecards and parent–teacher associations in Uganda is summarised in iiG Briefing Paper 18, *'When does community monitoring improve school performance?'*, December 2011.

The entrepreneurship training programmes in Bangladesh and Uganda are described in iiG Briefing Paper 14, *'Can you successfully teach people how to run small businesses?'*, January 2011.

The project looking at whether increasing poor people's assets can increase school enrolment rates is discussed in iiG Briefing Paper 12, *'To feed or to educate: Hard choices for the extremely poor'*, June 2010.

iiG Briefing Paper 03, *'Lessons from Kenya's introduction of free primary education'*, August 2009, provides more detail on the project that studied the effect of the introduction of free education on public and private school enrolment and test scores in Kenya.

The project looking at the parallel legal enforcement systems in Liberia is described in more detail in Justin Sandefur and Bilal Siddiqi, *'Rights or Remedies? Shopping for Justice in Liberia's Dualistic Legal System'*, Chapter 6 in Erica Harper (editor), *'Working with Customary Justice Systems: Post-Conflict and Fragile States'*, International Development Law Organisation, Rome, 2011.

The project linking low take-up of insurance to a lack of trust in the insurer is described in more detail in iiG Briefing Paper 17, *'Insurance products for the poor should not be poor products'*, November 2011.

The relationship between hospitalisation and *'going hungry'* in India is highlighted in iiG Briefing Paper 13, *'Hospitalisation means India's poor go hungry'*, July 2010.

The problems in the implementation of the major health insurance scheme in southern India are discussed in Erlend Berg, Maitreesh Ghatak, R Manjula, D Rajasekhar and Sanchari Roy, *'Implementing Health Insurance: The Rollout of Rashtriya Swasthya Bima Yojana in Karnataka'*, Economic and Political Weekly, XLVI(20).

The effect of hiring an agent to spread information about a welfare scheme is discussed in Erlend Berg, Maitreesh Ghatak, R Manjula, D Rajasekhar and Sanchari Roy, *'Motivating agents to spread awareness: The role of explicit incentives and social identity-matching'*, Working paper 2011.

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