Signposts to More Effective States

Responding to Governance Challenges in Developing Countries

This paper presents the main findings of a five-year research programme financed by the Department for International Development (DFID), and undertaken by the Centre for the Future State, based at the Institute of Development Studies (IDS), University of Sussex. The main partner institutions collaborating in this research were the Centre for Policy Research and Social Engineering (CEPRESE), Ghana; the Madras Institute of Development Studies (MIDS), India; and the Centre for Policy Studies (CPS), South Africa. The Centre for the Future State is directed by Professor Mick Moore (IDS). The principal managers of components of the research programme were Joseph Ayee (CEPRESE), Steven Friedman and Shaun Mackay (CPS), Peter Houtzager and Anuradha Joshi (IDS) and V.K. Natraj (MIDS). This synthesis was organised by Sue Unsworth (IDS).

The overarching question addressed by the research is how public authority in developing countries can best be reshaped and reconstituted to meet the challenges of poverty reduction in the early decades of the twenty-first century.

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Introduction and overview

This research aims to inject some realism into thinking about governance. For decades, the development community has intervened in poor countries with little understanding of the political and institutional landscape, and with scant regard for the impact of their actions on local political relationships and incentives. If that sounds harsh, consider the record.

In quick succession, donors have advocated state-led development, then marketisation and the retrenchment of government from core functions, followed by democratisation, decentralisation, the establishment of autonomous agencies, the creation of public-private partnerships, and civil society participation in the delivery of core services. All this has been imposed on poor countries, with weak institutions, many of them still in the process of basic state building, and in the context of a rapidly changing global environment.

Donors have consistently been unrealistic about the capacity required to manage complex processes of change, and have virtually ignored the need to build a social and political consensus for such change. They have expected poor countries to put in place a range of 'best practice' institutions, which are far more sophisticated than those present in Organisation for Economic Co-operation and Development (OECD) countries at a similar stage of their economic development. And they have assumed that creating those institutions involves little more than the supply of material resources and technical assistance. In the latest 'big push' for achieving the Millennium Development Goals, poor countries are expected, as a matter of priority, to promote: the rule of law (through properly resourced, adequately staffed legislatures, judiciaries and executives); political and social rights; accountable and efficient public administration; sound economic policies; corruption-free delivery of public services; and 'support' for civil society.[1]

Why this lack of realism? It is not for want of evidence. Research and donors' own evaluations point to the limited success of transferring formal institutions based on Western models, and of sustaining early gains – for example, from civil service reform, or the establishment of autonomous revenue agencies. It is clear that building democracy requires far more than support for election commissions, legislatures and civil society advocacy organisations. The 2004 World Development Report[2] highlighted the complex problems involved in the effective delivery of basic services to poor people, not least the failure of accountability mechanisms between citizens and politicians.

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[1] The Millennium Project Report 2005.
[2] World Development Report 2004: 'Making Services Work for Poor People', World Bank.

Some lessons have been learned. There has been welcome recognition that conditionality attached to donor support rarely succeeds in the face of strong opposition from domestic political interests. Some donors are undertaking more in-depth political and institutional analysis – for example, DFID's Drivers of Change initiative, SIDA's 'power analysis', and political economy studies by the World Bank. But this work is still evolving, and has not as yet led to a fundamental reappraisal of the assumptions on which most governance interventions are based. So the messy, difficult reality revealed by these new analyses may go unrecognised.

In part this is because realism is inconvenient. It does not support the next ambitious 'big push' initiative. It underlines the need for policy and institution building to be driven by a local political process, which takes time and is beyond the control of donors. But a second, less obvious reason for lack of realism is a failure of imagination.

The development community finds it difficult to conceive of legitimate public authority in developing countries except in terms of models that have worked relatively well in developed countries – a merit-based bureaucracy, an independent judiciary, and programmatic political parties.[3] The focus has been on formal institutions rather than on the informal relationships that shape the way they work. The approach is ahistorical – there has been virtually no attempt to understand the processes whereby current institutional models were negotiated, or the social, economic and political circumstances in which they were conceived.

The research conducted under the Development Research Centre for the Future State (henceforth DRC) offers a different way of thinking about governance. It is concerned with a wide range of poor countries with functioning governments, but with major weaknesses in terms of political legitimacy and administrative capacity. It does not cover conflict or post-conflict states, although many of its findings have some relevance there. There is, of course, huge diversity among countries in the South, and there have been some notable success stories. But too many governments are still failing to deliver basic services or even control large parts of their territory and populations, and are not responsive to the needs of many poor and politically excluded people.

Unlike conventional approaches that start with the symptoms of bad governance and look for solutions, the DRC research is concerned with the underlying *causes.* It starts with a proposition – well known to political scientists but less familiar to many policymakers – that the critical issue in state building lies in striking a balance between effectiveness and accountability. The challenge was eloquently expressed by James Madison in the 'Federalist Papers': 'In forming a

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[3] See, for instance, Fukuyama, F., 2004, *State-Building: Governance and World Order in the 21st Century*, which highlights many of the problems encountered in transferring institutions from rich to poor countries, but fails to move beyond recommendations about how to do this better.

[4] Federalist Papers Number 51.

government to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself'.[4]

Historically this has happened through a process of interaction, bargaining and competition between holders of state power and organised groups in society. This has often involved violent conflict, but it can also produce positive sum outcomes, if the parties involved can identify common interests and negotiate arrangements to pursue them. Over time this may lead to more civic ways of managing competing interests, and result in the creation of legitimate, stable institutions: arrangements which are valued – and thus become 'institutionalised' – because they are seen to serve a common purpose.[5] A prime example of this in the history of state building in Western Europe was the process of bargaining which took place between rulers and organised groups over the payment of tax.

Many countries in the South today have formal institutions of representation, accountability and administration built on models transferred from OECD countries, but they often work very differently. They lack legitimacy and effectiveness because they were not forged through a political process of state/society negotiation, and are not supported by socio-economic structures that encourage organisation around broader, common interests. In particular, organisation around ethnic identity rather than economic interests can be problematic because the former is less likely to provide a basis for compromise, and for identifying positive sum outcomes.

For a variety of reasons explored in the DRC research, the incentives for governments – especially in sub-Saharan Africa – to engage in bargaining with organised interest groups are relatively weak. This in turn reduces the opportunities and incentives for groups to organise. For example, different parts of the private sector may have quite strongly shared interests in lobbying government for improvements in infrastructure, but they are unlikely to take the time and trouble to organise unless they have reason to believe that policymakers are prepared to listen, and have the ability to act. The problems are even more acute in the case of poor people, for whom organising involves risks and costs (including time), which they can ill afford.

Although the research shows that the causes of bad governance are very deep-seated, the overall message is one of optimism. There *is* scope for more positive engagement between the state and organised interest groups; there *are* things that policymakers can do to encourage this; and collective action by government, civil society, or both, *can* lead to positive outcomes.

The research agenda for looking at how to get more effective and accountable states is potentially vast. To make it manageable, the DRC has been organised around three broad thematic areas,

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[5] For a very accessible account, see Bates, R., 2001, *Prosperity and Violence: The Political Economy of Development.*

focusing on ways in which engagement between the state and organised interests is creating – or in some cases failing to create – more effective public authority.

Chapter 1 presents the outcome of a research programme focusing on the tax relationship, and the way that has shaped political and administrative institutions, both historically and in the present day. In Western Europe the need for rulers to collect tax to fight inter-state wars forced them into negotiations with taxpayers, resulting in the creation of representative institutions, administrative machinery to collect revenue and implement public programmes, and formal mechanisms of accountability. The effectiveness of the state was enhanced, while at the same time state power was constrained by the growth of organised interest groups and institutions. By contrast, rulers in many developing countries lack incentives to engage with citizens over tax, and to nurture general prosperity. The research explores the reasons for this, including access of rulers in countries of the South to external or unearned sources of income, from natural resources and aid, and the adverse consequences of this for governance. On a more optimistic note, it suggests that recent changes in the structure of taxation (including a shift from indirect to more direct taxation) may offer opportunities for more constructive engagement with taxpayers. There is a strong focus on informal relationships, including how a fiscal social contract is formed, and the reasons why people are prepared to pay tax.

Chapter 2 looks at the ways in which poor people are organising to make demands on public officials, and at how the state itself is influencing the opportunities for different groups to participate. It highlights the diversity of actors and interests involved in civil society, and the need for clear-sightedness about whose interests are being represented, and how. It suggests that the common view of civil society as an autonomous, democratic sphere, standing in opposition to an authoritarian state, needs rethinking, recognising the critical role the state plays in the constitution of civil society itself. Iterative relationships of state and society over time can enhance the effectiveness of both, through the construction of common interests. Finally, this research component reaches some surprising conclusions about the ways in which elected local government bodies in India are providing new openings for informal, traditional village councils to influence decisions that affect poor people.

Chapter 3 looks at new forms of collaboration that are emerging between the state and citizens for the provision of services, with a particular focus on urban sanitation. It finds that in practice, a great variety of arrangements exist that do not fit within normal models of public-private partnerships, and are creating new relationships of accountability between public and private actors. These lead to a blurring of traditional roles, even in areas like tax and security, which have long been seen as a state responsibility. The research is inspired in part by the experience of China, where informal and unorthodox arrangements compensated for the absence of more formal systems – notably of property rights. It seeks to move beyond the limitations of the

principal/agent framework; beyond conventional arrangements for contracting out; and beyond best practice solutions. Even in the case of more conventional arrangements, the case studies emphasise the importance of politics and of informal relations of accountability, in particular, the motivation of front-line workers.

Across all three programmes, the emphasis is on understanding what is actually happening, without preconceptions that limit the range of options under consideration. The focus is not primarily on formal institutions or mechanisms of accountability, but on the informal relationships and practices that influence how they work. In place of the conventional view, which sees civil society as a separate entity, the research takes a less normative stance, investigating the different ways in which societal and state actors co-operate and compete across the public/private sector divide.

The final chapter, the conclusion, explores the implications for policymakers. It echoes many of the by now familiar injunctions about the need for local ownership of policies, local mechanisms of accountability, and more realistic timescales for political and institutional change. The research is potentially empowering because it explains why these things matter. If building more effective and accountable states and public authority is seen not as a technocratic exercise in transferring formal institutions, but as a political process involving interaction between the state and a range of very diverse interest groups in society, then certain things inevitably follow. These include the need for external actors to have the best possible understanding of social, political and institutional context; to avoid 'hogging' the political space; to be much more consistent and less cavalier about advancing new policies without regard to local capacity to implement them; to be aware of their impact on local relationships and incentives, including the risks of aid dependency; and to be much less naive about politics.

If this dose of realism is potentially disheartening, the main findings of the research provide cause for optimism. They can be summarised as follows:

i) Taxation really matters for accountability, and is coming up the political agenda. Donors often struggle to identify priorities among the multiple needs and possible interventions that confront them. The research underlines the centrality of tax and of a social fiscal contract in building effective and accountable authority. Although there are no simple solutions – the answer does not lie in advocating increases in tax without regard to how it is collected – there are things that the development community could do, both by restricting access of political elites in poor countries to rents, and by stimulating public debate about the links between revenue-raising and spending.

ii) What the state does and how it is organised – including implementing policy at a micro level – matters very much for shaping the incentives and opportunities of different groups to organise and engage with government. Anti-poverty programmes can be designed and negotiated in ways that make it more likely that poor people will organise to demand their rights. Small changes to the way tax is structured and collected could help or hinder the organisation of taxpayer groups around broader, more public interests. Participatory mechanisms can provide access for poorer groups to policymaking processes. This puts the focus on the iterative relationship, over time, of state and society, rather than on 'strengthening' civil society vis-à-vis the state. Of course, all this comes with the caveat that different institutional arrangements play out differently, sometimes with unintended effects, depending on the political, social and institutional context. So best practice models cannot just be collected and transferred from one setting to another: the detailed design of institutions and programmes needs to be locally agreed, and adapted to a particular context. But the overall message is optimistic: there is more room for agency than is often supposed, and skilful negotiation and implementation can make a difference.

iii) Finally, there is increasing recognition of unorthodox arrangements that bring together public and private actors for service delivery in ways which serve the interests of both, and can also create wider public gains. The prospect of putting in place effective Weberian institutions and democratic systems may seem remote in many poor countries, so informal arrangements that work may offer the best interim solution. The message for policymakers is not to be bound by preconceived models, but to look in an open-minded way at what is actually happening, and to build on that. The search for effective solutions needs to move beyond institutional design, and to encompass informal relationships – including factors that motivate front-line workers – as well as politics.

Chapter 1: Taxation really matters for accountability

1.1 Introduction

Why pick on tax? Insofar as it features on the development agenda, tax tends to be seen as an issue only for economists and subject specialists. This is a mistake. There are strong, direct connections between the ways in which governments raise revenue and the quality of governance that they practice.

For historical reasons it is especially difficult to get this relationship right in poor countries, and, unwittingly, the international community often contributes to getting it wrong. Aid donors are major providers of revenue to the governments of many developing countries. By effectively providing an alternative to tax revenue, they intervene in the 'normal' relationship between governments and citizens. They should not simply close their eyes and pretend that they are only providing development resources.

Why does tax matter? Processes of bargaining and negotiation between states and societal interests are central to the construction of effective, legitimate public authority. These are the means through which societal groups are mobilised to resist overweening governments, common interests are identified, and lasting ways of resolving differences are established. If the aim is to establish effective and legitimate governance, revenue is a particularly good issue for states and societal groups to bargain over.

In OECD countries, the tax relationship underpins formal mechanisms of political accountability and public financial management. This is reflected in often heated public debates about how government revenues are raised, spent and accounted for. The situation is quite different in many developing countries. There is little public debate linking sources of revenue with expenditure, and little organised, public action by taxpayers. That in turn reflects the historical weakness of the link between tax-paying and citizenship.

1.2 Tax and accountability: the big picture

Many of the people who emphasise the importance of the tax relationship to good governance draw their inspiration from a large historical literature linking conflict and bargaining over taxation to the creation of representative legislatures in Western Europe. The main elements of the story are well known. Against the background of a constant threat of inter-state warfare, some governments (especially in agrarian societies) resorted to coercive taxation, which generated resistance and low, unreliable revenues. But other governments (notably in Britain

and the Netherlands) negotiated with taxpayers, including holders of mobile capital, in ways that created joint gains to both rulers and taxpayers. The fact that tax was negotiated meant that tax collection became less costly to administer, less onerous, and more predictable. This encouraged government to undertake better long-term planning, and business to invest. Rulers had incentives to strengthen the bureaucracy to collect and administer taxes, and to extend its reach. There was a process and a forum (parliament) in which taxes were negotiated, which encouraged taxpayers to get involved in policy-making, and rulers to adopt policies that were mutually beneficial. Taxpayers were in turn more likely to respond to calls for emergency war finance if they were already involved in major policy decisions. Taxpayers in parliament adopted mechanisms to oversee revenue-raising and public expenditure management. Rulers had a stake in the prosperity of their citizens, and incentives to nurture that prosperity to generate more revenues. By using reliable tax flows to leverage loans from domestic lenders, the Dutch and the British were able to turn their tax states into more powerful fiscal states. The overlap between lenders, large taxpayers and members of the legislature further strengthened the accountability of government to taxpayers.

The exact relevance of Europe's historical experiences of taxation and state formation to contemporary developing countries has been a major research issue for the Centre for the Future State.[6] The focus of this paper is on the core lessons: that we should be concerned when (a) contemporary states have substantial revenue sources independent of broad taxation of citizens, and (b) public authority has not been significantly shaped by a process of bargaining with citizens over taxation issues.

Let us start from the observation that processes of bargaining and negotiation between states and societal interests are central to the construction of effective, legitimate public authority. Why does it matter that taxation should be an important focus of that bargaining? To answer this question, it helps to look at the main alternatives. What other issues might states and social groups bargain over?

- One of the most fundamental is 'protection': states invest in military, police and judicial resources to protect citizens from internal or external aggression in return for citizens' obedience to state law, tax revenues, or military conscription. Historically, if subjects did not like the deal they were offered by their protector, they could move to another political jurisdiction. That 'exit option' is rarely available today, at least not for poor people in poor countries.

- By contrast, in the contemporary world, capital can be moved relatively easily across international borders. So states are obliged to enter into direct or implicit bargaining with

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[6] See in particular Moore, M., 2004 'Revenues, State Formation and the Quality of Governance in Developing Countries' and Moore, M., 2004 'Taxation and the Political Agenda, North and South'.

controllers of capital, because the latter will invest elsewhere if they do not like business conditions in any one country. This interdependence can be a useful sanction against governments that tend to exploit rather than nurture the private sector. However, it does not contribute powerfully or directly to the establishment of stable political institutions or to enhancing the responsiveness and accountability of the state to citizens generally.

- Some bargaining does take place over spending. The allocation of government expenditure is a major item of political contention in many poor countries. But the real competition often takes place within narrow political and bureaucratic circles, and more open public politics tend to be suffused with patronage considerations. Without the handle provided by the link to tax-paying – and except in those institutionalised democracies, such as urban Brazil, that are rare in the South – citizens have little capacity to bargain with states over public expenditure. In the absence of a vibrant electoral democracy, citizens have nothing to withhold from states to make interdependence and bargaining a reality.

By contrast, state-society bargaining around taxation issues tends to make an especially important contribution to improving governance, for three related reasons:

- First, the process is relatively effective at mobilising a social group that has the capacity genuinely to exercise countervailing power over the state, and to help to hold it to account. Taxpayers are a relatively large group who have a 'natural' interest in organising to exercise vigilance over how 'their' money is used, and a real capacity to withhold from the state resources that are crucial to its functioning on a day-to-day basis. In the contemporary world, one factor helping to account for differences among countries in the ratio of taxes to Gross National Product (GNP) is the variations in public perceptions about the likelihood that their government will misuse public money.

- Second, the presence of taxpayers' voices helps take debates over public expenditure out of the realm of patronage politics and into the realm of interest-group bargaining.

- Third, there is a strong natural affinity between interest-group politics around taxation and public spending and the institutional frameworks of modern democracies: not simply elections and legislatures, but also direct legislative influence over fiscal matters, through annual budgeting processes, auditor-generals and national audit offices. Those institutions in large part emerged in Western Europe as mechanisms to keep states accountable via controls on how they raised and spent money. It is often observed that legislatures in developing countries are ineffective, and that the electoral competition through which they are constituted seems shallow. Part of the reason lies in the fact that the executive often has direct control over government revenue, leaving the legislature with little say over anything that really matters.

In sum, it matters that states depend on taxing citizens and that citizens mobilise to bargain over those taxes because this provides one of the broadest and most reliable routes to institutionalising both limits on the power of the state, and the processes through which states and societal groups can identify their common interests. In a world where many states remain simultaneously fragile and weakly rooted, yet coercive in their dealings with citizens, stimulating these kinds of bargaining processes is an important means to improving the quality of governance.

But why do external actors need to think of intervening in these issues in relation to developing countries? If state-society bargaining over revenue makes such an important contribution to the effectiveness and legitimacy of states, will it not anyway emerge naturally? For contemporary developing countries, the answer tends to be negative. Several interacting factors that impact heavily on the character of governance undercut the scope for revenue bargaining:

- A complex set of historical factors has resulted in the concentration of political and economic power in the hands of relatively small elites and in the institutions of the state. Citizens tend to be dominated by powerful states. There is often limited state-society bargaining of any kind.

- The provision of large amounts of military aid and external military support to some states in the South further reduces the need for their elites to depend on internal revenues and internal political support.

- There is currently a huge, and historically unprecedented, difference in income levels between rich and poor countries. This, together with a steady reduction in transport costs and a steady increase in economic interaction across the globe, has given state and political elites in the South access to very large economic surpluses or 'rents' from their control over relations with the rich countries in the North. In particular, they have been able to obtain rents from control of oil and minerals that have a high value for rich countries, and which yield large surpluses well in excess of production costs. Access to these natural resource surpluses reduces the incentives for states to tax their own citizens.

- For poorer contemporary developing countries, large amounts of development aid provide a similar substitute for domestic taxation.

Many of the most malign effects of this combination of circumstances have been explored in the literature on 'rentier' states. These states have limited incentives to build up institutions to collect and administer tax, or to extend the reach of government to poorer, more remote regions. They have not been under pressure to develop or maintain electoral or representative institutions through which to bargain with taxpayers over revenue or policy. Where they do raise tax, they may do so coercively. Public finances are non-transparent – when revenues come from a small

number of key sources, such as foreign oil companies, they are relatively easy to conceal. Lacking much interest in the capacity of their citizens to provide tax revenue, governments may also have limited interest in promoting their material prosperity.

In the case of oil states in particular, regimes with little legitimacy have enjoyed political and military support from outsiders concerned to protect their sources of supply. This has further increased state autonomy in relation to citizens. But such states are vulnerable to coups and challenges from armed groups, both because the rewards from control of state power are so high, and because, in the absence of a strong need to raise internal revenue, there may be no active engagement between the state and many of its citizens – leaving a vacuum that insurgent groups can fill. There are strong incentives for states to divert revenues into building up the capacity of military or internal security forces. Moreover, they – and armed groups confronting them – are increasingly able to use surpluses from oil or narcotics to buy on international markets near-complete packages of military force, thereby freeing them further from any need to command the allegiance of ordinary citizens.

The rentier regimes represent the extreme case of states that have very little need for their citizens. A milder form of the same problem – limited dependence of states on taxes from citizens – is found in a much wider range of developing countries. The resultant weakness of citizens in relation to the state manifests itself in, among other things: the prevalence of coercive and/or corrupt interactions between tax-collecting agencies and taxpayers; the employment of highly complex and discretionary taxation schedules as instruments of political patronage; and the relative absence of fiscal issues from the public political agenda. Unlike in OECD countries, alternative ways in which governments might spend and, especially, raise public money are not central to campaign speeches and slogans, legislative debates, or inter-party competition.

Is there not a paradox in all this? We have emphasised here the potentially constructive role of taxation as the focus for institutionalised bargaining between states and citizens. Yet there is another tradition of political thought, reflected in much routine conversation, which emphasises the exploitative and coercive dimensions of taxation. At the extreme, taxation may be seen simply as 'legalised robbery'. And that phrase accurately depicts the experiences of many citizens at the hands of the tax collector, especially in developing countries. How do we reconcile these two contrary images? Both are valid: taxation can be both 'legalised robbery' and the seedbed for the relationships that lead to the construction of effective and accountable states. A major concern for the DRC has been to determine the conditions under which these different outcomes are more likely. Many factors impact on this outcome.[7] These are the most important general conclusions:

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[7] For a discussion, see Moore, M., and Rakner, L., 2002, 'The New Politics of Taxation and Accountability'.

- Coercive taxation is most likely to be practised at the local level in poor agrarian environments with weak democratic institutions and little oversight by central government. Here, taxation often serves mainly to fill the pockets of those who control and staff the taxation apparatus.

- The positive institution-building effects of taxation are most likely to take place at the national level, where governments eager to secure substantial revenues interact with both (a) large and influential taxpayers and (b) international financial institutions keen to ensure that a reliable revenue-raising system is in place to enable the government to repay its international loans.

- It follows that we should be sceptical about the broader political implications of attempts to shift a large revenue-raising burden onto local governments, especially when (a) their jurisdictions are small, (b) they have few tax handles other than agriculture, and (c) central government is unable to provide an effective oversight function to control 'legalised robbery'.

- Direct taxes – on income, assets, wealth, inheritance, etc – have the greatest potential to mobilise taxpayers politically. They are generally very visible to taxpayers, who find it difficult to shift the burden onto other people (as is possible in the case of sales and transactions taxes). However, value added tax (VAT), which is technically an indirect tax, has a considerable capacity to mobilise taxpayers, mainly because of the burden of book-keeping that it imposes on small businesses in particular, but also because it can be hard to evade.

1.3 Is taxation coming up the political agenda?

Given that many people in developing countries experience taxation more as 'legalised robbery' than as the discharge of a civic responsibility, what are the chances of mobilising taxpayers in ways that promote better governance? It is clearly not possible to recreate the conditions that drove states in Western Europe to engage with taxpayers. It is not generally feasible or desirable to suddenly make governments of poor countries more dependent on taxes by depriving them of revenues from aid, oil and mineral resources. Practically, we should be thinking of ways of changing the relationship between states and taxpayers. This may be more a matter of *how* governments tax than of *how much* they tax. Some of the case studies suggest that, for a variety of reasons, tax may be coming up the political agenda in many countries; and that over time, this could start to change the relationship between the state and its citizens, and to encourage the building of a social contract based around the tax relationship. Work on recent developments in Latin America, and in middle-income countries more generally, offers particularly interesting insights.

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[8] See Lledo, V., Schneider, A. and Moore, M., 2004, 'Governance, Taxes and Tax Reform in Latin America'.

One strand of the research looks at political conditions and structures that have affected tax and the tax relationship between states and citizens in Latin America.[8] Although there are significant differences between countries, with total tax revenue as a percentage of Gross Domestic Product (GDP) varying from over 20 per cent in Panama, Nicaragua and Uruguay to under 10 per cent in Paraguay and Guatemala, there are some features that are common to the region as a whole. Compared to other developing countries, Latin America has a low average tax take, wealth (especially property) is under-taxed, and there has been heavy dependence on indirect taxes with a narrow base, multiple rates and high levels of exemption. To a significant degree, elites have exercised sufficient influence over the details of fiscal legislation and over the tax collection process to ensure that, even where the overall tax take is high, the burden falls mainly on indirect taxes and on poor people. Tax administration has tended to be highly centralised (though this is now changing); capacity to tax is limited; there is extensive tax evasion, especially by wealthy people; and processes of making and changing tax policy are not very transparent.

Democratic governments have found it difficult to undertake tax reform and to resist pressures for spending from important constituencies. In common with other developing countries, a large share of agriculture in total GDP, and a large informal sector add to the difficulty of collecting direct taxes, and limit the total tax take. Lack of transparency, and coercive methods of tax collection, especially at a local level, have eroded confidence in the fairness of the system, and further discouraged collective action by taxpayers around broader interests. High inflation, which quickly erodes any gains negotiated, is a further deterrent to business or other interests to organise collectively around fiscal issues.

All of this helps to explain the lack of a social contract – in Latin America but also in many other developing countries – based on state-society bargaining around tax. Given such obstacles, the prospect that countries in Latin America or elsewhere might move towards establishing more open, rules-based, equitable arrangements for negotiating tax might sound like a tall order. But there are reasons for optimism:

i) Tax reform, led by the international financial institutions as part of the Washington Consensus agenda, could provide a starting point for negotiated arrangements over tax. These reforms have entailed significant reductions in (relatively invisible) indirect taxes on trade, and widespread introduction of VAT. VAT, though often seen as an indirect tax, is in fact quite visible, especially to small businesses for whom the record-keeping obligations are often quite burdensome. Tax reform in Latin America has led to reductions in high marginal tax rates, simplification of taxes, reductions in exemptions, some broadening of the tax base, greater transparency, and strengthening of administrative capacity of revenue authorities (including the establishment of autonomous revenue authorities). Some 'home grown' reforms have started to address long-standing issues of equity, or to reduce compliance costs for small business. Although some of

these reforms have been difficult to sustain, and most address issues of efficiency rather than equity, taken together they do mean that more taxpayers now face a common, simplified tax regime, with more opportunity and incentive to engage in public action over tax, and less to gain from lobbying for special interests through private networks.

ii) Big reductions in inflation in recent years, especially in developing countries, could make it more worthwhile for individuals and interest groups to engage in political action over taxation, knowing that any agreements that are made are unlikely to be quickly overtaken by rapid changes in the value of money.

iii) In Latin America, there is growing interest in the idea of fiscal pacts, based on the example of Chile. The pact in Chile was negotiated as part of the transition from military to civilian rule in 1990. It involved intensive discussions with a wide range of stakeholders, and resulted in agreement to increase personal and corporate income tax and VAT, with the extra revenue used to increase social spending. There were, of course, specific factors in Chile which made this possible, including the widespread feeling that a 'social debt' was owed to the poor following years of military rule; but it offers an example of moving towards broader social engagement over tax, as part of a democratic project, while being very much in the Latin American corporatist tradition.

iv) There are growing movements in many countries in support of greater budgetary transparency, and more direct popular participation in budgeting. Some of the best-known examples come from Brazil, which has implemented participatory budgeting in over 140 cities in six states. Experience from Rio Grande do Sul,[9] where the successful model of participatory budgeting in Porto Alegre has been scaled up to state level, suggests that these new mechanisms have the potential to realign interests. They have given more voice and political power to poorer groups, while the emphasis on good management and financial transparency has attracted support from better-off taxpayers concerned to reduce corruption and waste. There appear to have been positive impacts on efficiency (in terms of completion of planned projects), planning capacity, and transparency as well as increased social sector spending. There are special factors that contributed to the success of this movement in Brazil, not least that it was introduced as a political project that served the interests of a strong, leftist party. High levels of urbanisation and education also helped. Participatory budgeting has been unsuccessful in some of the larger cities. So this is by no means a blueprint to be copied elsewhere. But it has provided a forum for public debate about tax and expenditure issues, and has increased transparency and accountability in ways that could support the construction of a broader social contract.

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[9] See Schneider, A. and Goldfrank, B., 2002, 'Budgets and Ballots in Brazil: Participatory Budgeting from the City to the State'.

v) Finally, there have been significant recent shifts in the tax relationship in those former Communist countries which have met the conditions for entry into the European Union (EU). They have been required to modernise their tax systems to make them broadly similar to those of OECD countries. For example, the Polish government has managed to introduce a direct income tax that affects a large proportion of households, and accounts for a quarter of government revenue. It overcame significant initial resistance by negotiating compromises with different groups, and brought trade unions into a tripartite commission with government and industrial managers. By contrast, governments in Russia, far from broadening their revenue base, have been forced to strike elite bargains with powerful conglomerates controlling the main export commodities. Elements of a fiscal social contract have been forged in Poland and most of the EU accession states, but not in the resource-rich ex-Communist states.

1.4 Tax compliance and a fiscal social contract

What makes people willing to pay tax? Statistical analysis carried out as part of the DRC research on tax and governance in middle-income countries[10] suggests that, both between countries and within countries over time, the size of the tax take varies significantly and positively with the proportion of government spending devoted to education. This is intriguing: does it suggest that fiscal social contract mechanisms might be in operation, and that people are willing to pay higher taxes if they can see some links to public spending from which they benefit or of which they approve?

But research from South Africa suggests a more complex story.[11] The South African Revenue Service (SARS) is remarkable for having achieved significant, sustained increases in tax revenue since its establishment as a separate organisation in 1995. This is interesting because, despite the difficulty the post-apartheid state has had in obtaining compliance from its citizens with their public obligations in other spheres of life, there have been continued high levels of compliance where tax is concerned. The increases have come mainly from companies within the formal sector. There have been technical improvements in collection, but similar improvements have been employed elsewhere, to much less effect. The research suggests that a more critical factor is a culture of compliance with paying taxes that applies to both white and black citizens – in spite of the fact that they may have very different attitudes to the new state and government. What is the origin of this culture of compliance?

Compliance among white South Africans may have its origins in support for the apartheid state, but seems to have survived the transition. Continued compliance may rest less on support for or

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[10] See Moore, M. and Schneider, A., 2004, 'Taxation, Governance and Poverty: Where do the Middle Income Countries Fit?'.
[11] See Friedman, S., 2003, 'Sending Them a Message: Culture, Tax Collection and Governance in South Africa'; and Smith, L. 2003, 'The Power of Politics: The performance of the South African Revenue Service and some of its implications'.

approval of the current government or political settlement, and more on a legacy of interacting with the state through a set of rules that encouraged compliance. Compliance among large numbers of new black taxpayers may rest on more positive support for government, but also reflects a sense of obligation to pay tax. Thus, a policy by SARS of launching very public prosecutions of individuals for non-compliance seems to work as a deterrent because non-payment is seen as a source of shame. Large companies in particular are bound to comply with rules governing relations with shareholders and employees, and are therefore more likely to view compliance with legal obligations, including tax, as the norm.

Clearly, in South Africa, there are particular historical legacies as well as economic and social structures operating which do not apply elsewhere, and which therefore limit the direct relevance of these findings for other countries in Africa (where the formal sector, for example, is much smaller). But the key lesson does have wider application – namely the need for any technical strategies and interventions to be rooted in an understanding of the informal norms and values operating among taxpayers. The employment by SARS of tax specialists from the private sector, for instance, has given the tax authority a better understanding of business culture, and a more effective basis for engaging with tax consultants working for taxpayers in the private sector. Moreover, if compliance depends in part on a perception that the state will obey its own rules, and that the basis of engagement is therefore predictable, there is a clear need for revenue authorities to take proper account of taxpayers' rights.

1.5 Taxing the informal sector

It is very difficult to tax the informal sector. The costs of collection tend to be high in relation to the revenue raised. And it is not easy to induce good tax agency staff to work in this area. Given the contemporary emphasis on collection costs, the tendency has been to lament the problem but do little about it. From a technical and short-term perspective, that attitude may be justified. Why should any national tax agency court problems by focusing on an issue where there are no easy gains, and where the cost-benefit ratio of raising additional revenue is unlikely to appear very favourable? The answer is that, in the longer term, there are significant potential governance dividends from more effective taxation of the (urban) informal sector. First, the perception that the informal sector escapes taxation does appear to reduce tax compliance by formal sector firms. This is especially true of smaller formal sector firms who perceive, often validly, that both large firms and small informal firms find ways of evading taxes, leaving them to bear an unfair share of the burden. Second, as Judith Tendler explains in the IDS Tax Bulletin,[12] the exclusion of small firms from the tax net can effectively exclude them from governments' private sector

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[12] See Tendler, J., 2002, 'Small Firms, the Informal Sector and the Devil's Deal'.
[13] See Joshi, A. and Ayee, J., 2002, 'Taxing for the state?: Politics, revenue and the informal sector in Ghana'.

development programmes. In middle-income countries especially, extending taxation[13] in the informal sector can be a way of extending the social contract.

If, as the research implies, a culture of tax compliance is constructed, rather than innate, then in principle there is potential to create a culture of compliance among workers in the informal sector, albeit over a long period of time. But how can this be done? If it really is too difficult for national tax agencies, then the Ghanaian case that we have examined might provide a useful signpost. For a long period of time, the government of Ghana has effectively franchised the direct taxation of some components of the informal sector to associations representing enterprises in the sector. In particular, the taxing of incomes in the large private road passenger transport sector has been undertaken by the Ghana Passenger Road Transport Union (GPRTU). This arrangement has generated some revenue for the government, income and authority for the union, and protection against a range of potential illegal levies for the vehicle operators. The arrangement is not without its problems. It is significant not because it is directly replicable, but because it illustrates unconventional ways of tackling the problem of taxing the informal sector, by creating institutions that establish common interests between state and non-state actors.

1.6 What are the implications for policymakers, especially external actors?

If processes of bargaining between states and societal interests are central to the construction of legitimate public authority, and if tax matters for accountability because of its power to mobilise interest groups in particular ways, it follows that any interventions that could weaken the incentives for such bargaining – either directly or indirectly – have considerable potential to do harm. This is something that external actors need to take much more seriously, in all their dealings with poor countries – over trade, business, military support or diplomatic relations, as well as aid.

There is one clear set of positive actions they could take. They could get serious about implementing policies already on the international agenda, which would have the effect of reducing access of elites in poor countries to external support – including military supplies, and 'rents' from oil and minerals. This means attaching real urgency to measures such as the Extractive Industries Transparency Initiative to make oil revenues more transparent, and taking action to curtail opportunities for money laundering, the collusion of rich countries in corrupt business dealings, and the marketing of conflict diamonds.

Secondly, large amounts of aid can weaken the links between tax and accountability. The relationship between the availability of aid and incentives to tax needs further study. What does seem clear is that high levels of aid create relationships of accountability to external donors at the expense of domestic taxpayers and legislators. Until recently, decisions about whether and how

to provide aid took virtually no account of the likely effect on governance. That is beginning to change, with arguments in favour of a shift from project aid to budget support resting largely on the alleged potential of budget support to strengthen domestic accountability. But these arguments relate to the impact of aid on institutions of public expenditure management, and have taken no account of tax.

A much more honest debate is needed about the effects of aid dependency on governance. The fact that aid has the potential to do harm does not mean that it is necessarily a bad thing; but it does mean that the costs and benefits should be much more carefully weighed, and should include the risks of substituting aid for tax revenues. Specifically, donors need to think through the likely impact of different aid modalities on state-society relationships in a particular context, and to consider whether there are ways of mitigating any damage – for example, by encouraging much more public debate about links between revenue and tax. Donors and civil society groups lobbying for the poor tend to focus exclusively on spending and on beneficiaries; Poverty Reduction Strategy processes and Medium Term Expenditure Frameworks all emphasise spending. Negotiation with donors over budgets can weaken the role of legislators in public expenditure decisions. Taxpayers and legislators need to be brought back into the picture.

There are other unintended, negative effects of aid on governance that should be given greater prominence. Unpredictable aid flows encourage short-termism and undermine budget discipline – thereby discouraging groups from mobilising public action. Fiscal targets set as part of aid conditionality can result in coercive and arbitrary collection by revenue authorities – thus reinforcing the perception of tax as 'legalised robbery'. But there may also be potential for more positive action. This includes making tax structures simpler, more direct, more equitable and more broadly based; and methods of tax collection that promote trust and legitimacy. More broadly, as explored in the following two chapters, there are ways of designing state programmes and institutions that can help to mobilise interest groups to engage in public business.

Does it matter that the taxpayer groups most likely to be able to organise and engage effectively with the state will be better off, more elite groups, including business? They will, of course, be self-interested, and are unlikely to be directly 'pro-poor' in orientation. Nevertheless, given the lack of effective constraints on state action, any political mobilisation around broad socio-economic interests is likely to be a good thing – and only groups with some power to make governments take notice of them are likely to be effective. Such action may take place outside the legislature, or by taxpayers increasingly seeking election to the legislature. Moreover, business associations or other taxpayer groups may well have reason to push for a range of public goods – including better infrastructure, less arbitrary and coercive taxation, better scrutiny of public expenditure – which could offer broader developmental benefits.

1.7 Conclusion

The overarching message for all policymakers is to be much more aware of the political significance of tax. External actors in particular need to be alert to the potentially negative impact of their actions. But there are also things that both local reformers and donors could do to increase public debate about links between tax and spending, and enhance the chances of constructing a fiscal social contract. Either way, tax needs to come up the policy agenda, and to be treated as a governance issue, not just as a fiscal or economic concern.

Chapter 2: How can poor people organise to influence state actors and policies?

2.1 Introduction

The development community has ambitious expectations of civil society. It advocates involving civil society organisations in policy-making, service delivery and monitoring as an important part of strategies to achieve the Millennium Development Goals. Direct popular participation at local level is seen as offering new ways for poor people to acquire a voice, through networks of associations linked to decision-makers. There is a profusion of projects designed to 'strengthen the capacity' of civil society (often advocacy NGOs) in order to make the state more accountable.

What this activity tends to overlook is the diversity of actors and interests involved in civil organisations, and the many different ways in which they relate to each other, the state, politicians and political parties. This component of the DRC research investigates those relationships, and specifically the capacity of poor people to organise to influence public officials and public policy.

Based on comparative cross-country surveys and detailed case studies, the aim is to find out what is *actually* happening in settings ranging from major cities in Brazil, Mexico and India to rural areas of Maharashtra and Karnataka. The story that emerges is complex, and challenges many assumptions about the ability of civil society to demand accountability and give poor people more of a voice. But the findings also provide cause for optimism.

First, despite fears that growing informality of employment is making it harder for poor people to mobilise, the research finds that poor people are politically active, and continue to look to the state to solve problems and provide basic services. Lack of education, and in some places gender and location, are more important obstacles to political participation than informality of employment.

Second, what the state does, how it is organised, and how public policy is designed and implemented all have an important bearing on the ability of poor people – or organisations claiming to speak for them – to organise and make demands on elected officials and government agencies. The effects of government action can be deliberate (for example, the design of an anti-poverty programme in Maharashtra, or participatory institutions in São Paulo), or completely unintended (such as the new elected village councils in Karnataka, which have energised traditional bodies). But in a variety of different ways, and at different levels, the state has a powerful effect on incentives and opportunities for mobilisation.

Third, civil society is a complex universe, encompassing multiple interests, and linking poor people to the state in many different ways. The relation of civil society to state institutions and political parties, and its role in providing a 'voice' for citizens, need re-conceptualising. Many scholars and policymakers tend to think of civil society as isolated from the state, and value its supposed autonomy as a source of restraint on state power. But the research tells a more complex story.

In practice there is much blurring of the boundaries between different actors. Detailed surveys of civil organisations in São Paulo show that more often than not, it is organisations well connected to government and political parties that are giving the poor a voice in policy-making. So autonomy is not necessarily the key to effectiveness. This and other aspects of the research show how interaction, over time, between the state and organised groups in society can enhance the effectiveness of both, through the construction of common interests.

Many of the claims made about the ability of new forms of citizen participation to give poor people a greater voice are overplayed, or seriously naive. The research finds that it is often collective actors rather than individuals who are involved in participatory processes. For example, participatory budget mechanisms in São Paulo were designed to provide space for *direct* participation by individual citizens, but in practice they give an important platform to leaders of community or neighbourhood associations, who see themselves as speaking on behalf of those organisations. Most of these associations are not membership based, which raises the question of who they speak for or represent when they are invited into policy dialogue by government or donors. The research finds that, in some contexts, new forms of representation are evolving, in spite of the fact that they do not fit within a conventional model based on formal accountability mechanisms.

The way institutions are designed has a big impact on the ability of different groups to participate in public affairs; but many other factors – including politics – are also at work. So institutional arrangements cannot just be transferred from one setting to another and be expected to produce the same effects. The research does not set out to identify a single set of factors that can be shown to enhance the ability of poor people to influence public policy. But it suggests that there are combinations of factors that may be important, and ways of thinking about state/society relations that can help identify effective strategies.

2.2 Detailed findings

2.2.1 Poor people are politically active, and look to the state to solve problems

Political activity by poor people, or organisations working on their behalf, is clearly only one factor in making states more responsive. There are many examples of quite authoritarian states implementing public policies that benefit poor people, including top-down measures driven by ideological political parties, and action by military governments seeking to establish their legitimacy. But those benefits will be hard to sustain if they are not the product of engagement between the state and organised groups, including those representing the interests of poor people. This process of bargaining, while often messy and conflict-ridden, is crucial for building effective, accountable public institutions – in other words, channels and mechanisms which are seen as legitimate ways of resolving competing interests. They matter because they are the foundation of civic politics.

One aspect of the research set out to look at political participation by poor people in Delhi, Bangalore, Mexico City and São Paulo.[14] Structured survey research conducted with individuals and organisations explores *who* is more likely to make demands on public officials for improved access or quality of basic public goods or rights, and contrasts this to people who are more likely to seek out political parties or patrons, or who are more likely to engage in local forms of self-help. The surveys also explored direct involvement in associations and in electoral politics.

Interviews with individual citizens suggest, unsurprisingly, that there are significant variations between cities. But there are also some striking findings that apply in all four locations.

First, despite concerns about the impact of liberalisation and privatisation on the developmental role of the state, most people (including the poor) continue to see government as having the primary responsibility for providing basic infrastructure and services. And despite concerns about the effect of growing informality of employment on mobilisation, poor people in all four cities are politically active. They are involved in finding solutions to collective problems – such as sanitation, garbage collection or access to medical care – by making demands on government or seeking out political parties, as well as organising self-help; and they seek to influence who governs (mainly by voting in large numbers). Political parties remain very important channels for poor people, and are their preferred method of problem solving.

Contrary to what is often found in richer countries, low income is not itself a bar to political participation; poor people are as active politically as their wealthier counterparts, though in

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[14] See project papers on Rights, Representation and the Poor: Comparing Large Developing Country Democracies – India, Mexico and Brazil', listed in footnote 15.

different ways. Moreover, whether people work in the formal or informal sector seems to make little difference, although those not working at all are much less likely to be politically active.

Significantly, lack of education does matter everywhere – the less well-educated are considerably less likely to be active in associations. And associational activity makes it more likely that a person makes demands on government and engages in other forms of problem-solving activities. But there are marked differences between cities. In Delhi, poorly educated people are just as likely as others to be engaged in problem solving, and indeed more likely to be involved in political activism (including demonstrations). By contrast, in São Paulo, those with low education are less active across the board. In Delhi and Mexico City, poor women are less involved in problem solving and political activism. No similar gender gap is evident in Bangalore or São Paulo. Finally, where people live is an important factor in whether they participate politically – slum dwellers are more likely than others to engage in problem solving and in political activism.

2.2.2 How the state works and is organised, and how public policy is designed and implemented, have a significant impact on the ability of poor people to mobilise and make the state responsive to their needs

This is an important finding. It suggests that there is more room for agency than is often supposed. But it also contains a warning for policymakers to be alert to the unintended consequences of their actions. And it challenges the conventional notion of civil society as an autonomous sphere, isolated from the state and political society.

The cases highlighted below show how the state itself influences opportunities for interest groups to mobilise, and for civil organisations to engage in public action, at a number of different levels and in a variety of ways. History has an important role to play: differences in the orientation of civil organisations in Mexico City and São Paulo, described below, are traced to different histories of state building. Participatory institutions in São Paulo were deliberately designed to involve citizens in policy-making, with intended and unintended effects. Particularly intriguing is the unintended impact of new elected local government bodies in India on traditional village organisations. At a more micro level, the history of a major anti-poverty programme in Maharashtra, India – the Employment Guarantee Scheme – shows the importance of skilful institutional design, including the enshrinement of rights in legislation, but also the need for a supportive political environment. The final case, one of failure of informal traders' associations in Johannesburg to mobilise effectively, highlights the importance of a two-way engagement between state and society to construct common interests.

Civil society in Mexico City and São Paulo

There are marked differences in the orientation of civil organisations in São Paulo and Mexico City, which give individual citizens and organised groups very different opportunities for political participation. Civil organisations in Mexico City are more likely to adopt self-help strategies than to make demands on the state, and more likely to work in local communities and channel local demands to the state than to try to influence broader policy debate. By contrast, in São Paulo, civil organisations are more state-oriented and engage in a variety of policy fora to influence public policy-making. They also have more capacity to aggregate and represent interests than in Mexico City.

The origin of these differences may lie in different histories of state/society relations that have emerged in the process of state building.[15] In Mexico, a highly centralised state sought to draw every sector of the population into corporatist arrangements, operating through a dominant political party (the Institutional Revolutionary Party, or PRI), which left little political space for autonomous organisations. The Catholic Church was wealthy, powerful and excluded from politics. By contrast, the state in Brazil was far more decentralised, corporatist organisations were not orchestrated through a political party, and the Catholic Church, especially its liberation theology wing, played an extensive political role. This had a profound effect on the political content and strategies of civil organisations. More speculatively, different sequencing of economic and political reform in recent years may have contributed to the different orientation of civil organisations. In Mexico, economic and state reform started in the1980s and preceded political reform, which may have contributed to reduced expectations of the state's developmental role; by contrast, in Brazil, political reform came first, providing space for greater engagement of civil organisations in public life.

Participatory institutions in São Paulo

The Brazilian constitution of 1988 created institutional mechanisms for direct citizen participation in the design of public policy and the regulation of government action. The result has been a proliferation of participatory institutions at federal, state and municipal level. Civil organisations were themselves active in negotiating the design of arrangements such as the participatory budget and policy councils, facilitating their long-term access to these institutions.

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[15] See Houtzager, P., Gurza Lavalle, A. and Castello, G., 2005, 'States and Citizens in Urban Brazil and Mexico: What Surveys on Political Participation Can Tell Us', in Rights, Representation and the Poor: Comparing Large Developing Country Democracies – India, Mexico and Brazil.

[16] See Houtzager, P., Gurza Lavalle, A., and Acharya, A., 2003, 'Who Participates? Civil Society and the New Democratic Politics in São Paulo, Brazil'

One strand of the research investigates which collective actors are engaging in budget mechanisms, policy councils and other participatory processes in São Paulo.[16] Surveys of civil organisations in the city suggest that the participatory mechanisms have created new opportunities for social groups excluded from other public decision-making arenas. Whether an organisation is rich or poor (judged by the size of its budget) seems not to matter. Moreover, the detailed design of different participatory mechanisms *is* stimulating participation by different civil organisations.

For example, organisations which co-ordinate networks of local associations, advocacy NGOs and other actors, and whose interests stretch across the city, have far higher rates of participation in the policy councils than in the participatory budget mechanisms. The latter attract more local, neighbourhood associations on account of their territorial dimension. Health is one of the two mandatory issue areas in the participatory budget, so it is not surprising that actors who have health as a main interest are more likely than others to participate. But institutional design is only part of the reason: also significant is the fact that the health movement in São Paulo has a long history and played a significant political role in the 1980s. This may explain why organisations involved in health are more engaged in participatory budget mechanisms than those dealing with education – the other mandatory policy area.

Elected and traditional councils in Karnataka

A less obvious, but compelling illustration of the way changes in state institutions are influencing opportunities for political participation comes from rural Karnataka.[17] A constitutional amendment in 1992 set up a range of elected local government bodies throughout India. It gave no recognition to the informal, village councils found in most of Karnataka (and in other Indian states – though different histories and cultural factors have produced different arrangements elsewhere). Far from formal, 'modern' institutions supplanting traditional groups, as might have been expected, the creation of locally elected formal institutions (Grama Panchayats) seems to have provided them with new opportunities. One feature of the legislation that encouraged this interaction was that it aligned the population area covered by a single Grama Panchayat with several existing 'natural' villages. (This was not the case with the elected village bodies that existed before 1992.)

There are high levels of interaction between the formal and informal institutions, and the latter remain active and influential. Indeed, there is evidence that traditional organisations are most active a) in wealthier, more developed districts; b) where they are physically close to the headquarters of the Grama Panchayat; and c) where Grama Panchayats are most effective (judged by their revenue-raising capacity). This could just be the effect of 'modernity'; but it also suggests

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[17] See AnanthPur, K., 2004, 'Rivalry or Synergy: Formal and Informal Local Governance in Rural India'.

a powerful institutional effect, i.e., that good formal institutions are providing incentives for traditional, informal ones.

Box 1 Formal and informal village institutions in Karnataka

Grama Panchayats are the lowest tier of formal, elected village-level bodies. They:
- were established by the 73rd constitutional amendment in 1992
- cover 5,000-7,000 people, with jurisdiction over several 'natural' villages
- provide reserved seats for women (33 per cent) and other marginalised groups
- receive grants from state government as well as raising local taxes
- are responsible for local infrastructure, welfare and development projects.

Traditional village councils
Traditional village councils:
- have no legal or formal government sanction
- cover only individual 'natural' villages
- are composed of caste leaders, virtually all men
- organise social and religious activities, mobilise resources, arbitrate disputes, help maintain law and order, provide support to the destitute, and undertake development activities.

The traditional councils are interacting with the Grama Panchayats in two major ways. First, leaders and members of the traditional councils are standing for election to the Grama Panchayat or seeking to influence nominations, including encouraging uncontested elections to favour their own candidates.

Second, they are actively engaged in influencing decisions over development projects initiated by the Grama Panchayat, including briefing elected members about development needs, discussing priorities, advising on the selection of beneficiaries for welfare schemes, and raising matching funds. Some of this happens informally, but leaders and members of the traditional councils also participate in public discussions in open village assemblies organised by the Grama Panchayat as part of a regular, annual cycle of decision-making.

A key question is whether traditional councils are hierarchical, repressive and exclusionary – as some people claim – or provide some political space and voice for poor people. There is evidence to support both views.

On the one hand, leaders of traditional councils are clearly influencing and in many cases controlling the outcome of elections to the Grama Panchayat, and this can have negative

consequences – including, for example, preventing women from being re-elected, and thus starting to build some political capital. But it seems that villagers are well aware of the role played by traditional leaders, and often support it: it helps to maintain community peace, ensures capable people get elected, and reduces expenditure on elections. Moreover, the existence of a formal electoral process may, over time, be stimulating moves for more contested elections. The formal structures are influencing the informal bodies in other ways, too. There is some evidence, for example, that women elected onto Grama Panchayats are being invited to participate in limited ways in traditional council discussions.

Leaders and members of traditional councils are playing a role in negotiating and mediating interests with the elected bodies, and monitoring their performance. They seem to be acting not just in a private capacity, but as representatives. This may increase effectiveness and transparency, and limit patronage opportunities for Grama Panchayat members. Alternatively it could be a way of furthering elite interests.

There is, however, evidence that traditional councils are providing political space for poor people, and channels for them to access formal structures. For example, poor people regularly approach leaders of traditional councils for access to housing schemes and other anti-poverty projects. There is also strong support for the continued existence of traditional councils among poor people, including women, who particularly value their role in dispute resolution. In sum, while the evidence is mixed, it does seem that the new decentralised structures have stimulated mobilisation within traditional, informal bodies, which may contribute to making local government more effective and responsive to poor people's needs.

The Employment Guarantee Scheme (EGS) in Maharashtra

This large and long-standing public works programme in Maharashtra state was carefully designed to stimulate mobilisation of potential beneficiaries, and support from a range of important stakeholders. It also has features that have encouraged the engagement of a large number of political activists. The DRC research traces its changing fortunes over a period of nearly 30 years.[18]

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[18] See Moore, M., Patel, S., and Joshi, A., (eds), The Right to Work in Rural India, book manuscript.

The fact that the scheme had reliable funding, offered a formal guarantee of work, and was mandatory and universal (thus allowing potential beneficiaries to be easily identified) encouraged activist organisations to get involved in mobilising people to claim their rights. The secure financial and legal basis made it worthwhile for activists – but also bureaucrats – to invest the necessary time and effort to organise.

One of the design features that distinguishes this scheme from other public works programmes in India is the way it is embedded in law. It is mandatory (bureaucrats are obliged to implement it in prescribed ways); and there is a legal guarantee of work (potential beneficiaries can contest that right in a court). These rights, together with assured funding for the scheme, have created a framework for mobilisation of poor people, and activists working on their behalf. But it is less certain that the legal underpinning of the scheme has the power directly to improve the performance of reluctant bureaucrats, or to enable poor people to secure their rights.

One strand of the research followed a particular activist organisation[19] that pursued court cases to demand payment of the unemployment allowance (payable to individuals who qualified for the scheme but were offered no work within 15 days). After long delays, all 60 cases were dismissed on technical/procedural grounds, and an appeal originally lodged with the High Court in 1982 was finally dismissed in 2004. The same organisation also sought to link EGS wages to minimum

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[19] The Bandhkam ba Lakudkam Sanghatana.

wages; this time it was successful in securing a court decision to pay the minimum wage to EGS workers.

The first series of cases may have helped to establish unemployment allowance as a right, even though it brought no tangible benefits to the litigants. In the second case, there were direct benefits (the litigants received back-payments) and the activists secured a wider platform for their campaign to increase the minimum wage. Legal action helped mobilise poor people, and provided protection for activists from arbitrary action or reprisals by officials. However, in both cases judgements were influenced by events and attitudes outside the courtroom; and legal action may have been less important in influencing the action of bureaucrats[20] than pressure from their superiors. Legal action is very costly in terms of time and resources, and while it has its place as part of a wider strategy by activists, and can influence public debate and perceptions, the direct benefits may be limited. All this suggests that local processes of implementation may be as important as legal rights in securing benefits for poor people.

The history of this scheme also shows how much politics matter. There was a strong political coalition of support for the Employment Guarantee Scheme in the early days, as well as public sympathy generated by the drought of 1972-4. The scheme served the interests of the dominant Maratha–Kumbi caste-based alliance in the Congress government, which had a rural powerbase in Western Maharashtra. It was carefully negotiated with large landowners to ensure that they did not see it as a threat to their ability to attract agricultural labour. There was support from urban taxpayers in Mumbai, concerned about the prospect of a leftist agrarian revolution. Support also came from leftist political activists and trade unions.

There was a steep decline in expenditure under the scheme in the late 1980s. With a fiscal crisis, and a shift in political power to the BJP/Shiv Sena (whose urban powerbase meant they were less responsive to the needs of the rural poor), political and bureaucratic support for the scheme declined, and implementation suffered. The result was the creation of a cycle of weak responsiveness by the state to demands by the poor, and consequently low levels of mobilisation. (There were also changes in the rural economy that reduced demand for the scheme in some areas, and changes to the detailed design which affected mobilisation.)

The careful design of the scheme and its mandatory provisions were not sufficient to prevent its deterioration when political conditions changed. Nevertheless, unlike other rural employment schemes not embedded in law, it has survived, and has continued to meet needs for public employment in drought-prone areas. There has recently been a revival of interest in replicating

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[20] For example, District Collectors were told that payment of the unemployment allowance would be seen as an indication of their failure to administer the scheme properly – thus making them very reluctant to authorise payment even when it was legally due (private communication).

elements of the scheme nationally. So in this case politics mattered, but programme design and implementation were also significant.

Traders' associations in Johannesburg

One case study from the DRC research underlines that effective engagement between the state and civil organisations depends on the ability to identify potential common interests. It is of note because of the assumption often made that people living and working in informal settings are more likely to evade government policies than to engage with them. The experience in Johannesburg suggests that there was scope for effective engagement but that this was undermined, on the one hand by divisions and leadership failures within traders' associations, and on the other by lack of clarity on the part of municipal authorities about their objectives.

Traders' associations were originally formed in protest at a perceived failure by the municipal government to stem the inflow of immigrants in the early 1990s. In 1996 the city council adopted a new policy of moving street traders to designated markets: this stimulated the formation of new associations in response to the council's demand to negotiate with a single organisation in each area. But any hope of effective engagement was undermined, on the one hand by high levels of conflict within traders' associations between leaders and members, which weakened their ability to negotiate effectively; and on the other, by the ambivalence of the city authorities about the underlying objectives of their policy (benefits for traders or a desire to clear the downtown area of unwanted hawkers?). The study is of interest because it suggests that the outcome could have been different had the city council acted more consistently and with more sympathy for the interests (and limitations) of traders, and had traders been more effective in organising collective action.

2.2.3 Civil society is a complex universe; its relation to state institutions, and its role in providing a voice for citizens, need rethinking

In all the cases described above, from the formal participatory institutions in São Paulo to the informal village councils in Karnataka, opportunities for mobilisation of different interest groups were shaped by state action. So the conventional idea of civil society as an autonomous sphere, separate from the state or political parties, whose effectiveness lies in being able to act independently to bring pressure on the state, clearly needs rethinking.

One striking finding from the research in São Paulo illustrates the point. The organisations most likely to participate in all three of the participatory spaces studied are those with links to the state (for example, via government contracts) or political parties. Whether organisations have ties to the Catholic Church or with organised labour seems to matter much less. Significantly,

given the importance often accorded to advocacy NGOs, they appear no more likely than others to participate.

The fact that organisations with ties to the state are also the ones most active in public demonstrations and protests outside the participatory fora suggests that they have not, however, been co-opted. Their links to the state and political parties appear to have given them the chance to influence the design of participatory institutions (for example, securing constitutional backing for the formation of health councils), and access to information about policies and politics, as well as legal and technical expertise. These links have increased their effectiveness without necessarily undermining their capacity for independent action.

This and other components of the research underline the diversity of civil organisations, their different capacity to influence public policy, and the need to think very carefully about the way they are linking people – including poor people – to the state. A survey of civil organisations in Bangalore[21] shows that a high level of associational activity (a 'vibrant civil society') does not necessarily give poor people a voice. Associational activity in Bangalore is highly stratified, with a small core of upper middle-class people actively involved. The determination of the municipal authorities to modernise the city by 2004 has led them to promote public-private partnerships that have forged links with elite neighbourhood associations, and marginalised poor people. There are mass movements (such as the KKNSS[22]) but they are more likely to act in protest mode, and are not actively involved in trying to engage with government on behalf of poorer citizens. Attempts by elite organisations in Bangalore to establish a broad popular base for themselves have not, in the main, succeeded.

So a critical question that arises is this: who do civil organisations speak for when they are invited to participate in policy dialogue by government or donors, or to engage in partnerships for service delivery? This is often glossed over in the enthusiasm for 'participation', or for different interventions to 'strengthen' civil society to make the state more accountable. In São Paulo,[23] a large number of civil organisations, working with or for lower-income groups, are claiming to *represent* their interests in the policy councils, participatory budget mechanisms and other participatory fora. Most of them have no formal membership (but do attract high levels of participation from poor people); nor do they have formal mandates or accountability mechanisms based on elections. So what is the basis of their claim to be playing a representational role? What is their relationship to those they claim to represent? Are new forms of representation emerging, and if so, what channels are they directed through?

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[21] See Harriss, J., 2005, 'Political Participation and Representation in Bangalore: Initial Observations' in Rights, Representation and the Poor, ibid.

[22] Karnataka Kolageri Nivasigala Samyuktha Sanghatana – a movement among slum dwellers in Bangalore.

[23] See Gurza Lavalle, A., Houtzager, P. and Castello, G., 2005, 'In Whose Name? Political Representation and Civil Organisations in Brazil', in *Rights, Representation and the Poor*, ibid.

The research in São Paulo found that 73 per cent of civil organisations included in the survey are claiming a representative role. In practice they *are* engaged in representational activities, including: participation in policy councils and the participatory budget; direct mediation with public agencies; and political advocacy through support for individual candidates, as well as making claims on the legislature. Although the rules confine participation in the budget processes to individuals, more than half those elected as delegates to the higher level assemblies are leaders of community organisations, and far more are members of those organisations. The main justifications advanced for claiming to represent a 'public' or a 'constituency' are: a) *proximity* – a close physical/spatial relationship in which there is a strong commitment to the interests of beneficiaries, and involvement in identifying and meeting their needs; and b) *mediation* – to remedy inequality of access to the state by creating a new, additional channel to link politically excluded people to important public decision-making centres.

The research concludes that the political and institutional changes introduced in Brazil over the last two decades have altered the dynamics of representation among civil organisations. In practice, they are engaging in political representation, both through traditional political channels (although their involvement is with individual candidates rather than with political parties), and through the new participative institutions. They see their mediating role not as an alternative to traditional channels, but as a way of connecting to the state people who would otherwise be under-represented.

Confirmation that civil organisations are playing a significant representational role does not say anything about the consequences – positive or negative – for the quality of democracy in São Paulo. What it does suggest is the need not to be bound by traditional assumptions about particular models of representation, but to look at what is actually happening, and how far this might be in keeping with democratic principles. In particular, the notion and practice of mediation may represent an expansion of democracy.

Similarly, the creation of elected Grama Panchayats in Karnataka has stimulated mobilisation within traditional councils, and a high level of engagement by leaders of traditional bodies, in many cases claiming to speak on behalf of villagers and to represent their interests. Although the research in Karnataka does not explore in detail the basis and justification of these claims to representation, it does suggest that this activity needs to be taken seriously, and may not necessarily be negative to local democracy.

2.3 Conclusion

This research challenges normative thinking about civil society as an autonomous, relatively homogeneous, democratic sphere, standing in opposition to an authoritarian state. It shows the need to rethink ideas about the relationship between civil organisations and the state, recognising the critical role that the state plays in the constitution of civil society itself. The state can act in ways which limit opportunities for mobilisation, and which marginalise vulnerable groups. Alternatively, aided by skilful institutional design and a supportive political environment, a process of interaction over time between the state and civil organisations can enhance the effectiveness of both parties.

Some of these messages are potentially depressing for policymakers. While they do not mean that conventional support for civil organisations – in practice, mainly NGOs – is necessarily a waste of time, they do imply having more modest expectations of what this can achieve. They show the need for much more discrimination in designing mechanisms to encourage citizen participation, including questioning who is actually participating, and whose interests they represent. This requires a detailed understanding of the formal and informal relationships between different stakeholders, and an ability to think and operate politically – something that external donors in particular are rarely able to do.

Perhaps the most important message for policymakers is to stop thinking about civil society as a 'sector', populated by formal associations that share a poverty reduction or democratic agenda. Instead they should think much more broadly about the impact of all public policy interventions on the ability of interest groups to mobilise. This applies at different levels – including individual projects, sector programmes, budget and public expenditure mechanisms, and (as shown in Chapter 1), tax. More indirect strategies might help to increase the ability of poor groups to participate, such as better access to education and information, or better roads. Rather than starting with normative models and trying to construct civil society to fit, a better starting point might be to understand what is actually happening, and to build on that.

Chapter 3: New approaches to delivering public services

3.1 Introduction

The challenge of delivering basic services to poor people is more urgent than ever. It is central to achieving the Millennium Development Goals. The 2004 World Development Report (WDR) records some success stories, but also some miserable failures. It highlights, with a host of compelling examples, the multiple ways in which services are still failing poor people.

This component of the DRC research aims to expand understanding of the factors that make for success or failure, and the range of options that might be available for delivering services to poor people. The 2004 WDR provides a good starting point. It captures much of what has been learnt about different forms of provision; it employs an analytical framework based on principal/agency relationships to explore why accountability links between policymakers, service providers and citizen consumers so often break down; and it looks at ways of strengthening these, including more direct action by poor people to seek accountability from service providers.

The WDR 2004 represents an important advance. It emphasises that improving services is not just about providing resources, skills and technical solutions. It puts the spotlight on politics, and on the institutional arrangements that create incentives for different stakeholders. But the approach is also limiting, in several important ways.

First, the principal/agent framework is based on the assumption that separating and formalising relationships between policymakers, providers and citizen consumers will improve accountability for delivery of services. This fails to capture many other important dimensions of these relationships, including a whole range of ways in which *informal* relations of accountability operate to affect design and implementation of services – for example, the relations between traditional village councils and elected bodies in Karnataka described in Chapter 2. Nor does it take account of internal relationships between different groups of providers, citizens and policymakers which – as will be seen in the cases of the environmental health officers and Metro Water officials described below – can be important sources of motivation. It assumes that officials are not to be trusted, thus sidelining discussion of ways in which public servants can be motivated by professional reputation or a public sector ethos. It neglects some important actors, including the media, politicians and professional associations.

Second, in placing a lot of weight on direct action by poor people to strengthen the power of citizen consumers vis-à-vis providers, it plays down the associated risks and costs. It also underestimates the way in which politics shape incentives for action, and can undermine the effectiveness of different institutional arrangements – for contracting out service provision, or

involving community groups in monitoring and maintenance. The point is graphically illustrated below by two case studies from the DRC research, recording very different experiences with the provision of urban sanitation services in Ghana and India.

Third, the WDR framework is limiting because it looks at different configurations of service provision in different contexts from the perspective of identifying best practice. The emphasis on the need to adapt solutions to specific contexts, taking account of the characteristics of different service sectors, is welcome. But it leaves out of the picture a great variety of existing arrangements that don't fit into any of the suggested categories. The DRC research explores some very unorthodox arrangements for service delivery, which appear to be working. Two of them described below are striking because they involve direct participation by private actors in areas normally considered core state functions: tax collection and policing. These are not ad hoc arrangements, but have been sustained over 15 years or more, have become institutionalised, and involve a major, ongoing commitment of resources by both parties. They work not through clear contractual arrangements, but through informal relations of accountability based on common interests.

The WDR 2004 puts a lot of emphasis on changing institutional arrangements as a way of restructuring incentives. The DRC research on service delivery seeks to move beyond the limitations of the principal/agent framework; beyond formal contractual relationships; and beyond recognised models of public-private partnerships. It aims to capture some of the diversity of organisational arrangements actually in place, and to explore the complex factors that underpin success or failure. It finds that, in practice:

- services are being delivered in a great diversity of ways that are not captured by existing categories. These include arrangements which involve blurring the accepted boundaries between public and private action, and which are often overlooked because they don't follow a recognised model, or dismissed as being hangovers from traditional forms of organisation;
- informal relations between different stakeholders are critical to constructing mechanisms of accountability, whether or not supported by formal contracts;
- service delivery is highly political. Politics can be energising; they can be managed by skilful strategising; or they can be destructive. But they cannot be ignored. Community participation may not strengthen accountability to consumers if politics get in the way;
- a broader range of factors affects motivation than is implied in the principal/agent framework, and motivation of front-line workers in service delivery is the key to success.

3.2 Detailed findings

3.2.1 Unorthodox forms of service delivery can work, underpinned by informal relations between key stakeholders

In Karachi, a group of 40 wealthy businessmen have come together to form the Citizen-Police Liaison Committee (CPLC).[24] It is directly involved in core policing activities. It has offices in five police stations, funds and manages the main databases on crime and vehicle theft, plays a major role in the investigation of kidnappings, and undertakes spatial crime analysis. The CPLC is credited with playing an important role in improving security and policing. This is a highly unorthodox arrangement, violating the basic principle of separation of public and private interests in a very sensitive area of government business. It brings significant private resources into policing which are badly needed, and it works under informal institutional arrangements that protect against the temptation to abuse the power that tends to accrue to providers of resources.

Box 1 Citizen-Police Liaison Committee, Karachi

The Citizen-Police Liaison Committee:
- was established in 1989 against the background of mounting violence and disorder in Karachi, which directly affected the business community
- was initiated by the governor, galvanised by the threat of a tax strike by businessmen (60 per cent of federal revenues came from Karachi)
- was originally conceived on the model of neighbourhood watch committees, but in practice has focused on providing practical help to improve police performance, through creation of crime databases, and other forms of direct engagement
- sets its own agenda, and provides most of the funding. Functions were not formally contracted to CPLC but evolved over time
- limits its membership to 40, with strict criteria for recruitment and performance (operated by CPLC members).

This unusual arrangement is founded on strong common interests between the provincial authorities (keen to protect federal revenues), the municipal authorities, the business community, the police, and, increasingly, ordinary citizens (including poor people) who enjoy the benefits of improved security. Careful design and management – for example, of recruitment – have contributed to its success. Lawyers, journalists and former public servants are excluded from

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[24] See Masud, M., 2002 'Co-producing Citizen Security: The Citizen-Police Liaison Committee in Karachi'.

membership; they thus view the CPLC with some suspicion and keep it under intense scrutiny. But above all a strong web of *informal* relationships maintains accountability, despite the absence of any formal contractual arrangements:

- The leaders of the CPLC built on and reinforced ties of mutual obligation and reputation within a small ethnic-minority business community. Membership has high status, requires a major commitment of time and money, and has to be continually earned.

- There is a powerful code of behaviour that is rigorously enforced to protect the organisation's reputation.

- The CPLC has focused on establishing a long-term relationship of trust with the police, turning a blind eye to things they could not influence, and providing practical help to improve working and living conditions as well as efficiency. It avoids publicly claiming credit for success or acting as a watchdog (it does not use the powers of supervision originally given to it).

There are clearly risks involved in this kind of direct engagement of private interests in a highly sensitive area of government activity. But it works surprisingly well, and may well offer the best interim solution in a very difficult environment.

Another example of unorthodox public-private partnerships comes from Ghana, where a private association of owners and employees in the road transport business is collecting income tax from its own members on behalf of the government.[25]

> **Box 2 The Ghana Public Road Transportation Union (GPRTU) taxation scheme**
> The GPRTU scheme:
> - dates from 1987, when GPRTU was a close political ally of the military government of Jerry Rawlings
> - enabled government to tap an important source of revenue in a fragmented, informally organised sector (revenue potential increased with growth in private transport following liberalisation)
> - was motivated by GPRTU control of a strategic political resource (power to control movement of people around the country). GPRTU was given monopoly privileges by government (including control over lorry parks from which all vehicles operate)
> - allowed for it to retain 2.5 per cent of total revenue collected
> - involved collection being made at 'road level' by union officials on a daily or weekly basis.

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[25] See Joshi, A., and Ayee, J., 2002, 'Taxing for the state?: Politics, revenue and the informal sector in Ghana'.

Under the military regime there were strong political as well as financial advantages to government from this arrangement, but the effective devolution of tax powers has survived the transition to democracy, because it serves the interests of all parties. It allows government to tap into an important source of revenue in the informal sector. It gives status and privileges to the union. And it benefits GPRTU members, most of whom are small (one vehicle) operators. They value the services provided by the union at lorry parks, funded by part of the revenue collected. They benefit from the fact that, since income tax is levied per journey or per day, and paid on the spot (with receipts), it is affordable. Moreover, tax receipts and the power of the GPRTU help to protect members from harassment.

The arrangement is far from ideal – administrative costs are still high, much of the tax levied does not reach the public treasury, and there is intimidation of smaller, rival transport unions. So informal relations of accountability are operating, but are not without problems. In spite of the well-known difficulties of taxing the informal sector, this case suggests that innovative approaches that take account of the interests of taxpayers could work. Workers in the informal sector often already make payments to corrupt officials to stay in business, and may be willing to accept payment of tax in exchange for a reduction in harassment.

Yet another example of unconventional partnerships for service delivery seems to be emerging through the regular interaction between traditional village councils and elected local government bodies in Karnataka (see Chapter 2). All the relationships are informal – there is no constitutional recognition of traditional councils at all. Yet the arrangements are long term, to some extent institutionalised, and involve contributions from both parties. There is a regular annual cycle for the elected bodies to present and discuss development priorities with traditional council leaders, and a village assembly for making decisions about the selection of beneficiaries for anti-poverty projects. The traditional councils play a role in monitoring. They also mobilise resources, including raising funds for development projects (local government often looks for matching contributions from villagers), and donating land for school buildings or community halls. There are instances in one district of traditional councils and elected representatives putting together a detailed development plan for the village.

Involvement of leaders and members of traditional, informal councils can be positive (if it ensures that decisions reflect local views and needs), or negative (if it results in influencing decisions to benefit private interests). But the evidence is that it is significant, and probably growing. One of the factors that may be reinforcing relationships of accountability between leaders of traditional councils and the population they serve is that state institutions do offer an alternative. For example, most villages are within reach of police posts and local courts, and therefore not wholly reliant on informal processes of dispute resolution. So leaders of traditional councils have continually to renegotiate their relationship with the population they serve in order to maintain their authority.

3.2.2 Service delivery is highly political. Community participation may not be the answer if politics get in the way

Of course, all the cases discussed so far involve politics. But they are particularly prominent in forms of service delivery that involve public funds for construction contracts or maintenance, or a significant stream of revenue from user fees. In one vital area of service delivery covered by the research – urban sanitation – politics played a key role. Two of the cases discussed below offer an interesting contrast. Both involved fairly conventional arrangements for contracting out of construction and management of public toilets, along with community participation in maintenance. Yet the results were very different. In Accra and Kumasi, in Ghana, attempts to offer adequate public services were derailed by patronage politics, which dominated formal and informal relations and undermined accountability for service delivery. By contrast, in Pune in India, skilful political strategising along with strong community organisations accounted for relative success.

One case study follows attempts in Accra and Kumasi, over a period of some 20 years, to find satisfactory alternative arrangements to full public provision of sanitation and waste collection services. The background is a huge and increasing public health problem in both cities brought about by the failure of urban infrastructure to keep pace with a rapidly growing population; decentralisation in 1989 of responsibilities for sanitation and waste management to municipalities with wholly inadequate funding and staffing; and pressure from donors for privatisation, initially as part of structural adjustment programmes, and later for community participation.

Prior to 1982 the use of public toilets was free, with poor management by public sanitation workers. Following mixed experience during the 1980s with management by local Committees for Defence of the Revolution, a twin-track approach was adopted in the 1990s, with contracting out to private managers complemented by involvement of community groups in local cleaning and maintenance.

Essentially, these efforts were derailed by politics. Contracts were supposed to go to registered local companies with proven capacity. Instead, they came under the control of members of the Metropolitan Assembly, who set up front companies to win the business. The contracts were an important source of income for unpaid Assembly Members, and also for Sub-Metropolitan District Councils, which had responsibility for sanitation services (they were so starved of funds that their share of income from management of toilets accounted for some 60 per cent of their total revenue). Control of toilets was also a vital source of patronage, allowing Assembly Members to reward supporters with jobs and other favours. Attempts by the New Patriotic Party (NPP) government elected in 2000 to introduce more transparent, competitive tendering arrangements generated violent conflicts with Assembly Members and Sub-Metropolitan District Councils.

The WDR 2004 suggests that 'sanitation programmes often benefit from local participation and inputs, since social relations in communities are often the best guarantors of compliance with sanitation policies'. [26] But this depends on assumptions that community groups will be sufficiently well resourced and established to be able to operate independently. In the case of Accra and Kumasi, hopes that community-level participation would provide pressure for improved service delivery proved elusive. Most of the active groups were created by or dependent on local politicians – in effect, they too were part of the urban political machine. One group that attempted to call service providers to account was quite brutally suppressed by politicians protecting the contractors.

In this case, privatisation fuelled patronage politics. It is a warning against treating service delivery purely as a principal/agent problem, without thinking about how politics might shape the incentives of key players, or testing assumptions about the capacity and independence of community groups. It is a reminder that privatisation of service delivery in a poor environment which involves significant opportunities for making money is bound to be highly political.

By contrast, the relative success of contracting out construction and maintenance of public toilets in slum areas of Pune is noteworthy.[27] Communities are paying maintenance dues, and toilets constructed by NGOs are being better maintained than those previously built by private contractors and maintained by the municipality.

> ## Box 3 Slum sanitation programme in Pune
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> Development of the slum sanitation programme in Pune:
> - 1999: saw a high-profile initiative by a new Municipal Commissioner to build 220 toilet blocks in low-income areas within two years
> - NGOs were invited to bid for construction contracts (previously undertaken by private contractors)
> - NGOs were to work with local communities to generate ownership and improve maintenance
> - NGOs involved in construction were also given responsibility for maintenance for a period of 30 years – in collaboration with local communities
> - for a subsequent (third) phase of the programme under a different Commissioner NGOs were excluded from construction, and tenders awarded to commercial contractors. Following strong lobbying by a large NGO (the Society for Promotion of Area Resource Centres, or SPARC), both NGOs and private firms were eligible to bid for a fourth phase.

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[26] World Development Report 2004, p. 72.
[27] See Bapat, M. and Joshi, A., forthcoming, *Effective Services for the Urban Poor: Slum Sanitation in Pune, India.*

In Pune, the award of significant contracts for construction and maintenance meant that the political stakes were high. But in contrast to the situation in Accra and Kumasi, the politics were carefully managed. The Municipal Commissioner who initiated the programme neutralised political opposition from private contractors and their political allies at an early stage, through skilful negotiation and implementation. When his successor tried to exclude NGOs from bidding for the next round of contracts, and a cartel of contractors tried to prevent them from obtaining tender documents, the moves were resisted (with some success) by SPARC, a large, well-established NGO. It is unlikely that small, local NGOs would have prevailed in such circumstances.

Programme design also influenced the motivation of key players. For example, getting contracts for both construction and long-term maintenance prompted NGOs to propose design improvements, and made sure they had a stake in good quality construction. Requiring caretakers to live in a specially constructed room in the same building as the public toilets was key to motivating them to maintain the toilets. A survey of toilet maintenance found that the presence of a caretaker and the availability of electricity and water were the two most important factors correlating with better maintenance (surprisingly, payment of user charges was not important, perhaps because they are low). So design features that took account of the motivation of the main actors, and the ability and willingness of local government to meet its responsibilities for providing basic infrastructure, were critical.

3.2.3 The motivation of front-line workers is crucial to successful service delivery

One of the criticisms of the principal/agent framework presented in the 2004 World Development Report is that it fails to take account of relationships within the three categories of policymakers, providers and citizen customers. It also assumes that public officials are, on the whole, not to be trusted, and need to be closely monitored and controlled. Two components of the DRC research suggest that this may be too limiting, and pessimistic.

A DRC survey of environmental health officers in Accra and Kumasi produced some surprising findings.[28] These are the front-line officials caught up in the patronage politics surrounding public toilets, described above. Contracting out has reduced their ability to enforce regulations against contractors who enjoyed political protection. They have totally inadequate resources, no transport, low pay, poor training and poor prospects. Yet only 22 per cent of them claimed to be 'dissatisfied' with their job; 72 per cent were 'somewhat satisfied' or better. Factors that seem to explain this include good informal working relations with colleagues and managers,

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[28] See Crook, R. and Ayee, J., forthcoming, 'Urban Service Partnerships, Street Level Bureaucrats and Environmental Sanitation in Kumasi and Accra: Coping with Organisational Change in the Public Bureaucracy'.

shared values, a positive organisational culture, and good relations with the public (reflecting a shift from a policing role to greater emphasis on health education). Lack of political support was the most negative feature. This does suggest considerable potential to harness professional motivation in a more conducive working environment.

The second case concerns officials of Metro Water in Hyderabad in India.[29] Overall, this is a success story. Three service delivery reforms were initiated by a new managing director in 1998. These brought senior officials into direct contact with citizen consumers; recentralised overall responsibility for new connections and management of customer complaints; gave consumers access to both front-line staff and their supervisors through a new complaints mechanism; and gave senior staff access to detailed, computerised performance data on front-line staff. The average time to approve and issue a new connection application was halved; there was a huge increase in the number of registered complaints, but also a significant improvement in the efficiency of response.

The story is a complex one, but the aspect highlighted here is that the reforms created major, positive changes in accountability relationships between a great many stakeholders, including much greater engagement by the media, citizen consumers, and local politicians with both front-line workers and senior managers. The reforms also transformed relations between managers and front-line workers, with positive impacts on performance – reinforced by changes in organisational culture. Other, external factors were also important. In this case the political environment was energising: there was top-level political pressure for improved performance from a reforming Chief Minister. Officials of Metro Water also benefited from previous exposure to new management practices through a World Bank project. But the most striking factor is the impact of specific reforms on the motivation and relationships of key stakeholders.

3.3 Conclusion

None of this is intended to suggest that unorthodox arrangements for service delivery, such as the CPLC in Karachi, should necessarily be encouraged, or that a preference for formal public institutions and procedures should not be the ultimate goal. But it does recognise that achieving clear distinctions between public and private roles and spheres of activity (as advocated by Max Weber) may be a distant prospect in many poor countries, and that arrangements which evolve based on informal practices and relations can sometimes offer the best interim solution. At the very least it underlines the importance of looking at what is actually happening in an open-minded way. It also recognises the importance of informal relations of accountability, and the

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[29] See Caseley, J., 2003, 'Blocked Drains and Open Minds: Multiple Accountability Relationships and Improved Service Delivery Performance in an Indian City'.

way they can be influenced by shared interests, reputation, and professional pride as well as by institutional design and competition. Even where there is a clear framework of contractual relationships, how they actually operate depends heavily on private interests and influences.

Chapter 4: Conclusions and implications for policymakers

The development community is in a bind over governance. On the one hand it claims – in the words of the UN Secretary General – that 'good governance is perhaps the single most important factor in eradicating poverty and promoting development in Africa or elsewhere'. On the other, there is still little agreement on *how* to get more effective, accountable public authority that might be more responsive to the needs of poor people.

The focus on governance is welcome. But it has resulted in overload – too many demands on poor countries with weak administrative capacity to put in place a whole range of formal institutions, laws and policies to manage everything from macro-economic policy to environmental conservation.[30] Despite a proliferation of projects to reform the public service, strengthen accountability mechanisms, get basic services to poor people, improve the regulatory environment and build democratic institutions, progress (with some exceptions) has been meagre, and hard to sustain.

One school of thought advocates redoubling efforts – putting the emphasis on capacity building of formal institutions, supported by big increases in financial resources and technical assistance.[31] This strategy would be more convincing if we had reason to believe that past capacity-building efforts had scored some success, and had faltered for lack of funds. That is not the case. Other views, more grounded in history and experience, are starting to get more of a hearing.

Some people point, for example, to the astonishing economic growth of countries in East Asia, despite a lack of formal institutions generally thought essential to good governance. Research in China shows how informal relations effectively substituted for more formal property rights in the early stages of market-led growth. There and elsewhere transitional, unorthodox, informal arrangements that target local constraints and provide the right political signals to investors have been surprisingly effective.[32] Questions are being raised about the 'governance first' model of economic development, based on insights into how institutions in now-developed countries grew in a piecemeal way, in response to felt needs.[33] Experience with democracy building is underlining the need to understand very deep-seated structural factors and informal power relationships that underpin formal institutions of political competition and accountability.[34]

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[30] See Grindle 2002.
[31] Commission for Africa 2005; Millennium Project Report 2005.
[32] See Rodrik 2003.
[33] See Goldsmith 2003; Chang 2002.
[34] See Carothers 2002; Ottaway 2003.

The DRC research offers a distinctive contribution to this line of inquiry. For reasons discussed in Chapter 1, it is based on the observation that countries in the global South have – and will – follow paths towards state building that are often very different from those taken historically by states in Western Europe. It may therefore be unhelpful to make formal institutions in now-developed countries the starting point for thinking about how to get more effective public authority in the South, or to expect poor countries to be able to put in place at all quickly Weberian institutions which draw clear boundaries between public and private interests.

Instead the research explores, in an open-minded way, the complex web of relationships actually being negotiated between states and organised interest groups in society, across a range of different countries and settings. It suggests that progress does not depend on having a full range of formal institutions in place. Unconventional arrangements are emerging – for service delivery, or political representation – which deserve to be taken seriously because, however imperfect in a normative sense, they work and may offer the best available solution for the time being.

Inevitably the picture that emerges is messy, bitty, and often hard to interpret – informal relationships are by definition diverse and difficult to capture. The research does not offer new prescriptions or easy answers. But it does offer some clear *signposts* – pointing to things which matter for better governance, explaining why they matter, and suggesting how to recognise opportunities for progressive change. This has some profound implications for donors and other external actors, as well as local policymakers.

4.1 Signposts to better governance

First, the research offers something that is missing from conventional discussions about governance – a working hypothesis, based on historical experience, about *how effective public institutions are created*. This happens not by transferring models from rich to poor countries (although countries have always learned from each other and adapted institutions to fit their needs), but through a local political process of state/society bargaining. That process is the key to finding a balance between state effectiveness and accountability, and to identifying common interests around which arrangements can become institutionalised. The effect is to shift the focus away from formal institutions, towards the factors that encourage or inhibit constructive state/society engagement.

Second, the research provides insights into *causes of bad governance*, especially in sub-Saharan Africa – identifying some very deep-seated, structural factors that lessen incentives for political elites to engage with their own citizens. They include the process of state formation through colonisation, and access to external rents from natural resources and aid. This points to the complicity of rich, highly developed countries in the governance problems of poor countries,

and to the need for external actors to take much more care about the impact of their actions on internal incentives and relationships in poor countries. This applies across the board – to policies on trade, business and foreign relations as well as aid.

Third, the research provides some much-needed guidance about priorities. It highlights the *importance of tax as the basis for state/society engagement*, and the role of a fiscal social contract in constructing new relations of accountability, based not on patronage but on mutual rights and obligations. It suggests why, despite the different circumstances facing developing countries today, there might yet be a governance dividend from greater dependence of the state on taxation.

Fourth, all three components of the research point to the *central role of the state in creating incentives and opportunities for different groups to mobilise* – for example, by the way it structures and administers tax; through the establishment of participatory policy mechanisms; or by careful design and implementation of anti-poverty programmes. This suggests the need for a shift in thinking – from a focus on the content of reforms, to the political feasibility of implementing them.

Fifth, and closely related to this, is the need to *think differently about civil society* – not as an autonomous sphere which should be 'strengthened' to put pressure on the state, but as a collection of interest groups that are themselves reliant on having effective state institutions in place, and which form and re-form in response to state action – and inaction. In turn, the ability to aggregate interests and to channel them through representative institutions is an essential ingredient in creating state capacity to respond. This points to thinking much more politically about the dynamics between state and society.

4.2 Implications for policymakers

These signposts suggest different ways of thinking about governance. Where would policymakers end up if they followed them?

Moving the spotlight from formal institutions to politics and informal relations between state and society is empowering because it explains why local 'ownership' of policies and programmes apparently matters so much. But it also complicates things. It implies that the focus of reformers – internal and external – needs to shift from a preoccupation with a specific policy agenda, to exploring the scope for progressive change through negotiations around (potential) common interests. Local policymakers tend to have better ideas about how this might be done – hence, for example, the relative success of the local tax reform initiatives in Latin America described in Chapter 1.

For donors, the emphasis on local political process heightens existing tensions – reflected in current debates about conditionality – between pursuing reform objectives supported by their own taxpayers, and recognising the need for local 'ownership' of policies and programmes. It not only implies giving greater priority to 'ownership', but also suggests the need to question what this involves. Whose ownership matters? How can it be negotiated? Clearly something more is needed than signing up selected stakeholders to a national poverty agenda.

Donors are well aware of these tensions. There are no easy ways of managing them, but more honesty would help. This includes being much more alert to the likely impact of donor actions on local incentives and capacity for action, especially in very aid-dependent countries. Decisions about aid modalities need to be much more sensitive to context: would providing budget support risk undermining a fragile process of democratic change? Donor behaviour also matters:[35] too many donors with competing interests consume scarce time and energy of local policymakers. Changing donor fashions and inconsistent advice further erode weak policy-making capacity. Better political analysis[36] is highlighting the need to tackle these issues. The DRC research shows why they really matter for governance.

On a more positive note, the research points to ways in which external players could make a real difference, albeit indirectly. If access to external military support and rents from natural resources is reducing incentives for governments in the South to engage with their own taxpayers, then action to restrict those opportunities assumes real urgency. Much of this, too, is already formally on the international community's agenda – outlawing corrupt business practices, reducing opportunities for money laundering, controlling the sale of small arms and conflict diamonds, and encouraging initiatives such as the Extractive Industries Transparency Initiative to increase transparency over revenues from oil and gas. It is, however, easy to acknowledge the problem in principle, but continue to put most emphasis on direct interventions, through aid instruments aimed at changing institutions within aid-receiving countries. Serious action on the international agenda is overdue, and really matters for governance.

Policymakers often feel overwhelmed by the sheer scale of the challenge confronting them. They need clearer guidance about priorities. The DRC research provides this by highlighting the importance of tax – not just as a fiscal or economic concern, but also as central to achieving better governance. It suggests that tax has the potential to become the pivotal issue around which state and societal groups start to construct new relations of accountability, and to build a fiscal social contract.

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[35] Donor 'harmonisation' is high on the Development Assistance Committee's (DAC) agenda, but more radical approaches are needed.
[36] Including DFID's Drivers of Change studies, SIDA's power analysis, and political economy work by the World Bank.

That is an ambitious objective, and in many countries a long-term one.[37] Once again, there are limits to what external actors can do without running the risk of hogging the policy space, or evoking counter-productive responses from governments. There is, however, scope for them to avoid doing harm. For example, setting revenue targets for fiscal reasons – especially if linked to external conditionality – can be damaging if it results in coercive or arbitrary collection, and undermines the potential for more open, constructive relationships with taxpayers.

There is also scope for more positive action by local policymakers. The research in middle-income countries and in South Africa shows that the way tax is structured and collected can affect compliance, as well as incentives for different groups of taxpayers to organise. Simpler, more transparent tax systems, which are broadly based and administered with fewer exemptions, could help create a rules-based culture and a more constructive basis for engagement.

The research highlights the absence of public debate in many developing countries linking tax and spending. Donors and advocates for poor people may inadvertently contribute to this, because they tend to focus more on spending than on revenue raising[38] – which sidelines the interests of taxpayers. As discussed in Chapter 1, taxpayers may have interests that are not directly pro-poor, but they are a vital link in the system of public accountability. Donors could do more to encourage public debate about where revenue comes from, and how it is spent (even in very aid-dependent countries, most people pay some tax).

Many of the case studies carry a positive message for policymakers: the way state institutions are designed, and public programmes are organised and implemented, can have a significant effect on public action. They can influence who gets access (for example, through participatory budgeting arrangements); and they can encourage the mobilisation of poor people and their representatives (for example, the Employment Guarantee Scheme in Maharashtra). Obviously, policymakers never start with a clean slate. Interventions can have unintended effects (energising traditional village councils in Karnataka, for instance). The scope for action will vary according to the political and institutional landscape, itself a product of history. How the political system works is critical (as seen in the case of the 'toilet wars' in Ghana). But careful design and skilful negotiation and implementation can provide incentives and opportunities for collective action (including by poor people), and positive sum outcomes from state / society engagement.

Finally, the research has implications for how policymakers approach civil society. It suggests taking a much less normative, technocratic approach. Civil society is not an autonomous, largely virtuous force up against an over-mighty state. As seen in Chapter 2, groups with different interests,

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[37] Though as the research points out, there have been quite dramatic short-term changes in ex-Communist countries such as Poland.
[38] For example, donor-led processes such as PRSPs and Medium Term Expenditure Frameworks reinforce the focus on spending.

connections and capacity for action are organising in response to incentives and opportunities – many of them created by state actors and institutions. The aggregation of interests within civil society in turn influences the state's capacity to respond. So the process is a highly iterative one, and the borders between civil society, political society and the state are often quite blurred. As seen in São Paulo, new forms of representation seem to be emerging within civil organisations. Connections to the state and political parties can strengthen the capacity of groups to mobilise, and need not result in co-optation.

Understanding this complexity and diversity is very challenging, even for local policymakers, let alone for external players. Hence the tendency of donors to resort to providing funding and capacity building to 'strengthen' advocacy NGOs that share a pro-poor or democratic agenda. This has encouraged the proliferation of such organisations, which may have little capacity to engage effectively either with the state or with other interest groups. A more promising approach, especially for donors, might be a more indirect one – looking for ways to support an enabling environment for constructive engagement between state and taxpayers, or service providers and consumers; and supporting better data collection and dissemination, more local policy analysis, more transparent and institutionalised budget and policy processes, and access to good ideas.

4.3 Realism, not pessimism

This research promised to inject some realism into discussions about governance. But realism need not induce pessimism.

The research does suggest that the causes of bad governance are very deep-seated and not easy to address. There are no short cuts to more effective and accountable public authority. Resources and capacity building for formal institutions are only a small part of the answer (and can be counter-productive if they reinforce bad practices or result in overload). External interventions can do more harm than good if they do not take account of the impact on local incentives and political processes. If governments lack incentives to engage with their own citizens, and so to care about their prosperity and development, the issue cannot be ducked by taking refuge in vague notions of 'partnership' and 'ownership'. Policymakers need to be much more attuned to political realities, and to look beyond formal institutions, to confront the complex, diverse and unpredictable universe of informal relationships that underpin them. The scope for direct intervention – especially by external actors – is more limited than is often assumed.

But the positive messages outweigh the negative ones. Understanding the underlying causes of bad governance does offer insights into strategies for progress – notably the scope for more negotiated relationships around tax, and action to limit access to external rents. Policymakers can design state institutions and public programmes in ways that encourage different groups to

mobilise. Progress does not depend on having a full range of formal institutions in place. A lot of positive things are already happening. Informal arrangements are providing the right signals to investors, and long-term partnerships are evolving between public and private actors that allow for the construction of common interests around service delivery. Public servants can be motivated even when pay and conditions are very poor. And poor people do have capacity to come together to seek solutions to common problems.

The opportunities to make a difference are there, but are often obscured by failing to look at what is actually happening, and limiting options in advance by thinking in terms of over-simplified models. Perhaps the single most important message for policymakers from this research is therefore to think less normatively about what ought to be happening, and much more politically and historically about what is actually happening, why, and how to build on what is already working.

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