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PUBLIC EXPENDITURE AND SERVICE DELIVERY IN AFRICA: PERSPECTIVES ON POLICY AND INSTITUTIONAL FRAMEWORK

ADDIS ABABA
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Foreword

Public services are key to making progress towards the Millennium Development Goals (MDGs) in Africa. Quantitative and qualitative improvements in the provision of health, education and infrastructure are crucial to accelerating economic growth and reducing poverty. To address the resource constraints and make more resources available for public service delivery, institutions for the allocation and management of government expenditure need to be adequately developed and strengthened.

In order to take stock of the state of public expenditure and service delivery in Africa and propose solutions to meet some of the challenges in improving service delivery, the Trade, Finance and Economic Development Division (TFED) of the United Nations Economic Commission for Africa (ECA) organized a workshop in October 2006 in Lusaka, Zambia. Participants were researchers and practitioners from government agencies, civil society organizations the private sector, research institutions, international organizations and sister United Nations agencies. This report draws on the presentations and discussions at this workshop. It is a useful resource for researchers and policymakers interested in the issues of provision and management of public services as a means of accelerating economic development in Africa.

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Executive Summary

There have been significant improvements in spending for public services and coverage in Africa, although with wide variation across countries. Progress has not been sufficient to meet the MDGs, and problems persist in terms of rural-urban discrepancies, quality of services and high private spending by the poor.

To improve service delivery, there is a need to improve the capacity to spend increased resources, which to a large extent will come from Official Development Assistance (ODA). This is especially the case in the areas of administration and coordination at different levels. The quality of aid in terms of predictability, harmonization and ownership also needs improvement. In addition, the constraints associated with the current tight macroeconomic policy frameworks, which limit the ability to manage higher resource allocation to public services, need to be addressed.

The institutional framework for efficient public service delivery in Africa needs strengthening, including the budgetary process and procedures and their role in ensuring transparency in budgetary allocations and management accountability of bureaucrats and service providers as well as meaningful stakeholder participation for improved monitoring of public service delivery. Criteria for budget allocation across and within sectors have to be clear and based on the cost effectiveness of different measures, for which improved data are necessary. Institutions and strategies that improve budget allocations, limit opportunities for corruption and prosecute corrupt officials from the public sector and private agencies concerned with service delivery also need to be strengthened. Decentralization can be a means of increasing the efficiency of service delivery by enhancing transparency and accountability and by allowing local governments to respond efficiently to local preferences. However, local capacity and an alignment of expenditure and revenue responsibilities are crucial for decentralization to deliver.

Non-state actors can increase financing, contribute management know-how and tailor services to specific conditions. However, using the private sector is not a panacea for infrastructure provision, as it will concentrate on profitable activities. Rules and regulations for engagement of both the private sector and civil society organizations have to be established, to ensure quality and coverage.

Introduction

Sound public expenditure management is essential for efficient public service delivery. In the context of this report, this covers all services commonly provided by government in Africa, focusing on health, education and infrastructure. It requires institutions to ensure compliance with delivery of services within the legal, regulatory and procedural framework, as well as delivery of services in the desired amount and quality. In most African countries, the public remains largely dissatisfied with the state of public service delivery. A survey by ECA reveals that only 36 per cent of household respondents consider the services delivered as good, 38 per cent as fair and 24 per cent as poor. In addition, the quality of such services has deteriorated, as country systems have become overstretched, especially in the education sector, due to increased primary school classes and reduction of the scant pool of professionals by HIV/AIDS (Mfunwa 2006; UNECA 2005b).

There is little empirical evidence in support of the presumption that more public expenditure leads to better quality public services. Other factors also come into play. Given the key role that public services play directly and indirectly for achieving the Millennium Development Goals (MDGs) and the limited progress of African countries in attaining the goals and targets, scaling-up public services and making the service provision more efficient will require adequate public expenditure management; it will also require adequate macroeconomic frameworks, appropriate institutional frameworks, and innovative approaches to the financing of public services, including clarification of the roles of non-state actors.

In order to take stock of the state of public expenditure and service delivery in Africa and propose some solutions to meet the challenges of improving service delivery, ECA organized a workshop in October 2006 in Lusaka, Zambia (UNECA 2006). This report draws on the presentations and discussions among the researchers and practitioners at this workshop.

Section 1 gives an overview of the current state of service delivery in Africa and its link with the MDGs. In general, the improvements in service delivery have not been sufficient to meet the MDGs by 2015. However, improvements in one area are likely to have spill-over effects to other MDGs due to the significant interlinkages.

Section 2 analyses the recent trends in spending by governments, donors and users including the challenges for scaling up aid. Reforms are needed especially in the area of administration and coordination at different levels. The quality of aid in terms of predictability, harmonization and ownership also needs to be improved.

The macroeconomic framework for service delivery is explored in section 3. The section discusses the constraints associated with the current tight macroeconomic policy frameworks, which limit the ability to manage higher resource allocation into public services. It argues for increasing flexibility and policy space while preserving hard-earned progress in prudential regulation.

In Section 4, the report discusses the institutions that are needed to provide services. It points out that the institutional framework for efficient public service delivery in Africa needs improvement, including the budgetary process and procedures. The latter play great role in ensuring transparency and efficiency in budgetary allocations and management, and the accountability of bureaucrats and service providers as well as ensuring meaningful stakeholder participation for improved monitoring of public service delivery.

In section 5, the report also highlights the role of non-state actors in service provision, including the private sector and community-based organizations (CBOs). Non-state actors can increase financing, contribute management know-how and tailor services to specific conditions. Finally, the report concludes with policy recommendations for African countries to improve public expenditure management and public service delivery.

1. Public service delivery and the MDGs

MDG targets for education, health, water supply and sanitation are closely linked to public service delivery.[1] Indirectly, other public services particularly infrastructure provision, have significant effects on the MDGs. The interlinkages among its goals make the MDGs an integrated, reinforcing framework to improve service delivery, tackle poverty in all its forms and ultimately, overall human development.

Provision of education is on the increase in Africa with positive spillover effects on other MDGs

Goal 2 of the MDGs sets out to reach universal primary education by 2015. The evidence shows that, although it is lagging behind other regions, Africa made significant progress towards this goal. Net enrolment rates for sub-Saharan Africa (SSA) increased from 53.0 per cent to 64.2 per cent and for North Africa from 80.6 per cent to 94.0 per cent over the 1991-2004 period. Some African countries have made impressive progress on this front; for example, primary enrolment rates for Ethiopia increased from 22 per cent in 1990 to 47 per cent in 2004 (table A1).

Education plays a key role also for reaching the other MDGs through the transmission channels.[2] It builds the human capital that provides a larger base for income generation, which increases the poor's chances of working their way out of poverty (goal 1). Equal access to education also furthers gender equality and the empowerment of women (goal 3). Education plays a key role in health outcomes, as an increase in literacy rates generates higher demand for health services and better use of health resources by the population (Mehrotra et al. 2000).

Improving education changes peoples choices related to access and usage of water and sanitation, particularly for hygienic purposes, which in turn results in a reduction in under-five mortality rates. Larson et al. (2006) find convincing evidence on the positive relationship between education and health outcomes in the case of Madagascar.

[1] The direct effects in terms of education, health, water and sanitation primarily relate to goal 2 (primary education), goals 4-6 (health), and goal 7 (environmental sustainability).
[2] Education at secondary and tertiary levels only feature in goal 3 on gender equality.

Particularly, better-educated mothers are not only a major factor in the well-being of their children, but also of their own as education increases knowledge about how to protect oneself and one's family from diseases.

Improvements in health MDG but efforts are still insufficient

Three out of the eight goals relate directly to health, while health is also an important contributor to several other goals (WHO 2007).[3] Not all the indicators for the health MDGs show improvements but Africa made progress in achieving many of them. For example, between 1990 and 2004, the under-5 mortality rate declined from 88 per 1,000 live births to 37 for North Africa, and from 185 to 168 in SSA. There are also large differences across countries with ratios ranging from 259 per 1000 live births in Niger to 14 in Seychelles (table A1).

A good state of health contributes to reaching other MDGs, in particular, the ability of individuals to undertake productive activities and educational performance among pupils.

Access to water and sanitation show improvement but contribution to health sector needs leverage

As part of goal 7 to ensure environmental sustainability, target 10 declares intentions to halve by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation. Up to now, progress in this area is slow in Africa, with the proportion of the population with access to safe drinking water in SSA increasing between 1990 and 2004, from 49 to 56 per cent, and in North Africa from 89 to 91 per cent. For access to improved sanitation, with figures for SSA increased from 32 to 37 per cent and for North Africa from 65 to 77 per cent over the same period (table A1). Both sets of figures mask large disparities between urban and rural areas. For SSA, the figures for urban areas are all about twice as high as for rural areas. In terms of access to safe drinking water, for instance, in 2004, it has been 80 per cent and 42 per cent respectively for urban and rural areas. (United Nations 2006).

Improved access to water and sanitation contributes significantly to better health outcomes (UNDP 2006; OECD 2007a). Increased and easier access to water can increase poor people's productivity thus reducing poverty (goal 1). It frees up time for productive activities in the households while also easing pressure, particularly on girls and women, who otherwise have to fetch water from remote places. It also decreases interruptions of the production system in enterprises thus increasing productivity.

Access to safe water and sanitation helps to attract better teachers and retain kids in school, thus contributing to better education (goal 2). The absence of adequate sanitation and water in schools is a major reason that girls drop out. Improved sanitation also reduces illness and medical expenditure. High medical expenses often force households to sell productive assets, thus depleting their safety nets (Hsiao and Heller 2007:6f). Clean water

[3] The following goals are treated as "the health MDGs" here: goal 4: Reduce child mortality, goal 5: Improve maternal health, goal 6: combat HIV/AIDS, malaria and other diseases.

is important for disease treatment. Effective water disposal also reduces malaria mosquito breeding. Furthermore, since many endemic illnesses in Africa are waterborne, better sanitation reduces overall risks of illness. Taking Madagascar as an example, it was found that 70 per cent of all illnesses are waterborne and that diarrhoea and fever were especially widespread among children (30 per cent and 35 per cent, respectively, in 1997) (Macro International Inc. 1998).

Infrastructure plays key role in effectiveness of health, education, water and sanitation interventions

An adequate supply of electricity and a good road network contribute to the increased effectiveness of measures to provide health, education, water and sanitation services.

Electricity

In the 24 African countries for which data exist, electricity production has increased from 307 billion kwh in 1990 to 490 kwh in 2003, which is not a very big improvement given the high population growth (World Bank 2006b). In addition, electricity provision is often unreliable.

Improvements in electricity provision would significantly contribute to reaching the MDGs (OECD 2007a:277f). Rural electrification supports productive activities, leading to an increase in income and growth of non-farm activities. The reliability of energy supply has a strong effect on private investment and also improves the competitiveness of local enterprises. The availability of electricity supports education, as it increases enrolment and attendance. Since electrification saves time girls spend on collecting fuel-wood, more girls are released for school thus contributing to gender parity in education. If electricity is available and used, indoor smoke pollution and impurities in water and food consumed are reduced drastically thus reducing mortality rates. Health services are improved, especially by attracting more qualified personnel to certain areas and through improved medical facilities.

Roads

The road network in Africa is also growing, but slowly, with an increase from 2.2 km per inhabitant in 1990 to 2.5 km in 1996. The percentage of paved roads did not improve between 1990 and 2003 and is less than 20 per cent on average (World Bank 2006b).[4] Roads are also essential for service delivery to reach the MDGs, as they can enhance economic activity and growth by reducing production and transaction costs, through access to markets and jobs, thus creating more opportunities for the poor to generate income and move out of poverty. Some of these effects are direct, for example, when the construction and maintenance of infrastructure creates employment opportunities (OECD 2007a:277f).

Roads also have the potential to improve access to education and health services, reducing the average time to reach a school or a hospital. It thus increases the use of

[4] Later data are not available for a significant number of African countries.

primary healthcare facilities as well as school enrolment and attendance. In addition, better transportation infrastructure helps secure a better quality of teachers, facilitates the supply with vaccines and drugs and higher-level diagnostics, enables visits by more skilled health personnel and emergency evacuations, and increases the percentage of in-hospital deliveries (OECD 2007a:277f).

2. Financing public services and infrastructure: challenges and opportunities

Trends in public spending for public services and infrastructure

Although there has been some increase in both public spending and aid for social services in Africa, many African countries still fall short of commitments and spending needs. For example, it is estimated that a minimum of around $US 30 per capita is needed to provide basic health and curative services. However, most African countries spend less than half that amount due to low total government revenue and low priority for general health care. On average, budget allocations do not reach the benchmark of 20 per cent of the government budget earmarked for education and 15 per cent for health (World Bank and IMF 2005; UNECA 2005a).[5]

The trends of government spending on public services in Africa are quite diverse. Most African countries allocate between 3 and 4 per cent of GDP to health and education. However, there are notable exceptions. For example, Gambia only spent 1.9 per cent of GDP on education, whereas Lesotho spent 9 per cent between 2002 and 2004. For health, Burundi spent only 0.7 percent of GDP whereas Sao Tome and Principe spent 7.2 per cent of GDP (UNDP 2006). Despite the international urge to focus on MDGs, expenditure per student has declined in many African countries between 1999 and 2003, especially for secondary education. Total health expenditure per capita has increased on average from $US 38.6 to $US 44.4 over the same period.[6] However, there are countries such as Ghana, where per capita health expenditure has declined from the already low level of $22 per capita to $16 (see table A.2). Public spending for water and sanitation typically represents less than 0.5 per cent of GDP, it is as low as 0.1 per cent in Zambia.[7] Sanitation investment averages only about 12–15 per cent of total water and sanitation expenditure in SSA (UNDP 2006).

Health and education outcomes vary greatly among countries even with roughly the same government spending as percentage of GDP. For example, Senegal with a higher share of public expenditure in GDP (4.0 per cent) has lower rates of primary school

[5] These targets were agreed under the Education for All Fast Track Initiative and the Abuja Declaration, signed in 2002.

[6] Total health expenditure is the sum of public and private health expenditures as a ratio of total population. It covers the provision of health services (preventive and curative), family planning activities, nutrition activities, and emergency aid designated for health, but does not include provision of water and sanitation.

[7] It is difficult to capture real public spending on water and sanitation partly because of the fragmentation of financing across ministries, partly because of decentralization and partly because donor financing is often off-budget (UNDP 2006).

enrolment (66.1 per cent) than Mauritania (74.3 per cent primary school enrolment), which spends only 3.4 per cent of GDP on education (UNDP 2006).

In many African countries, a large share of public investment and social expenditure (especially education and health) is financed by aid. For example, in the health sector of 13 low-income African countries more than 30 per cent of spending is externally financed. In these cases, aid volatility has led to stop-and-go patterns, which reduces efficiency (World Bank and IMF 2005).

Overall, after a decline in the 1990s, ODA to Africa has been increasing again since 2002. This trend is expected to continue after the promises made by the G-8 in Gleneagles in 2005 that were reaffirmed in 2007 in Heiligendamm. With respect to sectoral distribution, the largest percentage of ODA to SSA between 2001 and 2005 went to health (20 per cent), followed by education (14 per cent) and water and sanitation (7 per cent). For North Africa also, health (12 per cent) is most important but water and sanitation (11 per cent) receives more aid than education (10 per cent). Total ODA flows to these three sectors increased from around $281 million in 1990 to $1.1 billion in 2005 (OECD 2007b). There is evidence that the share of ODA that is provided for education and health seems to have a positive impact on outcomes in these sectors (Wolf 2007b).

Private spending for health, education and infrastructure remains substantial

In addition to government funding and ODA, social services and infrastructure can also be financed through community financing (including labour and other inputs) and user fees. The source of financing is not necessarily linked to the provider of the services (public or private).[8] In many African countries, private expenditure for health is higher than public expenditure; for example, in Morocco it is 3.4 per cent of GDP versus 1.7 per cent of GDP for public health expenditure. Even in very poor countries such as Burkina Faso, private health expenditure, mostly in the form of out of pocket payments, is higher (3.0 per cent of GDP) than public spending (2.6 per cent of GDP) (UNDP 2006). Likewise for water and sanitation, a large share of financing is private. The key factors limiting the amount of user payments are affordability and willingness to pay, which in turn depends on the quality of services (AfDB and OECD 2007).

User fees have many disadvantages but they also some advantages. They can place significant burdens on poor households and thus restrict access. However, they also provide revenue at the local level and have the potential to increase accountability, as users who directly pay are likely to demand value for their money. When Uganda abolished user fees for primary education, general enrolment rates increased from 65 per cent in 1992 to 82 per cent in 1999 and for the poorest 20 per cent of the population even from 51 per cent to 84 per cent over the same period. However, the decline in resources and increase in use led to a deterioration of quality, such as drops in the percentages of pupils reaching minimum proficiency levels (UNECA 2007; Government of Uganda 2004).

The burden of private spending for health, education and infrastructure is especially heavy in rural areas. Most of the rural population relies on self-medication and indigenous

[8] In the area of health, there is also financing through insurance but as this is limited in Africa it will not be included in the discussion.

medical practitioners for minor illnesses. Although in most countries there are rural health stations these have several shortcomings, especially the lack of trained and experienced staff, poor quality of services, inadequate drug supply and inconvenient clinical hours. Many health stations are staffed with two health practitioners but only see three to four patients on an average day. Urban patients obtain more than half of their outpatient services from the private sector. The free or subsidized government hospitals have long waiting times and poor quality (Hsiao and Heller 2007:46ff)

For water, there is also a high direct payment by the poor. In Uganda, water payments account for 22 per cent of the average income of urban households in the poorest 20 per cent of the income distribution. In general, the poor pay higher prices for water as they are not connected to the network and thus have to rely on water vendors. In Nairobi and Accra, the prices paid in low-income settlements with little access to the public provision are around 8 times higher than those paid by high-income residents. However, high connection fees and the difficulties related to connecting people living in informal settlements restrict the expansion of piped water to poor households (UNDP 2006:51f).

Increasing resources versus capacity to spend

It is clear that scaling up public service delivery and infrastructure needs time. Countries with limited capacity and human resources need to improve inputs before outputs can be delivered. It is estimated that Africa is short of approximately 1 million health workers due to inadequate training, poor conditions of service, and brain drain (Hsiao and Heller 2007:34; Joint Learning Initiative 2004).

One fundamental problem of increased public expenditure is the absorptive capacity of the recipient country. The ministries charged with managing the delivery of services face significant organizational challenges in administering much higher budgets. Donor programmes put an extra burden on the absorptive capacity of the infrastructure and human resources available and might weaken the infrastructure for normal service provision, especially when they create parallel structures (Hsiao and Heller 2007). The water and sanitation sector is especially heavily dependent on project funding with multiple fragmented donor projects (Slaymaker and Newborne 2004).

The aid-funded increase in public expenditure might have *Dutch disease* effects and could increase the shortage of qualified personnel in the private sector.[9] In addition, aid might disturb the coherence of recipient government decisions due to differing interests of donors and recipients and information asymmetries (Mackinnon, 2003).

As higher aid is usually linked to higher volatility, it is also likely to pose a significant burden on the planning capacities of countries. For example, ministries must decide whether to employ more civil servants or whether to outsource service delivery to minimize risks from aid volatility (Heller 2005a). The evidence shows a positive

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[9] Although evidence for the *Dutch disease* effects of aid is mixed, a potential loss in export competitiveness is one of the likely causes for declining returns to aid on growth (Rajan and Subramanian 2005; Collier 2006). In addition, Dutch disease effects are more likely to occur when aid is suddenly scaled up as in a big-push scenario (Heller 2005b).

correlation between aid volatility and volatility in public expenditure for health (High-Level Forum on the Health MDGs 2005).

The composition of expenditure financed by aid might change with the scale of the task. For example, two thirds of aid for education is currently provided in the form of technical assistance, although the bulk of expenditure is on local personnel. In addition, wages especially for skilled professionals have to increase to reduce migration and brain drain. Hence, if increased aid does not also cover personnel and operational costs it is likely that the quality of service delivery will decline (World Bank and IMF 2005).

One strategy to cope with uncertainty of future aid flows is to make expenditure more flexible. For example, in primary education, a trend towards contract teachers, who are no longer civil servants but are employed on the basis of fixed-term contracts, is observable. This is partly driven by the facts that a large increase in teachers is needed to achieve education for all, which is not affordable for most African governments on the basis of using civil servants. In a sample of 11 francophone African countries, privately employed contract teachers accounted on average for 29 per cent of all teachers, compared to 20 per cent publicly employed contract teachers and 51 per cent civil servants.

As contract teachers earn less than half of their civil servant peers, this trend has boosted primary enrolment at relatively low costs. Although the contract teachers have a lower level of professional training and less favourable working conditions, no negative effect on student performance was found, probably due to a different incentive structure as further employment prospects depend on performance and parents' satisfaction (Michaelowa and Wechtler, 2006).

African countries should also insist on improvement of the quality of aid as stated in the Paris Declaration on Aid Effectiveness. This includes not accepting all projects proposed by donors. For example, Uganda has a provision in her PRSP that "all projects, including donor-funded projects, will have to satisfy a range of criteria, including affordability within the relevant sector ceiling, full consideration of counterpart funding requirements and recurrent cost implications" (Government of Uganda 2004).

To make use of economies of scale and network externalities, the regional approach to infrastructure provision should be intensified. Joint financing can increase the availability of funds but harmonization of regulation and strong political commitment are needed (Foroutan 1992). Regional cooperation, especially in the area of regional public goods including water basins and infrastructure that connects regions, often requires complex arrangements and huge financing (Schiff and Winters 2002).

3. The macroeconomic framework

It follows from the evidence in the previous two sections that the only means for increasing private service delivery in a sustainable manner is through a dramatic scaling-up of public investment in service delivery. This will require both substantial improvements in domestic resource mobilization and large increases in external resource inflows. With regard to domestic resource mobilization, governments will need to scale-up efforts in raising tax and non-tax revenue, while undertaking the needed reforms and establishing appropriate incentive mechanisms to encourage private savings. However, most of measures to raise domestic savings will only have effects in the medium to long term. Thus, in the short run, African countries will need more external resource inflows, both in the form of private capital and in the form of official inflows (aid and debt relief).

Scaling-up resources to finance public investment in service delivery has important implications for the macroeconomic framework. Most importantly, in order to accommodate larger volumes of public investment, it will be essential to allow more flexibility in the macroeconomic framework. This will require a move away from the current approaches of pursuing narrow macroeconomic objectives, namely tight budget balances and low inflation targets (Pollin et al. 2006).

The commitment to achieving narrow fiscal targets implies that any scaling-up of public expenditure must be matched by proportional increases in government revenue. This has two important shortcomings. First, in the short run, the capacity for most African governments to increase government revenue is quite limited, notably due to a narrow tax base, weak administrative capacity, and poor governance. Second, such an approach to fiscal policy overlooks the fact that an increase in public expenditures boosts economic activity and increases growth, including through higher private investment (due to lower production costs), which in turn results in higher tax revenue in the future (Easterly and Rebelo 1993). Thus, while a scaling-up of public expenditures raises the budget deficit in the short run, the higher revenue arising from expanded economic activity should allow stabilization of the budget over time.

The scaling-up of public expenditures also has implications for monetary policy, especially with regard to inflation targeting. The majority of African countries have committed to inflation control as the key goal of monetary policy. This is accomplished mainly by containing domestic demand through expenditure and credit compression, using interest rate hikes, public expenditure ceilings, and other indirect means. In addition to criticisms regarding the theoretical merits of this restrictive approach to monetary policy (Easterly 2002; Pollin et al. 2006), the approach has been criticized for the high costs that it imposes on the economy in terms of lost output and missed opportunities for employment creation due to compression of public expenditure and private investment.

While the efforts in macroeconomic stabilization that have been undertaken by African countries since the 1980s have begun to yield notable results in lowering inflation, it is widely accepted that stabilization has not generate the expected gains in terms of higher growth and private investment in the continent (UNECA, 2006).

To allow a scaling-up of public expenditures in service delivery, African countries need to move to a more flexible macroeconomic framework, allowing for reasonably higher inflation rate targets in the short run. Higher public expenditures and the resulting high domestic demand will naturally result in higher inflation in the short run. However, to the extent that public investment and better service delivery help to unlock private sector potential, this will generate positive supply-side externalities which mitigate demand-led inflationary pressures. The key is to ensure that higher resources are indeed allocated to public investment into productivity-enhancing public services.

However, even as governments scale up public investment in service delivery, they, especially the monetary authority, will need to stay the course on other margins of policy-making to preserve stability and not undermine the progress made in terms of policy credibility. The key is to increase flexibility and policy space, while preserving the hard-earned progress in prudential regulation. Extended policy space will result from flexibility on the part of external development partners in loosening conditionalities, but also from enhanced efforts on the part of African governments to increase autonomy in financing national budget. This will depend on their success in mobilizing more domestic resources, thus reducing dependence on external financing.

The institutional framework for efficient service delivery

The budgetary process: transparency, participation, and monitoring

The budgetary process is the main mechanism for government to manage public revenue and expenditure to ensure adequate delivery and distribution of public goods and services while keeping macroeconomic balances under control. It consists of the formal and informal rules governing the formulation of the budget by the executive, its passage and adoption by the legislative, and execution by the executive (von Hagen 2005:12). The final stage of the budgetary process consists of control, audit and oversight.

The budgetary process should be based on a comprehensive planning and programming framework that provides guidelines on national priorities and development goals such as employment generation and poverty reduction. Moreover, it should be transparent and allow for greater participation and more effective monitoring.

A transparent budgetary process entails rules that govern the preparation and dissemination of information about the budget to all stakeholders in a clear and simple form.[10] In addition to aggregate revenue and expenditure items, transparency of the budget requires breakdown not only according to programmes and specific activities within programmes but also by the main policy goals, including the MDGs.

Budget transparency also requires *ex post* reconciliation of budgeted allocations and actual spending and performance (von Hagen 2005). Ideally, the budget report would include an evaluation of budget performance including measures of allocative efficiency and operational efficiency. Allocative efficiency measures show how actual resource allocation reflects the priorities of the various sectors. Operational efficiency measures show how the allocated resources are transformed into outputs and outcomes that are consistent with the sector and poverty reduction goals (World Bank 2002). Transparency of the budget is higher to the extent that accounts are reconciled, explanations for differences are offered and published, and performance measures are included in the reports (Esfahani 2000).

[10] Besides transparency measures, budgetary processes often include *ex-ante* targets; segmentation that prevents trade-off between different types of expenditures or revenues; hierarchy of powers; ex-post flexibility for government to shift resources around and determine detailed allocations at the time of implementation; and use of objective criteria for the distribution of costs and benefits of budget allocations (see Esfahani 2000 for details).

Transparency in the budget process is likely to generate a more equitable distribution of spending across regions and economic and social sectors. This will help to resolve potential conflicts that do not only weaken service delivery but also threaten social and political stability. For example, lack of genuine decentralization and equitable distribution of resources across states is seen by analysts as one of the three main causes of the conflict in the Darfur region of Sudan (Ahmed and Mangar 2006).

Participatory budgeting is a process in which a wide range of stakeholders, including donors, civil society and the private sector, work together with parliamentarians and executives on all stages of the budget process including budget formulation and analysis, expenditure monitoring and tracking as well as monitoring of service delivery (Langa and Jerome 2004:3). This participation has the potential to induce politicians to take a more comprehensive view of the costs and benefits of public policies, encourage the executives to efficiently deliver public goods and services and resolve all potential conflicts relating to budget formulation and execution.

By shifting decision-making to public forums, participatory budgeting enhances transparency and fosters participation of the civil society in service delivery as well as effective monitoring through review and evaluation of projects implemented. Experiences in Brazil show that participatory budgeting increases transparency, reduces rent-seeking behaviour and corruption and promotes social inclusion.[11]

In many African countries, for example Benin, Togo and Uganda, the budget process allows for extensive Public Expenditure Review (PER) work, involving the parliament, civil society and the donor community (World Bank 1998; Melyoki 2006). The PER work avails various stakeholders the opportunity to deliberate and raise concerns relating to budget allocation and management, budget execution, accountability and monitoring. Involvement of civil society and donor community in the budgeting process promotes ownership of the budget and helps to build capacity for meaningful civil society participation in budget formulation and monitoring.

To support the PER process, governments now need to concentrate on sector budget efficiency within a result-oriented framework. There is evidence that Sector Working Groups and working groups on crosscutting issues such as HIV/AIDS have contributed to improved budget efficiency and service delivery in Tanzania (Agha 2006).

The PER process also provides donors and government with the opportunity to discuss aid policies and modalities for effective delivery and management of aid. In this regard, many African countries have expressed the desire to receive more aid in the form of budget support, which gives them necessary flexibility to direct external assistance to sectors that contribute most to their development goals, especially those relating to poverty reduction (World Bank 2002).

Besides strengthening domestic accountability mechanisms, general budget support is seen as a way of addressing issues of absorptive capacity for both donors and recipient

[11] C. Souza, (2000), "Participatory Budgeting in Brazilian Cities: Limits and Responsibilities in Building Democratic Institutions," Federal University of Bahia, Brazil - cited by Langa and Jerome (2004).

countries (de Renzio 2006). Meanwhile, debt cancellation, which represents a form of direct budget support, has resulted in increased social spending and improved access to some basic social services in Uganda, Malawi, Mali, Mozambique, Benin and Tanzania (UNECA 2005a).

However, participatory budgeting has limitations too. First, focusing on specific public works or projects can undermine long term planning. Secondly, the civil society often lacks adequate knowledge and capacity to effectively participate in the budget process. Consequently, bureaucrats and elected representatives dominate the process. To alleviate, this problem, African countries have adopted participatory budgeting within a medium-term expenditure framework (MTEF) within which budgeting and planning span over a three years period. The process involves all line ministries, provincial and municipal authorities, parliamentarians and local communities.

The MTEF links policy developments with resources over time, creates a predictable medium-term planning environment, provides a framework for assessing short and medium term priorities and promotes transparency and fiscal credibility (Langa and Jerome 2004). Moreover, it allows for increased intergovernmental coordination of plans and greater accountability. To foster effective community participation in the budgeting process, several public and private initiatives have been developed in South Africa with the aim of educating the public on budgeting and national planning and making national and sub-regional government budgets accessible to the public.

While transparency, participation and monitoring can strengthen the budgetary process, governments need to be aware of the fact that deviations from planed spending limits and allocations can seriously compromise the budget process. These deviations often include:

- The use of off-budget funds to finance government activities (see von Hagen 2005 for details);

- Mandatory spending laws such as non-financial laws that make certain government expenditures (e.g. welfare payments based on entitlements with legally fixed parameters) mandatory;

- Government commitment to contingent liabilities such as promises to bail out sub-national governments or financial institutions; and

- Overspending by some ministries and lower levels of government due to ill-defined expenditure and financing responsibilities.

In reality, governments might find it difficult to avoid some of these deviations and rigid constraints can be ineffective, imposing high costs by not allowing governments to respond to unforeseen developments that require changes in spending (Esfahani 2000). Therefore, deviations are not uncommon in practice, but they need to be managed in a transparent manner that does not compromise budget integrity.

Budget allocation across sectors

There are usually two main goals of delivery of public services: efficiency and equity. The existence of multiple goals and the fact that different public sectors compete for scarce government resources requires significant trade-offs. Besides the MTEF framework, a number of African countries have recently started to adopt performance budgeting or results-based management taking into account not only inputs and outputs but also outcomes and impact, and including performance measurement as key factor (McGill 2006).

PRSPs are one major instrument for the prioritization of sectors, using a participatory approach. In general, education and health are relatively well integrated in PRSPs, whereas water supply and sanitation are much less prominent. The main reasons identified are the weak poverty diagnostic and sector information and the weak links among central ministries, local authorities and other stakeholders in the water and sanitation sector (Slaymaker and Newborne 2004).

Research has largely failed to provide the basis for results oriented allocation decisions, which are complicated by many factors including time lags, complementarities and institutional quality. The prevailing approach in budgeting largely relies on prioritising 'pro-poor' components of public spending. However, since the underlying criteria are simplistic and poorly specified, it is not clear whether the prevailing approach actually increases the effectiveness of public spending in terms of reducing poverty (Misch and Wolff 2006).

In Tanzania, the Government is trying to introduce a higher degree of rationality into the budget process based on costing and prioritising programmes for achieving the MDGs within the framework of the implementation of the Tanzanian National Strategy for Growth and the Reduction of Poverty. In case of a financing gap, the costing provides guidance about which interventions to prioritize. They are an essential input for medium- and long-term financial planning (Misch and Wolff 2006).

The allocation of the budget towards different sectors should be the outcome of a political process. It should also take into account the returns to investment with respect to income and poverty reduction. Studies in Uganda and Tanzania that compare the returns to investment in education, roads and agricultural research and extension show that the effects of government spending in different sectors and regions are also very country specific[12].

For example, in Uganda, the marginal returns of building feeder roads were almost three times as high as those for education, whereas they were in the same range in Tanzania. However, the analysis is based on past unit costs, which might reflect different degrees of inefficiency across sectors, so that new spending could have different marginal

[12] The estimations are based on household surveys. Income and poverty status are regressed on access to different public services. Unit costs of the provision of these services are calculated using government expenditure in different regions. These calculations are used to derive the marginal effects of spending in different public services sectors on income and poverty (Fan et al. 2004 and 2005).

returns. Thus, accurate data on public spending and the outcomes of public services in terms of accessibility and quality is needed to improve prioritization.

There is some evidence that sequencing investments can help to address capacity constraints over time and thus reduce total costs. This sequencing should be based on the positive externalities identified above. In general, frontloading investment in infrastructure, such as roads, electricity and water, is likely to increase the efficiency in spending on social services like health and education. In addition, skilled labour is produced with a lag, which implies that investment in education should also be a priority at the beginning (Bourguignon and Sundberg 2006).

Budget allocation within sectors

After the budget has been allocated across sectors, a decision has to be made on how to allocate resources within sectors. This has a great influence on the efficiency and equity of service delivery. In the case of education the cost effectiveness of different measures varies widely. Whereas, for example, the provision of textbooks is relatively cheap and effective, a reduction of student teacher ratios is relatively expensive and little effective below a threshold of 60 students per class (Michaelowa and Wechtler 2006).[13] This is probably partly due to the teaching methods teachers are trained in. Thus a careful assessment of the impact of different measures is needed before resources are allocated.

In many developing countries, tertiary services receive a relatively high share of government expenditure. In health provision curative hospital services are favoured over cost-effective primary and preventive services. Two-thirds or more of the health budget is spent on hospital services, mainly for the principal medical centre in the capital city. Although most of the population lives in rural areas, most of the public health budget is spent on services used by the urban population (Hsiao and Heller 2007:44). However, the focus of government policies on meeting the MDGs has increased the attention on provision of services in the rural areas.

In addition to targeting the poor better, there is also the need to reduce gender imbalances in service provision. In most African countries, the situation is that more boys go to school than girls although the gap has been narrowed in recent years. Because there is evidence that women are willing to invest more in health, education and basic infrastructure and attach a higher value on access to sanitation (UNDP 2006), gender-responsive budgeting has become increasingly popular. It involves changes of policy and budgetary processes so that fiscal measures regarding revenue and expenditure take into account the disparities in income, resources, assets, and decision-making between women and men. Gender-responsive budgeting seeks to link public expenditure, physical investment and service provision, actual access and utilization of these services and the

[13] These results were obtained using micro-data from large-scale student assessments that have recently become available for both anglophone and francophone Africa (the Southern and Eastern Africa Consortium for Monitoring Educational Quality (SACMEQ) and the Programme d'Analyse des Systèmes Éducatifs de la CONFEMEN (PASEC)). Education production functions were used to estimate the impact of educational inputs on student achievement in 22 sub-Saharan African countries. The findings are in line with other literature e.g. Michaelowa 2001; Verspoor 2003).

outcomes in terms of capacities, livelihoods and well being of women and men (McGill 2006).

However, the majority of such budgeting initiatives focus more on gender analysis of existing budgets (McGill 2006). For example, in Senegal, the National Gender Budgets Initiative quantified women's unpaid work, their activities in the informal sector and objectives aimed at women's empowerment. A detailed review of the resource mobilization and allocation processes was also carried out. The implementation strategy builds on the establishment of a clear link between women's empowerment objectives and budgets allocation, including through the gender budgeting exercise on the Third Plan Reference Framework (UNIFEM 2005).

Institutional reform to combat corruption through improved transparency and accountability

Corruption, broadly defined as the abuse of public office for private gains, can seriously affect access and quality of service delivery (World Bank 2006c). For example, in many developing countries such as Mexico and Kenya, "corruption at the point of health delivery involves extorting or accepting under-the-table payments for services that are supposed to be provided free of charge, bribes to influence hiring decisions and decisions on licensing, accreditation or certification of facilities" (Transparency International 2006). The common factors that nurture corruption include regulatory interventions, complex tax systems, non-transparent procedures, high levels of discretionary government spending, limited scope for own revenue generation by sub-national governments, and weak accountability, monitoring and legal systems (Deininger and Mpuga 2004).

Corruption also mushrooms where the legitimacy of the State as the guardian of the public interest is contested and the commitment of the national leaders to combating corruption is weak (Shah and Schacter 2004). Low pay in civil service is another important driver for corruption in low-income countries.

Corruption in the delivery of services may be classified into political and bureaucratic corruption or isolated and systemic. Political corruption arises from attempts by politicians to bias budgetary allocations and delivery of services towards their own geographical areas or ethnic groups. When deliberate attempts by individual bureaucrats to maximize their personal gains through corrupt practices are not checked and punished, corruption can spread to other sectors and become systemic. A weak institutional environment encourages systemic corruption that "creates expectations of corruption that generate demand and supply for bribes, extortion and nepotism" (Ndikumana 2006:3).

In addition to bribery relating to the award of government contracts to private suppliers of public goods and services, award of government licenses, payment of taxes, and legal procedures, corruption can also take the form of theft of public property. Furthermore, government officials can manipulate debt and aid funds by embezzling the funds or soliciting kickbacks on projects financed by donors and lenders. As corruption depresses overall growth, it has a direct effect on the incomes of the poor as well as an indirect effect through reduced pro-poor public spending, especially in the areas of education and health (Ndikumana 2006). While corruption is common in the private sector, it is particularly harmful when public and private interests collude to influence the delivery of public services in terms of amount, quality and cost.

For example, in Cameroon, Morocco, Nigeria and Tanzania, more than 25 per cent of households surveyed said that corruption was a serious problem and there is a general perception among Kenyans that the civil service is not only corrupt but also inefficient. Many civil servants and ministers in Kenya have been implicated in corrupt deals, such as favouritism in awarding scholarships, positions and contracts, which erodes public confidence in state institutions (UNECA 2005b).

Addressing corruption requires institutional reform and concerted efforts involving governments, the donor community and the public. First of all, fighting corruption requires strong and committed national leadership as well as a comprehensive approach that addresses all the institutional, policy and reward factors that induce corruption, including donor policies and transparency and accountability systems.

Institutional or policy reforms such as financial liberalization and simplification of the tax system can reduce opportunities for corruption by introducing transparency and limiting public sector monopoly power. Service delivery performance standards and legal and administrative reforms relating to bidding procedures can also limit opportunities for corruption.

Moreover, strict adherence to information dissemination laws, timely and detailed auditing and reporting standards and involvement of stakeholders, including donors, the civil society and the media, in the fight against corruption are essential for promoting transparency and accountability in public management and service delivery. Incentives for public sector employees, including merit-based, adequate wages, along with adequate monitoring and accountability systems, can reduce demand for corruption in the delivery of public services.

Indeed, efforts to combat corruption in the water and sanitation sector in South Asia “shared two drivers: one which altered accountability networks in service provision, and one which changed the attitude of service providers in a way that increased the moral cost to them of misconduct” (Davis 2004:66). Finally the fight against corruption requires an efficient legal system that not only punishes corrupt officials and agencies but also helps the government and civil society to uproot systemic corruption.

Decentralization: ownership, capacity constraints and service delivery

Political reforms on the continent have increasingly allowed for more decentralization, where local governments are assigned greater responsibilities of delivering key development projects and public services. This process often involves legal and administrative reforms that entrust local governments with increased responsibilities and powers to meet the development goals of the local community. Decentralization of fiscal responsibilities is expected to increase efficiency in service delivery and reduce the information and transaction costs associated with the provision of public services (De Mello 2000; Jütting et al. 2004).

The main channels through which decentralization can improve service delivery include enabling local governments to take account of local differences in culture, environment, endowment of natural resources, and economic and social institutions. They can more cheaply and accurately identify local preferences and needs and respond to them. In addition, decentralization brings expenditure assignments closer to revenue sources to enhance accountability and transparency in government actions and promotes wider participation (Elhiraika 2007).

However, decentralization has not always been effective in improving service delivery by local governments, mainly because of limited devolution of authorities to local governments. Instead of genuine political decentralization, central governments in many countries appoint officials of sub-national governments, replacing administrative decentralization with administrative deconcentration (where decision-making is shifted to regional or local officials of the central government) or administrative delegation (where local governments undertake activities on behalf of central government). Only a few developing countries, e.g. Brazil and India, have adopted comprehensive political, fiscal and administrative decentralization.[14] South Africa has also made substantial progress in this regard.

Indeed, in many countries, government is yet to fully define the institutional mechanisms necessary to guarantee fiscal decentralization or models for revenue sharing between central and local governments (Bahl 2001). Often the central government keeps very tight political and economic control over regional and local governments, which also lack administrative capacity to formulate and implement adequate responses to local community needs and constraints (Guimaraes 1997).

This creates a vicious circle in promoting fiscal decentralization as central governments fail to invest sufficiently in local capacity development and use inadequate local administrative capacity as a reason for continued heavy centralization of expenditure and revenue decisions. It also encourages political capture by local elites and restricts access to public services by the poor, especially when civic participation in local government is low (Bradhan 2004).

Moreover, while decentralization has the potential to improve service delivery by improving the accountability of lower level governments as mentioned previously, concurrence of expenditure and financing responsibilities among different government levels is often a source of ambiguity of roles and inefficiency (Ahmed et al. 2005). Because of ill-defined responsibilities, local authorities may spend their grants and leave central governments to make up for deficits. Central governments may, however, provide certain funding and leave local governments to make up for the gap, or alternatively they may fully fund services and contracts to deliver services under effective monitoring and enforcement mechanisms.

On the revenue side, the extent to which decentralization enhances the accountability of local authorities to local clients hinges on the power of sub-national

[14] Political decentralization implies directly elected local governments that are accountable to citizens, while administrative decentralization empowers these governments to hire and fire local staff (see Shah and Thompson 2004).

governments to levy their own taxes and adjust tax rates. Heavy dependence on central transfers reduces accountability of local governments to the local electorates and allows them to shift blames for inefficient service delivery to central government. However, the accountability of sub-national government to local clients can be strengthened through the design and implantation of effective intergovernmental fiscal transfer system. Fiscal transfers enhance planning and service delivery when they are predictable, and they are generally so when they are formula based (Ahmed et al. 2005).

It follows from the above discussion that for decentralization to lead to greater accountability and improved service delivery, it has to be comprehensive and ensure necessary political, economic and administrative flexibility on the part of local governments and commitment to decentralization by the central government. It is also important to strengthen the institutional and operational capacities at the local level in order to ensure greater public participation and accountability on the part of policy-makers, service providers and users.

Capacity development and adequate incentives at local government level are essential not only for efficient service delivery but also for the local authorities to be able to manage public finances and keep proper accounting procedures making spending transparent. Governments also have to align expenditure and revenue responsibilities effectively to improve fiscal management. This requires designing an effective intergovernmental fiscal transfer system that meets the growing needs for public services at the local level while preserving fiscal discipline nationally and locally.

5. The role of non-state actors in the provision of services

As neither public (domestic or foreign) nor private investment will be sufficient for investment to scale up the provision of infrastructure to meet the MDGs a combination of both is needed. Thus the questions are rather, in which areas can private participation, both-for-and not-for-profit, be attracted, and how access for the poor can be expanded at the same time (Jerome 2007). In this respect, there is a difference between the participation of domestic and foreign firms or NGOs. The latter might bring specific expertise in the area of service delivery, especially in management, but might face difficulties in adapting to local circumstances (Smith 2003). In any case, the central principle of any partnership should be the sharing of risks, resources and responsibilities (UNESCAP et al. 2007).

Private infrastructure provision has become more common

Private sector participation in infrastructure has become more common in the last 2 decades, partly driven by budget constraints and concerns about efficient service delivery. Private sector participation ranges from rendering specific contracted services (such as management services, construction, etc.) to full privatization. Public-private partnerships (PPP) are seen as a compromise between full privatization and state ownership and control. They allow governments to tap into financial and human resources of the private sector while still keeping ownership.

However, governments should be aware that public-private partnerships are not a "light" version of privatization as they involve capacities and commitment from all sides.

As private investors are mainly interested in more lucrative urban service provision, private participation might also limit the possibility of cross-subsidisation of poor rural areas (Bayliss and McKinley 2007). However, they have the potential of combining the concerns of the public sector for equity and universal service delivery with the competencies and strengths of the private sector such as efficiency, cost-effectiveness and responsiveness to consumers' needs (Thoenen 2007; Labuschagne 1998; Mitchell-Weaver and Manning 1992).

After 1997, global investment in infrastructure with private sector participation dropped and only started to recover in 2004 (World Bank 2006a). The reasons for the decline included the Asian financial crises and financial difficulties experienced by international companies in their home countries that reduced their appetite for risky investments in developing countries.

In SSA, the overall development was strongly driven by the telecommunication sector due to mobile telephony. Water and sewerage only received limited PPP, partly due to a non-favourable business climate and unclear regulation. Water and sanitation projects require high initial investment, long payback periods and low rates of return (only one third of telecommunication projects). In the medium term, the private sector is not expected to fill the financing gap in infrastructure in Africa (Thoenen 2007; Jerome 2007; AfDB and OECD 2007).

In countries with low access to infrastructure, low quality of services, and in remote regions, small-scale private service providers are filling the gap. They are especially prevalent in low-income and conflict-affected countries. Sustainable forms of small-and-medium-scale electricity generation are now possible with the proliferation of solar technology and more efficient wind generators (Estache et al. 2005). A study of small-scale providers in water and electricity showed that these providers are widespread and account for over 85 per cent of all private sector investment in water, as both governments and the private sector have scaled back on major infrastructure investments.

In many African countries, more than 50 per cent of households are served by small-scale private water suppliers. Their prices are usually similar to those of larger utilities. In Sudan, photovoltaic systems are used in rural areas for clinics, schools and social centres. Solar-generated electrical energy is used for refrigeration and computers. During the daytime, unused electrical energy is stored in batteries and is used for lighting at nighttime. However, these small-scale providers face similar problems to other small and medium enterprises such as limited access to finance and a restrictive regulatory environment (Kariuki and Schwarz 2005).

There are also some positive examples of large-scale private investment in water and electricity (AfDB and OECD 2007). Since the early 1990s, reforms in the urban water and electricity sectors in Gabon were implemented, resulting in price increases to cost-covering levels. This long initial phase allowed Government and Société d'Energie et d'Eau du Gabon (SEEG) to build capacity and establish the base for mutual trust. In 1997, the Government of Gabon and SEEG signed a 20-year concession contract specifying investment obligations and fixing specific targets for the water and the electricity sectors. Incentive mechanisms were established to reward timely service expansion to more remote regions and to poorly connected neighbourhoods (Farlam 2005; Thoenen 2007).

Regional cooperation in building infrastructure can reduce costs through economies of scale and spreading the risk for investors. There are a number of examples of joint infrastructure projects under the New Partnership for Africa's Development (NEPAD) the West African Gas Pipeline, bringing gas from Nigeria to neighbouring countries, and the West African Power Pool. However, as regional infrastructure projects are large, the initial financing requirements are not easy to match and the management is complex (Jerome 2007).

A positive example for private participation at the regional level is a 30-year concession for a toll road between South Africa and Mozambique, where markets have emerged along the road yielding various benefits to the local economies. The toll road was financed by 20 per cent equity by the private construction companies and 80 per cent debt by several banks, including the Development Bank of Southern Africa (DBSA). The commercial risk was shared between the partners and cross-subsidization with higher fees for South African users and discounts for Mozambican users helped to reduce the user payment risk (SAIIA 2005).

In order to involve the private sector successfully, the public sector must have strong capacity to negotiate a fair and satisfying deal. Careful project assessment, project implementation, and specific measures are necessary to make service delivery beneficial for the poor. In this context, it is important to assign risk and rewards. PPPs have failed too often because risk and rewards have not been awarded clearly and fairly. In addition, the private sector requires a set of initial conditions in order to consider involvement. These conditions include good business climate, sound regulations, property rights and contract enforcement (Thoenen 2007).

Social services are often provided by not for profit organisations

In many countries, not-for-profit organizations, including faith-based organizations, play an important role in the provision of social services, especially primary health and education services. However, there is little systematic evidence on the magnitude of this involvement. As NGOs do not have to make a profit they can charge lower prices or offer services for free. Most NGOs that are active in health and education have the poor as targets but they often work with the richest of the poor, as they are easier to reach. NGOs do have some advantages over government provision as they are smaller and less bureaucratic and therefore are more flexible and innovative. However, NGOs are very diverse and it is difficult for outsiders to assess their quality (Smith 2003).

A good example of how an NGO was able to provide improved services for the poor in education is the CHANCE programme in the Nakasongola District of Uganda. The programme abolished school uniforms to avoid discrimination against the poorest. The schedules were adjusted to the needs of fishing and semi-nomadic pastoral communities and the government curriculum was put in a community context. As a result, enrolment, retention and exam scores were higher than in local government schools, and were achieved at lower costs per student.

However, the transfer of these well functioning non-formal primary schools to public sector management was done too quickly and without adequate preparation resulting in a deterioration of performance. That was mainly due to the lack of preparation of government teachers. The decision to turn the schools to the government was mainly driven by external donors to demonstrate the financial sustainability of the project (Smith 2003).

Also in Uganda, Government has been implementing the Local Government Development Programme (LGDP), which provides funding for urban infrastructure but requires community participation. There are a number of shortcomings such as the emphasis on outputs rather than outcomes and lack of long-term solution-based planning and prioritization of community needs for infrastructure provision, inadequate community mobilization and inadequate understanding of poverty dynamics (Lwasa 2006).

These and other examples show that programmes that are operated by civil society do not automatically guarantee that the poor will be adequately represented and that expected results will be achieved. Often NGOs face the same problems of not including the poorest of the poor in decision-making, partly due to the costs of participation. Thus, they face many similar issues of accountability and quality of services as do public providers (World Bank 2002).

More recently, the private sector is moving into tertiary services, such as private colleges and universities. Private firms may sponsor, for example, university programmes in their field of business and influence the curriculum to increase the supply of suitable graduates. With the spread of ICTs in Africa, distance learning also expands when tertiary education institutions (public or private) partner with local ones. One complementary avenue to reduce costs and achieve a critical mass of teachers, students and equipment in high-technology subjects, which are expensive, is to concentrate them in only a few universities within a region, thus creating regional centres of excellence through increased regional cooperation and the expertise and funding of the private sector (Wolf 2007a).

Likewise in health provision, there are public and private facilities existing side by side. For example, in South Africa the elimination of user fees for clinics and the expansion of the clinic network have helped to make health services more affordable and accessible to the poor and were associated with a notable rise in health service utilization by the poor. However, this result is driven by perceptions that services offered in public hospitals and clinics are of a low and variable quality, encouraging most of those who can afford to pay more to opt out of the public health system, thereby increasing the pro-poor incidence of public health spending (Burger and Swanepoel 2006).

Rules and regulations are key for successful non-state participation

To promote collaboration between governments and non-state actors, the rules of the game have to be clear, meaning that institutions should be in place that state rights and responsibilities of all stakeholders. This includes a more stable policy environment, protection of property rights and clear regulation (Jerome 2007).

Several studies of private sector involvement in utility provision have shown that private participation has to be complemented by regulation and competition in order to increase efficiency. In the case of Côte d'Ivoire, the users benefited from lower prices and quality improvements after privatization of electricity. Independent regulation provides more certainty for private investors, as it can signal to investors that they will not be subject to arbitrary political interference.

In addition, independent regulators can protect consumers from abuse of monopoly power, which is especially important in the case of a large incumbent, be it state-owned or privatised. However, reforms of network utilities and especially the introduction of competition are complex as the unbundling might reduce economies of scale and scope and raise transaction costs (Zhang et al. 2004).

Thus, institutional and regulatory weaknesses underscore most failed attempts at non-state involvement in public service delivery. Many countries adopted regulatory templates from developed countries, as this was a condition for further aid to the sector. This led to problems of lack of checks and balances, limited technical expertise, weak auditing and accounting and a general mismatch with the local circumstances. The main features of effective regulation are coherence, independence, accountability, predictability, transparency and capacity (Jerome 2007).

In Ghana, the Public Utility Regulatory Commission (PURC) was created in 1997 to regulate the water and electricity utilities. The commission approves water and electricity rates, monitors the utilities, and enforces standards of performance. Both water and electricity rates were not cost-covering, so PURC raised the tariffs in several steps. In 2000, PURC established an automatic adjustment formula that would allow utilities to raise prices in line with inflation, exchange rates and world market crude oil prices. In addition, PURC links tariff rises to the providers' compliance with performance targets. These performance targets include reducing leakage and the number of illegal connections, improving billing/collection efficiency, water quality and complaints handling.

Accordingly, from 2002, electricity and water prices increased considerably. However, the increase in tariffs did not result in significant increases in revenue for the utility companies because of inefficiencies, due to leakages and low bill collection rates. Meanwhile, PURC does not have sufficient financial and human resources to carry out all the required monitoring work. Public institutions are politically too powerful to be forced to pay, while many of the key positions are filled by political appointments, and non-performance in high-level positions is not sanctioned (PURC, 2005; Wolf et al. 2007).

There also need to be rules for not-for-profit organizations to ensure that services provided are reliable and of adequate quality, which might not always be possible to check for beneficiaries. NGOs also have to apply rules of corporate governance to prevent individuals from exploiting the organisation. Ideally there should be some coordination between government and NGOs to avoid doubling of efforts and to enable mutual learning processes (Smith 2003). Although the government might not directly provide the services it has to make sure that services are provided and providers are held accountable for the quality and coverage of these services. A broadening of providers could help to match the service to the unique conditions, needs and priorities of the user (UNESCAP et al. 2007).

6. Conclusions

The discussion in this report has highlighted pertinent institutional and policy constraints relating to public expenditure management and efficient service delivery in Africa. Key conclusions and policy recommendations of the report are summarized below along critical institutional and policy issues.

Financing: Whether public services are financed through taxes or through fees, in the end, it is always the taxpayer who has to cover costs. The provision of free services may lead to bad service quality and high indirect costs. In the long-term, tax collection needs to be increased and new sources for long-term finance, such as pension funds should be used.

Better data and research: Resources for data collection, research at local level, and macroeconomic forecasting are needed for proper budget planning. Further research is urgently needed. Potential benefits of a number of public sector reform processes currently being implemented are lost, because they do not address sector level concerns. Clearly, a lot of work is needed to document these reform processes, how they interact with existing sector systems and how they can be improved to benefit sector delivery of outputs.

Donor involvement: Donor programmes need to be more flexible to adjust the changing environment and experience. Commitment to aid flows before budget planning would help to improve resource allocation. The bias against financing maintenance and salaries should be reduced, especially in light of the needs and pledges, for doubling aid to Africa.

Macroeconomic policy stance: High interest rates associated with inflation targeting result in high financing costs for public and private investment in infrastructure and service delivery. The pursuit of a balanced budget policy limits possibility for more resource allocation to vital public services, which undermines growth.

Institutions: To achieve good governance for delivery of health, education and infrastructure both formal and informal institutions need to be strengthened. Strong institutions are needed notably to increase transparency, which is essential for efficient service delivery. The public can hold decision-makers accountable if the use of resources is made transparent and the resources allocated to a specific project and the expected results are published. Preconditions for transparency and accountability include an information system for tracking expenditure, and the provision of information to the public in a way that is understandable to everyone, for example through publishing budget and programme documents in local languages.

Public participation in the budget process and service delivery: A legal framework for participation is needed. In particular, better information is needed to monitor performance at the local level. The right to demand better service delivery needs to be protected.

Decentralization: Decentralization should be implemented more quickly and according to mechanisms that enable people to be heard directly at the local level. There also needs to be greater coherence between responsibility for service delivery and control over revenue at the local level. Effective decentralization will require strategies to build capacity at the local level in the areas of planning and management of service delivery.

Private sector participation: While private sector participation can provide much needed boost to public services delivery, its impact is limited as it tends to concentrate on profitable activities. Establishing rules and regulations for the involvement of the private enterprises and civil society organizations are key to the success of this involvement.

Regional integration: A regional approach to infrastructure provision should be encouraged to make use of economies of scale and network externalities. Joint financing can increase availability of funds but this will require harmonization of regulations and strong political commitment.

Table A1: Selected MDG indicators, 1990/91-2004

	net primary school enrollment		under 5 mortality		access to improved drinking water		acces to improved sanitation	
Country	**1991**	**2004**	**1990**	**2004**	**1990**	**2004**	**1990**	**2004**
Algeria	88.8	96.7	69	40	94	85	88	92
Angola	50.3		260	260	36	53	29	31
Benin	41	82.6	185	152	63	67	12	33
Botswana	83.4	82.1	58	116	93	95	38	42
Burkina Faso	29.2	40.5	210	192	38	61	7	13
Burundi	52.9	57	190	190	69	79	44	36
Cameroon	73.6		139	149	50	66	48	51
Cape Verde	91.1	91.8	60	36		80		43
CAR	51.9		168	193	52	75	23	27
Chad	34.7		203	200	19	42	7	9
Comoros	56.7		120	70	93	86	32	33
Congo	79.4		110	108		58		27
Congo, Rep.	54.1		205	205	43	46	16	30
Cote d'Ivoire	44.7		157	194	69	84	21	37
Djibouti	28.7	32.8	163	126	72	73	79	82
Egypt	84.1	95.4	104	36	94	98	54	70
Equatorial Guinea	90.6		170	204		43		53
Eritrea	15.5	47.8	147	82	43	60	7	9
Ethiopia	22	46.4	204	166	23	22	3	13
Gabon	85.5		92	91		88		36
Gambia	48	75.2	154	122		82		53
Ghana	53.7	57.9	122	112	55	75	15	18
Guinea	27.2	63.8	240	155	44	50	14	18
Guinea-Bissau	38.1		253	203		59		35
Kenya		76.4	97	120	45	61	40	43
Lesotho	71.5	85.9	120	82		79	37	37
Liberia			235	235	55	61	39	27
Libyan Arab Jamahiriya	95.9		41	20	71		97	97
Madagascar	64.2	88.8	168	123	40	50	14	34
Malawi	48.4	95.3	241	175	40	73	47	61
Mali	20.9	46.5	250	219	34	50	36	46
Mauritania	35.3	74.3	133	125	38	53	31	34
Mauritius	91.3	95.1	23	15	100	100		94
Morocco	55.9	86.1	89	43	75	81	56	73
Mozambique	42.8	71	235	152	36	43	20	32
Namibia			86	63	57	87	24	25
Niger	22.3	39.2	320	259	39	46	7	13
Nigeria	57.8	60.1	230	197	49	48	39	44
Rwanda	66	73.2	173	203	59	74	37	42
Sao Tome and Principe		98.2	118	118		79		25
Senegal	43.5	66.1	148	137	65	76	33	57
Seychelles		96.43	19	14	88	88		
Sierra Leone	43.3		302	283		57		39
Somalia	9		225	225		29		26
South Africa	89.5		60	67	83	88	69	65
Sudan	40		120	91	64	70	33	34
Swaziland	77.1		110	156		62		48
United Rep. of Tanzania	49.4	85.9	161	126	46	62	47	47
Togo	64	78.8	152	140	50	52	37	35
Tunisia	94.1	97.4	52	25	81	93	75	85
Uganda			160	138	44	60	42	43
Zambia		79.8	180	182	50	58	44	55
Zimbabwe			80	129	78	81	50	53
Sub-Saharan Africa	**53**	**64.2**	**185**	**168**	**49**	**56**	**32**	**37**
Northern Africa	**80.6**	**94**	**88**	**37**	**89**	**91**	**65**	**77**

Source: UN 2007.

Table A2: Public expenditure in health and education, 1999 and 2003

	Expenditure per student, primary (% of GDP pc)		Expenditure per student, secondary (% of GDP pc)		Health expenditure pc (current US$)	
	1999	2003	1999	2003	1999	2003
Angola					15.0	26.0
Benin	12.9 [a]	12.2 [b]	26.1 [a]	22.1 [b]	16.0	20.0
Botswana					138.0	232.0
Burkina Faso					15.0	19.0
Burundi	13.2	17.7		76.9	4.0	3.0
Cameroon	8.5		18.6		31.0	37.0
Cape Verde		17.9		21.7	61.0	78.0
Central African Republic					10.0	12.0
Chad	11.0		33.6		11.0	16.0
Comoros	12.9	12.4 [b]		33.9 [b]	11.0	11.0
Congo, Dem. Rep.					8.0	4.0
Congo, Rep.	17.0	7.9 [b]		18.3 [b]	17.0	19.0
Cote d'Ivoire	17.4		54.5		39.0	28.0
Equatorial Guinea					46.0	96.0
Eritrea		11.1		27.6	8.0	8.0
Ethiopia					5.0	5.0
Gabon					165.0	196.0
Gambia, The		8.9		10.3	24.0	21.0
Ghana					22.0	16.0
Guinea	11.4				20.0	22.0
Guinea-Bissau					8.0	9.0
Kenya	27.6 [a]	29.4	18.4 [a]	23.1	16.0	20.0
Lesotho	31.1	20.8 [b]	69.1	48.6 [b]	28.0	31.0
Liberia					10.0	6.0
Madagascar	9.5		39.9		5.0	8.0
Malawi		14.4		30.3	16.0	13.0
Mali	15.8		61.6		11.0	16.0
Mauritania	14.4		45.4		10.0	17.0
Mauritius		13.6		20.3	113.0	172.0
Mozambique					11.0	12.0
Namibia	22.8	21.3	37.4	25.5	127.0	145.0
Niger	28.0 [a]	19.0 [b]	88.4 [a]	64.3 [b]	8.0	9.0
Nigeria					17.0	22.0
Rwanda	7.4 [a]		28.4 [a]		11.0	7.0
Sao Tome and Principe					34.0	34.0
Senegal	16.0				21.0	29.0
Seychelles		15.0		16.6	431.0	522.0
Sierra Leone	21.5 [a]				5.0	7.0
Somalia					9.0	
South Africa	15.3	13.3	21.5	19.3	257.0	295.0
Sudan					13.0	21.0
Swaziland	9.5	11.0	26.7	47.4	87.0	107.0
Tanzania					11.0	12.0
Togo	10.0	6.7 [b]	30.9		16.0	16.0
Uganda		11.6 [c]		34.9 [c]	16.0	18.0
Zambia	7.3 [a]	9.3 [c]	19.9 [a]	11.9 [c]	17.0	21.0
Zimbabwe	13.2 [a]		20.0 [a]		36.0	40.0
Algeria	12.2	11.3		17.1	61.0	89.0
Djibouti					40.0	47.0
Egypt, Arab Rep.					73.0	71.2
Libya	3.0				211.0	171.0
Morocco	19.7	19.2	51.4	49.1	56.0	72.0
Tunisia	15.4 [a]	15.5 [b]	26.7 [a]	23.6 [b]		126.0
Africa average	**15.6**	**15.8**	**34.8**	**29.8**	**38.6**	**44.4**

Source: World Bank. 2006b.

Notes: a - data for 2000, b - data for 2002, c - data for 2004

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