

**Solutions when the Solution is
the Problem:
Arraying the Disarray in
Development**

By Lant Pritchett and
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Abstract

The welfare of the poor turns in large measure not only on technocratic development “policies”, but the effective delivery of key public services, core elements of which require thousands of face-to-face discretionary transactions (“practices”) by service providers. The importance of (often idiosyncratic) “practices” was largely ignored in the 1960s and 70s, however, as planners in developing countries sought to rapidly emulate the service delivery mechanisms of the developed countries, namely standardized (top-down) “programs” managed by a centralized civil service bureaucracy. Although this approach could claim some notable successes in poor countries, it soon became readily apparent that it had failed early and often in virtually all sectors. Three common civil service reforms in the 1980s also yielded disappointing results, so in the 1990s scholars and practitioners began to tout more radical “participatory” (or bottom-up) proposals for improving service delivery. These new proposals have generated a series of unusual alliances and antagonisms in contemporary development debates. We attempt to unravel these debates by distinguishing between the original solution and eight current proposals for improving service delivery, on the basis of a principal-agent model of incentives that explores how these various proposals change flows of resources, information, decision-making, delivery mechanisms, and accountability. We briefly assess the arguments made by proponents and detractors of each approach, and suggest some of the implications of this framework for education, research, and those charged with improving service delivery.

Solutions when *the* Solution is the Problem:
Arraying the Disarray in Development*

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Amartya Sen¹

The emphasis on empowerment is troubling [because it is, among other things,] clearly outside the [World] Bank’s mandate [and promotes its] entry into domestic politics... [This is an area in which] it has no experience or competence.

T.N. Srinivasan²

Impact evaluations show that social fund resources are pro-poor, and that targeting has improved over time.

Julie van Domelen³

The evidence raises questions about the effectiveness of [social funds] as a safety net for the poor and, more significantly, about the presumed greater desirability of [social funds] as an alternative to traditional government supply, or reformed versions of it.

Judith Tandler⁴

This paper emerges from a puzzle among development practitioners and scholars—namely, why so many otherwise reasonable, articulate, and experienced people arrive at such vastly different and sharply divisive interpretations of the merits of new proposals to improve public service delivery under the broad banner of “participatory development”. The variety of items on this new menu is broad—“Participation”, “Social Funds”, “Community Driven Development”, “Empowerment,” “Decentralization”, “NGO provision”, “Contracting out”—but the reviews of the new dishes vary widely. Some rave that the new menu items are the greatest thing since bread was sliced, while other critics pan them as not fit for consumption, and others deem them to be in violation of purity norms.

Beyond a broad agreement that the proposals represent an attempt to move beyond the “Washington consensus” and to find a way to “make institutions work”, to show that “context

¹ Sen (1999: 247)

² Srinivasan (2001: 124-25, 128)

³ von Domelen (2002: 627)

⁴ Tandler (2000: 115)

matters” and that “one size doesn’t fit all”, there is tremendous disarray in the field⁵: indeed, at times it is hard to even know who is disagreeing with whom, and why. Unlike most divides in development (and elsewhere), in which partisans line up more or less predictably along disciplinary, methodological, or political lines, participatory development seems to have exposed new schisms. For example, critics on the “left” like James Scott (1998), in *Seeing Like a State*, provide damning critiques of the impact of governments, while those on the “right” like Hernando de Soto (2000), in *The Mystery of Capital*, end a book extolling the virtues of property rights with an appeal to the power of marginalized people to overcome the established order and create new legal institutions for safeguarding their property. At the same time, the debate over the performance of social funds in Latin America (van Domolen 2002; cf. Carvalho, Perkins, and White 2002; cf. Tendler 2000a) has created sharp division among those with otherwise similar political and ideological predispositions (“pragmatic center/left”), while critics who ordinarily share *none* of these said dispositions (e.g., Srinivasan, 2001 and Cooke and Kothari, 2001) unwittingly find common cause in attacking notions such as “empowerment”.

Our modest goal in this paper is to outline a conceptual framework that arrays the disarray in recent development initiatives, with the goal of improving policy dialogue and effectiveness, and with it greater coherence in development research and teaching as it pertains to the provision of public services. The paper proceeds as follows. In section one we consider the broad areas of agreement and disagreement among those proposing strategies for improving service delivery in developing countries, and define the limits of what we are, and are not, going to discuss. Our primary concern is with *key* services in which the government has compelling interests in engagement, and “how”—rather than “what”—it should deliver. To this end, we distinguish analytically between both the degree of *discretion* and *transaction intensiveness* entailed in providing a given service, using this to frame a discussion of development “policies”, “programs”, and (what we shall call) “practices”. We then consider five critical elements of service delivery—resources, information, decision-making, delivery mechanisms, and accountability—variations on which can be used to array traditional and current proposals for improving service delivery. In section two we lay out the basic problem of service delivery as it was originally conceived, and the characteristics of the single solution that was routinely invoked to solve it; we then explain the common structures of the failure of that approach in sector after sector, and the three “solutions” that were devised to address those failures. These three “solutions” also failed, however, which provides the background for section three, in which we outline eight contemporary approaches to reforming public service delivery: (1) Supplier Autonomy; (2) Single Sector Participatory; (3) Contracting Out; (4) Decentralization to States/Provinces; (5) Decentralization to Localities/Municipalities; (6) Demand-Side Financing; (7) Social Funds; and (8) Community-Driven Development. Section four concludes, with a brief discussion of the implications of our analysis for contemporary development education, research, policy, and program design.

1. Agreements and Disagreements in Public Service Delivery Debates

⁵ The area we address is a subset of the larger issue of the general slow progress in the “second generation reforms”(Naim, 1994; Navia and Velasco, 2002).

Despite appearances to the contrary, the factions in contemporary development debates share a fair degree of consensus (cf. Kanbur, 2001). First, most agree the debate about the “Washington consensus” is blown far out of proportion.⁶ Sometimes it seems that 90 percent of the ink spilled addresses 10 percent of the development battle; in the end, no matter who is right about trade policy, fiscal deficits and the like, these policies do not add up to anything like a complete development agenda. As Rodrik (1999) and others have rightly argued, policies such as trade openness need to be seen as *part of*, not a *substitute for*, a coherent development strategy. Even the “augmented Washington consensus” that adds the provision of some key services (like education) to the standard policy agenda leaves wide open the question of *how* things will actually be accomplished. In general economists have focused their tools on the question of *what* governments should do, with relatively less attention given to the economics and politics of *how* to accomplish the “what.”

Second, most agree that the (perhaps very) long-run goal is to ensure that the *provision* of *key* services such as clean water, education, sanitation, policing, safety/sanitary regulation, roads, and public health is *assured* by effective, rules based, meritocratic, and politically accountable public agencies⁷—that is, something resembling Weberian bureaucracies⁸. We call such a world “Denmark.”⁹ By “Denmark” we do not, of course, mean Denmark. Rather, we mean the relatively homogenous, common core of the structure of the workings of the public sector in countries usually called “developed” (including new arrivals like Singapore). To be sure, there are numerous variations on the core “Denmark” ideal; indeed, remarkably similar performance outcomes are delivered by different, and culturally distinctive, institutional forms—e.g. Denmark, New Zealand¹⁰, Germany, and Japan. The historical evidence is surely that while development is likely to entail a “convergence” in terms of institutional performance *outcomes*, the precise *form* those institutional arrangements actually come to take in each country will

⁶ An exception is Fine, Lapavistas, and Pincus (2001) and Stiglitz (2002).

⁷ There are two key terminological devices in the sentence that allow us to claim consensus. First, we say that *provision* is *assured* by a public agency. This is consistent with production being entirely in the hands of private firms. Even the most radical proposal for an entirely voucher based system of education with no public production of schooling at all, for example, would still have some public agency that supervised and regulated the process to assure provision. Second, we refer to *key* services—without specifying any particular model for determining which activities are “key”. We are *not* asserting that “key services” are “public goods” (in the economist sense) nor are we asserting any other technocratic definition (e.g. public health specialists designate a “key” set of services), nor that any service that becomes publicly provided as the result of any political process is therefore “key.” We are saying that, however one defines “key” services, public responsibility for provision is a consequence.

⁸ We use the term Weberian, though of course “the West” did not invent the public sector bureaucracies that Weber described; China and India have had bureaucracies for thousands of years.

⁹ The real Denmark, it should be noted, is presided over not by a cold all-encompassing bureaucratic state, but an interesting mixture of (latent) royalty, clean democratic government, and vibrant community input.

¹⁰ We want to stress that we are not ignoring the “new public management” literature (e.g., Moore, 1996; Barzelay, 2001) made famous by New Zealand’s sweeping public sector reforms or the “reinventing government” (Osborne and Gaebler, 1993) movement in the USA. These types of reforms, however, build on a fundamentally successful set of public services and seek to make them even better (e.g. more cost efficient, flexible), and as such do not directly address the problems associated with the dysfunctional or inadequate public services characteristic of most developing countries.

continue to be as varied as the countries themselves.¹¹ Indeed, as we argue in detail below, the strategy of “skipping straight to Weber”—i.e., of seeking to quickly reach service delivery performance goals in developing countries by simply mimicking (and/or adopting through colonial inheritance) the organizational forms of a particular “Denmark”—has in fact been a root cause of the deep problems encountered by developing countries seeking to deliver key public services.

Third, most agree that while *the* solution of “skipping straight to Weber” has had some notable successes, it has also often failed—badly¹². That is, development activities (in general, and those supported by development agencies in particular) have almost uniformly attempted to remedy problems of “inadequate services”¹³ (in infrastructure, education, health, law enforcement, regulation) by calling upon a centralized bureaucracy to supply a top-down and uniform public service. These decisions to “skip straight to Weber” were historical, social, and political processes whereby the interactions between citizens, the state, and providers were simply overlooked. *The* solution was a coherent approach to service delivery in which a universal need was met by a technical (supply) solution, and then implemented by an impersonal, rules driven, provider. That is, “*need* as the problem, *supply* as the solution, *civil service* as the instrument” became the standard organizational algorithm for solving public services concerns.¹⁴

This approach has had some clear successes (e.g., eradicating polio), but the (more numerous) failures have caused most practitioners in developing countries to doubt its universal applicability as *the* solution.

¹¹ To be clear: we are *not* invoking some neo-modernization theory argument that the institutions of developing countries should aspire to “look like” or emulate the institutional features of the West. Contra the claims of those who fret that development amounts to “Westernization” (or “colonialism by other means”), in fifty years time Vietnam’s institutions for public service delivery will most likely just be better versions of what they are today, not pale imitations of those in Switzerland. This approach also suggests that it is vital to understand how the idea and structure of viable public service institutions evolved historically (on this, see Szreter, 1997 and Chang, 2002). The United States civil service, for example, has not always been a model of what we would now call “good governance”. Until the 1880s, public servants appointments were openly familial and political (Wilson, 1989).

¹² We do not paint an entirely bleak picture as there have been successes. The expansion of educational access and the reduction in mortality have led to revolutionary improvements in human welfare. However there are failures of several kinds: pure failure, in which the services do not actually function even when the physical facilities are present; and the failure to build on earlier successes in the expansion of physical access to basic services to the more qualitatively more difficult stages of providing “high quality” services. The analysis below hopes to explain the successes and failures.

¹³ As we emphasize below the idea of “inadequate services” generally characterized those services provided by communities or informal mechanisms (that is, not directly provided by the civil service apparatus of the state) as “inadequate”—or ignored them entirely (Ostrom, 1994).

¹⁴ Thus the three steps: *Step one*, define the goal as a “need”—children “need” education, people “need” water, farmers “need” irrigation, citizens “need” health care. *Step two*, find the least-cost supply solution to the need. To be “least cost”, the solution will have to be standardized so that it can be replicated quickly and reliably, and managed efficiently. This generates an imperative toward a standardized format for schools, for primary health clinics, for roads, for water supply. *Step three*, implement this solution nationally via the public sector and thus by funding (and if necessary expanding) the “civil service”—a hierarchical, impersonal, rule based organization.

Fourth, most agree that the new solutions to *the* solution (which has now become “the problem”) will have two features: (a) they will embody something like what is conveyed by terms such as “empowerment”, “participation”, “accountability”, “transparency”, or “good governance”; and (b) how the principles are actually embodied in concrete organizational forms will involve a great deal of institutional heterogeneity—one size clearly will *not* fit all in countries as different as Canada, Chad, China, and Costa Rica.

These broad areas of consensus (which we generously presuppose), however, still leave plenty of room for serious disagreement. “One size does not fit all” does not mean that “any size fits any”, implying that anything goes and any design is as likely to be successful as any other. “One size does not fit all” is a platitude without guidance as to *which* size fits *which*. Moreover, even if “Denmark” is the agreed upon destination, when the starting point is anywhere from Mexico to Moldova to Mozambique it should not be all that surprising that attempts to map out the best route for getting there, and identifying the necessary provisions for the journey, generate deep differences of opinion. Is “participation” the new solution to improving project design, or a new form of tyranny (Cooke and Kothari, 2000)? Are “social funds” the new instrument to promote local development, or an inconvenient but comfortable detour (van Domelen, 2002)? Do services implemented through local community organizations more effectively include or marginalize the poor (Gugerty and Kremer, 2000)?¹⁵ Is “decentralization” the answer to “bringing the government closer to the people”, or a cynical ploy to cut deficits (Tendler, 1997, 2000b)? Is “social capital” a potentially useful analytical tool for designing more effective services, or an attempt to avoid politics (Harriss, 2002)?¹⁶ Is the increased engagement of NGOs in policy dialogue encouraging openness and accountability, or is it (as some have argued) the biggest threat to democracy the world faces? With so many alternatives on the table and the free debate of all against all, the disagreements cut across disciplinary and even ideological lines (with the “hard left” and “hard right” critiques often agreeing against the “soft left”). How can one make sense of all this confusion?

We propose that a helpful array of the disarray can be found in an analysis that begins with the evolution of the theory and practice of public service delivery, in particular the manner in which manifest failures were explained and the corresponding “solutions” justified. We argue that the variety of alternatives now on the table is a direct response to these “solutions”, which themselves became “the problem”.

1.1 Key, Discretionary, Transaction-Intensive Services: A Basic Framework

Our focus in this paper is on the provision of key, discretionary, and transaction-intensive public services. *Key* services are those for which there is a broad consensus that some type of government action is necessary, desirable, and/or inevitable—this includes absolutely essential functions such as ensuring law and order and maintaining a means of payment, through to development programs that have a strong “rationale for public sector involvement”, like

¹⁵ For an extended review of the successes and limitations of community-based targeting mechanisms in development projects, see Conning and Kevane (2002).

¹⁶ On social capital’s intellectual and policy career at the World Bank, and the various debates it has generated, see Bebbington, Guggenheim, Olson, and Woolcock (2002).

irrigation, sanitation, improved water supply, and components of education and health.¹⁷ Even if these services are, in principle, able to be provided by the private sector, it is highly unlikely the government could escape assuming major responsibility for them if/when they failed (e.g., California’s recent electricity crisis).¹⁸

Services are *discretionary* to the extent that their delivery requires decisions by providers to be made on the basis of information that is important but inherently imperfectly specified and incomplete, thereby rendering them unable to be mechanized. As such, these decisions usually entail extensive professional (gained via training and/or experience) or informal context-specific knowledge¹⁹. In the process of service delivery, discretionary decisions are taken which are crucial to a successful outcome; the right decision depends on conditions (“states of the world”) that are difficult to assess (*ex ante* or *ex post*), and hence it is very difficult to monitor whether or not the right decision was taken.

Transaction intensiveness refers simply to the extent to which the delivery of a service (or an element of a service) requires a large number of transactions, nearly always involving some face-to-face contact. School lunch programs, for example, require numerous cooks and cleaners to show up every day to individually prepare and distribute hundreds of meals in a hygienic environment; a small committee at a single meeting, on the other hand, can draw up the monthly menu.

Key services, then, contain elements that can be either discretionary or non-discretionary, *and* transaction intensive or non-transaction intensive. These distinctions generate a simple but useful analytical 2x2 classification (see Table 1), that in turn helps distinguish between some familiar staples of contemporary development discourse, namely “policies”, “programs”, and what we shall call “practices”²⁰.

¹⁷ We exclude a variety of services about which debate rages as to whether public sector involvement is necessary or even desirable, such as provision of finance (or micro finance), provision of housing, etc. We exclude these not because we have a strong view as to whether governments should or should not engage in these activities, but rather because we wish to avoid debate about this question of “what” governments should do in favor of the question of *how* services can be delivered.

¹⁸ We are self-consciously linking across long-standing literatures about organizational and institutional design in economics (Arrow, Simon), public administration (March), and private business organizational design (Milgrom and Roberts) to relate these to the problems in the delivery of key services. We are trying to create a minimalist vocabulary that reflects these concerns.

¹⁹ Forgive us the potential confusion as “discretionary” more appropriately refers to the *mode* of the arrangement of an activity (which, at some level, is an endogenous choice) while we are using the term to refer to the underlying characteristics of the activity that lead it to be provided in a discretionary manner (or suffer losses from not being provided with arrangements that provide for discretion).

²⁰ We have chosen the term practices as it evokes (a) what are typically small scale arrangements for the provision of professional services—e.g., medical and legal practices, (b) the notion of informal patterns of behavior that rely on local conditions or cultures—the local practice, and (c) the idea of repetitive action (unlike policies that might require only occasional action) but which cannot be codified into a defined algorithm. The fourth logical possibility produced by our table, “procedures” (non-discretionary, non-transaction intensive decisions) refers to invariant rules. We do not discuss them in any detail because such decisions are usually fully automated (i.e., require minimal human involvement of any kind).

We call discretionary but not transaction intensive activities *policies*. The clearest policy examples are in macroeconomics—lowering (or raising) the interest rate, devaluing (or not) the currency, setting a fiscal deficit target. These are all actions that intrinsically involve assessing the state of the world and taking an appropriate action, but implementation capacity is not the key issue as the implementation itself is not transaction intensive. The politics of policy reform may (or may not) require mass support, but “ten smart people” can handle the actual mechanics of policy reform. Their decisions require considerable professional training and judgment, and thus cannot be automated. Alan Greenspan is a maestro, not a machine.²¹

In contrast, *programs* require thousands or millions of individual transactions and hence thousands or tens of thousands of “providers”, but each transaction can be (reasonably) carried out with relatively little discretion on the part of the agent responsible for implementation. In financial matters, an example is retail banking transactions, many of which can be carried out by a junior clerk (or for the most routine transactions, a machine)²². To implement a “program” the agents of the organization need only to stick to a relatively fixed “script” (Leonard, 2002; Dobbin, forthcoming), in which the choices are few and judging the choice appropriate to the situation relatively easy. The primary problems with programs are *technical* (finding an effective and least cost solution) and *logistical* (carrying out the mandated actions reliably).

| Table 1: Classifying Modes of Decision-Making in Key Public Services | | |
|--|---------------|---------------------|
| | Discretionary | Non-Discretionary |
| Transaction Intensive | Practices | Programs |
| Non-Transaction Intensive | Policies | (Procedures, Rules) |

The provision of those elements of services which are (more or less) discretionary *and* transaction intensive—“practices”—provide the biggest headache for even the most astute and well-intentioned practitioner²³, because they are intrinsically incompatible with the logic and imperatives of large-scale, routinized, administrative control²⁴. An analogy from private sector

²¹ The idea of Greenspan as macroeconomic “maestro” comes from Woodward (2000).

²² The name “programs” has the advantage of following the usual development nomenclature (of policies versus practices) but also invoking the idea of a computer program.

²³ Our rendering of “practices” should not be confused with Sunstein and Ullmann-Margalit’s (1999) intriguing notion of “second-order decisions”, which they define as the various strategies adopted in complex environments (by key actors such as judges, politicians, administrators) to avoid actually having to make discretionary decisions.

²⁴ In policing, for example, “studies identified the enormous gap between the practice and the image of policing. They identified problems in policing that were not simply the product of poor management, but rather reflections of the inherent complexity of the police job: informal arrangements ... were found to be more common than was compliance with formally established procedures; individual police officers were found to be routinely exercising a great deal of discretion in deciding how to handle the tremendous variety of circumstances with which they were

production is activities that can be either carried out in a large bureaucratic setting or via a franchise (which in direct production have the element of *programs*)—fast food restaurants, car dealerships—versus those activities that are not amenable to large-scale routinization—witness the generally small size (relative to the national market) of most law firms, physician practices, universities, household contractors, counselors, and coaches²⁵.

While given sectors have relatively more or less of the three types of activity, it is not the case that “education” is discretionary and “health” is not; rather, within every sector there are examples of each in different stages of the service provision process (see Table 2). For example in health, providing some individualized services, such as immunization, in which the appropriate action is nearly the same for each individual of a given age (which is easily observed), can be carried out as a *program*. In contrast, the provision of curative medical or psychological services, in which the provider is available for and responds to the complaints presented by individuals, requires a *practice*.

| Table 2: Examples of Discretionary and Transaction Intensive Services | | | |
|---|---|--|---|
| <i>Sector</i> | <i>Discretionary, not Transaction Intensive (technocratic “policies”)</i> | <i>Discretionary and Transaction Intensive (idiosyncratic “practices”)</i> | Transaction Intensive, not Discretionary (<i>bureaucratic “programs”</i>) |
| Commercial Banking | Setting deposit rates | Approving loans to small businesses | Taking in deposits |
| Social Protection | Setting eligibility criteria | Determining eligibility of marginal/special cases | Issuing checks to the eligible |
| Law Enforcement | Law making defining criminal behavior | Handling individual conflict situations | Directing traffic |
| Education | Curriculum design | Classroom teaching | Providing school lunches |
| Health | Public information campaigns | Curative care | Vaccinations |
| Irrigation | Location of main canals | Allocation of water flows | Providing standpipes “in every village” |
| Central Banks | Monetary policy | Banking regulation | Clearing house |
| Agricultural Extension | Research priorities | Communication with farmers | Dispensing seeds |

“Policies”, then, are primarily technocratic; “programs” are primarily bureaucratic; and “practices” are primarily idiosyncratic. Large organizations, by nature and design, are essentially constrained to operate exclusively in terms of “policies” (determined by “ten smart

confronted” (Goldstein, 1990: 8).

²⁵ The exception in the “coaching” industry (e.g. music lessons, sports instruction) is the courses that prepare students for a standardized exam.

people”) and/or “programs” (implemented by “ten thousand sincere bureaucrats”). Successful “practices”, when discovered and appreciated by such organizations, immediately gives rise to a search for other instances, which can then be scrutinized by experts to discern their “policy implications”, and/or codified by rank and file staff into a “best practices”²⁶ handbook and training manual for standardized replication. In many instances, of course, it is entirely desirable that innovative discoveries and effective solutions to universal problems (e.g. hand-washing) be rapidly disseminated; as we have defined them, however, “practices” are *by definition* not able to standardized and (easily) replicated. Diligent teachers might share tips about what seems to work in the classroom, and the wider dissemination of those tips may have a small positive impact, but the everyday act of teaching entails making innumerable discretionary and transaction-intensive decisions, the effective execution of which are deeply embedded in the teacher’s (idiosyncratic) personality and professionalism, and the nature of the particular institutional context.

1.2 Elements of Service Delivery and the Principal-Agent Problem Revisited

We argue that effective service provision depends on the structure of incentives facing providers and recipients, which in turn are shaped by five central elements (see below). Comparing these elements helps discriminate between *the* solution of old (need as problem, supply as solution, civil service as instrument) and the new menu of solutions.

- (a) *Resources*. Where does the budget of the service providers come from?—revenue from clients, budgetary allocations, some mix? Who retains control of the budget flows at what level?—centrally allocation to functions, discretion at the “point of service”?
- (b) *Information*. Does information flow to and/or from the top? To whom (if anyone) is information disseminated?
- (c) *Decision-making*. What is the scope of decision-making? Over what items do providers have *de jure* and/or *de facto* control?
- (d) *Delivery Mechanisms*. To whom is the service actually provided?—individuals, groups? By whom?—providers in large bureaucratic organizations? Are any third party intermediaries involved?—small groups, staff of non-government organizations?
- (e) *Accountability*. To whom are service providers accountable? What power do they have?—hire and fire, reassignment, compensation?

Economists (and others) will recognize these five elements as exactly the central items identified in the context of institutional solutions to the “principal-agent” problem. This problem arises whenever one actor called the principal (e.g. a firm) with one objective (e.g. profit maximization) contracts with another actor, called the agent (e.g. an employee), to undertake a

²⁶ Less ambitiously, it is now becoming increasingly common to talk of “good practice”.

task that affects the principal's objective function, knowing the agent may have a different objective function (e.g. leisure).²⁷ In this case the problem facing the principal is how to structure the incentives for the agent so that the agent's best interest, given those incentives, leads to desirable outcomes for the principal. Even within a purely market organization there are principal-agent problems that deal with resources (what does the agent work with?), information (how does the principal observe agent effort and outcomes?), decision-making (which decisions are made by the agent, which by the principal?), delivery mechanisms (who does the agent interact with?), and accountability (how does the payoff to the agent depend on the agent's performance?).²⁸

The provision of key, discretionary, transaction-intensive services through the public sector is the mother of all institutional and organizational design problems, however, for three reasons. First, there are many levels of the problem, each of which can fail: the multitude of citizens (as "principals") must somehow constrain the government (as an "agent" to the citizen) to provide services. But then the government (as "principal") must constrain the behavior of its many departments (as "agents") to act in the government's best interest, and then each of these departments (e.g. water, education, police) must act as a principal to constrain the behavior of its many employees (see Wilson, 1989). This necessarily complex structure of the public sector, with millions of citizens and tens of thousands of employees, requires institutional and organizational patterns that structure the interactions.

Second, many activities are in the public sector precisely because the market would fail or because it is not desirable for the citizens to bear the full cost of the service. This implies that many means of disciplining workers available to a market organization (e.g. competition for sales) or to the market as an institution (e.g. competition among alternatively structured organizations) are not available to the public sector. So, while making consumers bear the full cost of educational services might improve pressures for performance of teachers, it would defeat the very objective of government involvement in education (see Pritchett, 2002).

Third, we are focusing on services where discretion is a necessary part of effective service delivery, so taking discretion away from agents as a means of control, while it might have advantages in terms of reducing the abuse of discretion, also has disadvantages in terms of performance outcomes.

Services that are both discretionary and transaction-intensive are at the heart of the development problem *because* there are no easy or obvious solutions. These problems have all the key elements that make "principal-agent" problems so difficult, and more. Service providers have discretion over actions that are difficult to observe, which creates contracting problems even in private sector organizations²⁹. But since the problem is in the public sector, multiple

²⁷ For an attempt to provide an interdisciplinary account of organizational behavior—one stressing game theory, leadership, and cooperation within a core principal-agent framework—see Miller (1992).

²⁸ This is not to say, of course, that a principal-agent analysis exhausts the complexity of the service provision problem.

²⁹ The same elements of the difficulty of observation and the need to create incentives explains why some activities

levels of interaction must be addressed simultaneously: between citizens and the government, between government and agencies, between agencies and its employees/contractors (the providers), and between citizens and providers, and public authorities.

Moreover, valuable local “practices”—idiosyncratic knowledge of variables crucial to the welfare of the poor (e.g., soil conditions, weather patterns, water flows)—get squeezed out, even lost completely, in large centralized development programs designed to address these issues (cf. Ostrom, 1990; Scott, 1998). The myriad informal “practices” that indigenous communities in particular have evolved over the millennia to address these concerns may be clearly ill suited to the complexity and scale of modern economic life, but the transition from one set of mechanisms to the other cannot be made in a single bound. While not attempting the transition at all is a prescription for continued poverty, revolutionaries from Stalin to Mao to Nyerere to contemporary “shock therapists” have imagined that it was actually possible and desirable to ruthlessly “skip straight to Weber”—but with patently disastrous results. In the murky middle ground between the public services and risk management systems of “Djibouti” and “Denmark” lies the need for a much more delicate articulation of the two, an articulation that the technocrats and bureaucrats of large development (and other) agencies inherently and inevitably struggle to resolve.

These more graphic examples of large-scale bureaucratic disaster, however, have their counterpart in a host of smaller everyday instances of repeated failure by standardized delivery mechanisms to provide basic services to the poor. Some of these problems, of course, stem from the fact that in many instances the state itself (for whatever reason) was unable and/or unwilling to provide the services that citizens wanted. Our concerns, however, apply to systemic services failures that routinely occurred even in settings where intentions and resources were reasonably good. These failures, it turns out, had a common structure.

2. The Common Structure of the Failure of the Solution

The basic problem with the “needs/supply/civil service” solution is that it treated all problems as amenable to the logic of “policies” and “programs”. How does *the* solution structure the key elements of resources, information, decision-making, delivery mechanisms, and accountability? *Resources* are centralized and canalized. The center collects nearly all resources from general taxes, rents, or aid—there are few user fees or local taxes—and then allocates them into budgets of line ministries. *Information*, if it exists at all, is tightly controlled and only flows internally and upward (not horizontally). *Decision-making* is done primarily by government agencies and their agents, with the discretion of local agents, at least on paper, tightly controlled by rules, regulations, and mandates from the top. *Delivery mechanisms* are via line agencies that reach directly from center to the service provider. *Accountability* of the service providers flows internally and upward, with accountability to the citizens occurring only via whatever political mechanisms exist for expressing discontent (which may be tightly limited in autocratic, authoritarian, and totalitarian regimes).

are (generally) in large organizations while others are carried out in relatively small scale enterprises.

Consider rural water supply. At first glance this seems like a perfect case for the “needs-supply-civil service delivery” paradigm. After all, what could be more of a “need” than a biological necessity like water, especially when the health consequences from insufficient or contaminated water sources are so obviously harmful? What problem could more clearly have a supply-side solution—like developing a low-cost engineering “appropriate technology” such as a public standpipe that can be made available to all at virtually no cost (since, after all, no one can be denied a *need*)? “Safe Water For All”—what agenda could be more obviously necessary and more eminently *doable*?

The first round of government intervention was to launch discrete (often donor funded) projects that would create simple and inexpensive public standpipes. Sometimes it succeeded, but sometimes it failed—badly. One recent review of 12,000 standpipes showed that breakdown rates fell from 50 percent when maintenance was the responsibility of the national water corporation, to 11 percent when it was under community control (Narayan, 1995). But the importance of community input was not the conclusion reached from the first round of failures: rather, they were attributed to proximate causes and imperfect project design, and so a new round of “better of the same” solutions were launched—better training, better technology, better central funding for maintenance. Only after *at least* the second round of failures were the failures recognized as systemic.³⁰

Three systemic failures were even generic in rural water supply projects. First, decisions about the location and design of the project were made on a “technocratic” and “expert” basis almost exclusively; there was little effort to incorporate local knowledge (that was often tacit). This led to insufficient knowledge about local conditions being taken into account and hence technological mistakes were common. This was *systemic* in that improvement was not simply a matter of identifying “better” expert decisions; failure was inherent in the design of projects that did not allow for or encourage beneficiary engagement (cf. Isham, Narayan, and Pritchett, 1995). Second, the assumption that there was a “need” produced a complete lack of attention to what people actually *wanted* from improved water supplies—i.e., to the *demand* for improved water services. This meant that the systems often did not meet the demands of the users, and hence there was little local commitment to the projects by the beneficiaries. This low commitment led to low and improper maintenance, and chronic under-funding and under-provision of recurrent inputs.

Third, providers could abuse their discretion. The difficulty of observing in detail the quality of the services rendered from either the beneficiaries themselves (who were kept in the dark about costs) or from managers above (who did not know about beneficiary satisfaction) meant that projects often had considerable “slack.” These monies were often siphoned off in various ways to bureaucrats and politicians. There were few pressures for cost-efficiency and actual delivery of services.

³⁰ Although we have seen donor documents where the evaluation of the *second* round of failed water supply projects (not just second failed project, but second *generation* of failed projects) concludes by proposing more of same with some minor fixes.

Systemic failures led to a revolution in thinking about water supply—that incorporating local knowledge was important, that assessing local demand was important, that creating open, transparent conditions of supply was important. In water supply the shorthand was that water projects had to be more “participatory” at every stage—involving beneficiaries in design, in construction (usually with cost contributions to demonstrate commitment) and in maintenance (again, usually with some cost recovery).

The same pattern of problems emerged in irrigation services—the “needs-supply-civil service” model led to technologically inappropriate, socially inappropriate, and economically inappropriate systems that had low political commitment (Ostrom, 1990). Formal, technologically superior public systems often replaced locally developed communal systems with no impact on agricultural performance. Not surprisingly, many of these large public sector projects were often not maintained, provided low quality services, and were even corrupt in their delivery (Wade, 1988). Low farmer support for modernized systems led to little maintenance effort, and major information problems in water allocation.

The same problems unfolded in education—the “needs-supply-civil service” approach led to schools with standardized curriculum, teachers with little training, low local commitment to the school (which was viewed as “the government’s” school), excessive devotion of recurrent expenditures to wages, little real learning, and high dropout rates.

The same pattern of systemic failure is evident in agricultural extension—the “needs-supply-civil service” model led to extension agents with “packages” that were often not superior to existing practices. Few efforts were made at local adaptation in the field; extension agents arrived armed with recurrent inputs (modern technologies and techniques) to actually reach farmers, and there was a resultant low adoption of “new and improved” methods. The same problems emerged in the health sector—the “needs-supply-civil service” model ensured that some services were provided and that some health conditions did sometimes improve, but often the “discretionary and transaction intensive” elements did not. The results were clinics without adequate staff and recurrent inputs—not just drugs, but basic equipment like scales, and medical practitioners who could listen to villagers and speak in terms they could understand. Consumers did not or could not use the facilities provided, resulting in a “by-passing” of public primary care services for private, traditional, and higher level public facilities.

Table 3: Problems, Solutions, and Symptoms of the ‘Needs-Bureaucratic Supply’ Approach

| Sector | The “needs” based problem | <i>The</i> solution | The common <i>symptoms</i> of the problem with the solution | The common deep structural problems with the solution |
|--------|---------------------------|---------------------|---|---|
|--------|---------------------------|---------------------|---|---|

| | | | | |
|---------------------|---|--|---|---|
| Rural water Supply | "Need" for safe water calculated from household volume requirements and biology based safety standards. | Public provision of free water through a public works program. | Lack of maintenance leads to rapid depreciation. One size fits all; scientific, modern, least cost, solutions lead to mistakes and inappropriate supply. | Top down civil service organization leads "accountability" to flow "up" the organizational chart, not "down" to citizens. |
| Irrigation | "Need" for irrigation water calculated from increased cultivation and productivity requirements. | Public provision of main works and canals. | Low consultation leads to low local "ownership" of facilities and services. | Attempt at "free" provision demands little commitment from local citizens. |
| Primary Health Care | "Need" for basic preventive and curative services deduced by health experts. | Public provision of primary health care at clinics provided free or at low cost. | Lack of recurrent inputs and low quality services lead to low utilization and the continued reliance on traditional community or private sector alternatives. | Free provision combined with low and variable governmental revenues leads to periodic or chronic recurrent input (O&M) starvation. |
| Roads | "Need" for transport services calculated from traffic flows. | Public provision of roads free or low cost. | Low local discipline leads to excessive cost, inefficiency, patronage, and corruption | Attempt to control service providers from the top down leads to excessive, though often ineffective, regulation and imposition of common rules to limit discretion. |
| Education | "Need" for formal schooling to achieve enrollment targets | Public provision of basic schooling provided free or at low cost. | | |

The same pattern was followed in family planning—the “needs-supply-civil service” model with a specific mode of family planning as *the* solution led to low quality services that were not attuned to the women, under-utilization of public clinics, and reliance on private sector suppliers even when they were more expensive. The same thing happened with sanitation. The same thing happened with rural road construction and maintenance (see Table 3).

The same thing happened in all these sectors because the common structure of *the* solution created the common conditions for its failure—namely, the lack of feedback

mechanisms and modes for engagement of citizens in either controlling the state or directly controlling providers allowed systemic problems of organizational design to overwhelm logistics. But the logic of *the* solution is so seductive to governments (and donors) alike that it has taken decades of painful and expensive failures in sector after sector to see that the problem is not just a few “mistakes” here and there, but that as an approach to *development*, it can be fundamentally wrong-headed from top to bottom. Why is this approach so seductive? There are both good and bad reasons.

The first good reason is that it demonstrably works: “This is how Denmark does it now.”³¹ As “development” was taking off in the late 1950s and early 1960s, every country that was developed delivered the bulk of its public services via a civil service. In the USA the triumph of the “Progressive Era” agenda was fresh—and part of the triumph was defeating the power of local political “machines” by making public service provision *less* local, *less* discretionary, *less* personalized and more “rational”, more “scientific”, more “modern” (Ackerman, 1999). Moreover, in many former colonies the transferred apparatus for governing was already structured in exactly this way.

The second good reason is that it makes solutions rational, modern, scientific, technological and controllable (Scott, 1998)—i.e., it makes development an “engineering” problem amenable to modern management techniques. If X thousand children are to be educated then we need Y classrooms, Z desks, and W teachers, which can then be easily mapped into corresponding budgets, targets, goals, and plans. Today, the high-profile (and otherwise laudable) Millennium Development Goals—with their straightforward (if ambitious) numerical goals—create a fresh political impetus to build the most accurate and efficient “model” for identifying the “resources” needed for a given country to reach them.

The third good reason governments (especially in the poorest countries) adopted this approach (at least formally) is that it fit perfectly with the interests of the donor agencies, providing the latter with a powerful, coherent, and consistent agenda for action at both the macro and micro level³². Nothing fits the internal organization needs of an “assistance” agency better than an objectively quantifiable “gap” into which resources can be poured.

Of course, nothing becomes universal on the basis of good reasons alone: there are also bad reasons for the triumph of the “needs-supply-civil service” approach. This approach left the direct control over the provision of “the supply” in government hands, which served a variety of useful purposes. First, there was no need for consultation with, and/or creation of, alternative power bases among business owners, labor groups, or other civil society organizations. Second, complete government control from the top down meant the central government was able to

³¹ Even if, as noted above, the “Denmarks” did not do it this way *then*, i.e., when they were “poor countries” themselves (cf. Chang, 2002).

³² At the macro level, for example, the constraints on development were seen as the “savings” gap and the “foreign exchange” gap; therefore, having donor institutions provide loans/grants that augmented investment in the form of foreign exchange was the right and proper macro instrument. If there were more specific supply requirements to meet the “needs”—especially that required foreign exchange—then these could easily be bundled into discrete projects.

reward supporters and punish detractors. Third, direct supply may have supplanted local power structures, but it usually did not fundamentally challenge them.

A final (though speculative) bad reason for the perpetuation of the “needs” approach is the blinding nature of the institutional creation myths in the developed world. De Soto’s account of his investigation into the historical origin of a “good” property rights regime in the US starts from the telling insight that *no one who operates the property rights regime has any idea about its origin* and that the true historical origin was exactly the opposite of how it was commonly portrayed. Donor activity often amounts to sending “experts” who *operate* institutions in “Denmark” to *design* institutions in “Djibouti”. At best this would be like sending a cab driver to design a car. But it is worse, because institutions come with their own foundational myths that deliberately obscure the social conflict the institution was designed to solve. That is, political institutions as mediators of interactions between bodies of agents arise to solve fundamental social conflicts. Often we would argue that part of the institutional solution is to pretend the social conflict never existed, with the *creation myth* of the institution including a false historical account as an *intrinsic* component of the operational institutional and organizational vision (cf. Weick, 1995). This means that those who operate currently functioning and successful Weberian bureaucracies may be sufficiently blinded by their own institutions’ creation myths to lack the historical knowledge and political savvy to successfully *create* institutions.

For both good reasons and bad, then, most developing countries “skipped straight to Weber”—that is, adopted the direct government production of public services by a civil service bureaucracy within a large political jurisdiction (e.g. nation, state, province) as *the* solution. We call this approach “skipping straight to Weber” because this form did not emerge from an internal historical process of trial and error and a political struggle (as it did in most European and North American countries), but rather was “transplanted” more or less intact as a top down decision.

While debates raged as to *what* governments should do—from minimalist in neo-liberal capitalist states to maximalist in socialist and Marxist states—there was very little debate about *how* governments should do whatever it is they were doing³³. The formal institutional and organizational structure of delivering education or police or health looked substantially the same whether the locale was Cairo or Caracas or Chicago. As we saw above, however, the adoption of a uniform bureaucratic “supply” in response to various development “needs” failed in sector after sector (although it also had notable successes).

2.1 Three Failed Remedies to “The Solution”: Intensification, Amputation, Policy Reform

To fully understand the current intellectual and practical disarray, one needs to understand not only the common structure of failure of *the* solution, but also the responses to the failure. We discuss three: intensification, amputation, and (more) policy reform.

³³ In particular, professional economists were very much absorbed in a normative framework about the scope for potential Pareto improving interventions by a hypothetical welfare maximizing actor, with, until recently, relatively less analysis of the internal logic of the performance of public sector organizations.

(i) *Intensification*. As with the water sector, in nearly all cases the initial response to failures was to point to proximate, logistical, technical causes and attempt to remedy the failures directly, but within exactly the same institutional structure—that is, with exactly the same patterns of interactions amongst the agents and hence exactly the same incentives. If pumps are breaking down, find a technological fix—a simpler pump. If classroom pedagogy is terrible, provide teachers with more “training.” If maintenance expenditures are too low, find more funds for maintenance. If there is corruption, launch a program to root out corruption. If the health clinics lack drugs, create a new supply chain.

We are not criticizing these efforts per se—“intensification” solutions are proposed by intelligent, motivated, well-meaning professionals trying to address the very real implementation problems that present themselves. Sometimes the problem is technical and some of these solutions did work in some places—particularly where the systemic problems between citizen and state and between providers and citizens or the state were not too overwhelming.

“Intensification” is a natural reaction, a much more natural reaction than considering fundamental reform, for two reasons. First, even if those involved perceived the need for more fundamental changes they were not within the mandate of those running a particular “program” and there was likely a narrow range of alternatives that were perceived as politically feasible. Second, a much deeper problem intellectually is that the shortest distance between two points is a straight line. That is, if existing institutional and organizational forms of service delivery are *de jure* isomorphic to those in “Denmark”, and if “Denmark” is the desired destination, then fundamental reform is not the obvious response to failure—incremental reform is much more attractive. Even if the institutional and organizational structure is dysfunctional in country X, everyone knows that the same forms *can* deliver services—after all, they *do* deliver services in “Denmark”. In many cases proposals for more local autonomy seem a step backwards in the historical sequence followed by the now-developed countries. Only after many rounds of failed intensification is it acknowledged that, however well services are delivered via this structure in “Denmark”, it is not going to work “here”.

(ii) *Amputation*. The second failed remedy to failing public services was amputation—namely getting the government out of it. This was legitimized under various mottos such as “getting prices right”, “scaling back the state”, and “privatization” (Handler, 1996). This line of reasoning was given impetus by the fact that resource pressures made fiscal retrenchment necessary in any case. But while less of a bad thing is less of a bad thing, less of a bad thing is not the same as the good thing.

The amputation strategy does not work for *key* discretionary and transaction intensive services for two reasons. The first is that governments discovered there were several sectors from which they could not disassociate themselves (even if it was possible or desirable). There is a whole range of activities in which governments could feasibly sell existing assets and in

doing so liquidate their entire responsibility³⁴. There are other activities, however, that even the complete privatization of all assets does not absolve the government of its *responsibility* for continuing to play a role. We are focused on the *key* services where either the services are essential (e.g. policing) or the government has a difficult, if not impossible, time disassociating itself for *responsibility* for the service³⁵. Take the example of electricity—while this activity can be privatized in various ways, no government can pretend that it is not *responsible* for electrical power. If people flip the switch and nothing happens, there is almost universally a different response if the device is a car versus an electric light. If the car fails to start no one would blame the government, but if the homeowner’s lights fail to come on the government will be held *responsible*—whether it owns and operates any part of the system or not³⁶. As discussed above, the latter category is what we mean by “key” services in the first place—the provision of these services cannot be a matter of indifference to the government.

The second reason amputation did not work is that making a weak state weaker does not solve the problems that governments need to solve. The primary strategy pursued by the central ministries (finance, economy, planning) facing macroeconomic constraints on budgets was amputation, while intensification (which usually required more money) was the primary strategy desired by all the services ministries (education, health, infrastructure). These are obviously incompatible—not delivering services with a large budget is very possible, but delivering services with no budget is impossible. The reconciliation of “fiscal protection” of desirable sectors (health, education) or sub-sectors (primary education, public health) or components of sectors (O&M) is a less than satisfactory alternative, as protecting resources does nothing to promote sustained improvement in services.

Amputation played out in its most extreme form in the transition from socialism. In some of the more extreme cases, creaky and ineffective institutions of communism collapsed, and were replaced with... nothing. This caricature of the transition to modern capitalism has had disastrous results. Those that have had the slowest transitions to capitalist policies or those with the most rapid transitions—but either of which have managed to maintain the basic capabilities of the state—have done much better than countries with more radical reforms which undermined the state (see Bunce, 1999).

³⁴ We are taking no view on the desirability of privatization *per se* as there remains a debate about activities in which nearly everyone became convinced a government role was not desirable: hotels, beer manufacturing, shoe production, textiles, cement, etc and another set of activities about which there was consensus that government involvement in production was not *essential* to economic development, but for which there was continued debate about whether government involvement was *desirable*: retail banking, airlines, housing.

³⁵ This “responsibility” is not deduced from a formal model, but is rather itself a complex socio-political outcome. That is, we are not just referring to those goods with a well-articulated “rationale for public sector involvement” in the sense of an economic normative (“public goods”) model.

³⁶ “Privatization” in a sector can mean three very different things: “privatization/liquidation” (complete disassociation from government reliability (beyond the basics for any industry/sector), “privatization/contracting out” (in which the government continues to provide the service (in the sense of bear direct financial responsibility) but no longer produces the service, and “privatization/regulation” (in which the government neither provides nor produces but does have sector/industry specific regulation).

(iii) *Policy Reform*. The third response is to “deepen policy reform”—that is, continue with the types of reforms that can be implemented by “ten smart people.” That a small(ish) cadre of high-quality technocrats made a huge difference to the success of many of the East Asian tigers and to Chile is indisputable.³⁷ Moreover, some would argue that an important component of the success of these technocratic elites is precisely that they did *not* have to engage in broad, open consultative processes in deciding on policies. If they had either sufficiently strong support (and direction) from the top (e.g. Indonesia, Singapore, Taiwan), or sufficient “embeddedness” (e.g. Japan), or both (e.g. Korea), a small cadre of well trained, highly committed individuals could design and implement macroeconomic and trade policies pretty well (even ones that required discretion).

But precisely because the proverbial “ten smart people” can manage these particular development decisions, there is an almost irresistible temptation (a) for these individuals to assume (or be given) levels of political power and stature well beyond what they can ever actually accomplish; (b) for educators and lobbyists (of all stripes) to focus attention on training or influencing them, in the belief that efforts expended here are likely to have a disproportionately high impact; (c) to cast a host of complex but qualitatively different development problems as technocratic “policy issues” amenable to standardized responses; (d) to let an increasingly narrow set of discretionary but non-transaction intensive “policies” (e.g., trade openness) replace more comprehensive (and inevitably messier) efforts at designing a broad development agenda (Rodrik, 1999); and (e) to imagine that the “policies” adopted by “successful” developing countries can and should be adopted by laggards elsewhere, and that only ignorance, incompetence, or indifference prevents it from happening.

Forgotten in all five cases is that not only that discretionary, non-transaction-intensive decisions constitute *one* part of *one* development agenda, but that the very success of the decisions themselves rests on (indeed is made possible by) the viability of a vast underlying organizational infrastructure (both formal and informal). “Ten smart people” can make the difficult but correct decision about when to shift from first to second gear, but that matters little if they fail to note that the car’s breaks, wipers, and turn signals do not work, that the tires are bald, that the driver does not have a license, and that the road is wet, winding, steep, and full of deep potholes.³⁸

This is amply demonstrated in the debate over the virtues and vices of the “Washington consensus” (or “Beyond”), which is explicitly, if not implicitly, and singularly about policies. Neither side doubts that countries need effective police and effective schools, but as one moves beyond “policy” elements the question is not just “what to do” but also “how to get it done”, and in transaction-intensive services a small cadre of elite technocrats cannot be the answer. A small

³⁷ See, for example, Haggard (1990), Johnson (1990), Wade (1990), Amsden (1992), and Evans (1995).

³⁸ The masterful book by Power (2002) on the tragedy of the US’s failure to end genocide in (among other places) Rwanda, documents powerfully the disastrous consequences of narrow technocratic (e.g. “cost-benefit”) decision making by a small cadre of outsiders in situations that patently cannot be managed this way. This was also the theme of David Halberstam’s 1973 classic, *The Best and the Brightest*, on how US engagement in the Vietnam War was designed and carried out.

cadre cannot make a difference in even a modestly sized educational system if they do not change the daily classroom behavior of thousands of teachers; a small cadre cannot create a functioning legal system if they do not change the daily behavior of the law's agents on the streets and in the courtroom.

Importantly, there is no necessary connection between the sides in a given debate about policies and their stance on the appropriate institutions and organizations for discretionary transaction intensive services (“practices”). That is, some argue that “policies” for reducing discretion is a desirable criteria because of time inconsistency or political pressures, that a pre-commitment will produce better results than more active discretion with regard to monetary rules or exchange rate regimes or uniform tariffs or fiscal deficit protocols. In some circumstances this is a powerful argument, although certainly not compelling or universal. However, we are talking about services in which local, day-to-day discretion is an *intrinsic* part of the service; one cannot imagine non-discretionary education or policing or agricultural extension or health care.³⁹ “Street level bureaucrats”, “direct providers”, “bare foot doctors”, and “front line workers” all need discretion to do their jobs, but with discretion there comes the possibility of abuse of discretion. One can easily be in favor of reducing discretion of some actors in policies (e.g., independent central banks to limit discretion on monetization of deficits, uniform tariffs to limit rent seeking in trade policy, pegged exchange rates) while still favoring more community power in schooling, greater voice in local infrastructure, higher levels of user participation in irrigation projects, etc. Or vice versa—sometimes those advocating more policy discretion are defenders of service delivery via civil service bureaucracies that limit local flexibility and service provider discretion.

This means that any discussion about “empowerment” or “participation” or “accountability” *in general* is bound for incoherence. A working democracy is not a series of continuous referenda but a messy collection of institutions that allocate, delegate, and limit powers. The structures will be different for each. There is nothing incoherent in choosing *zero* popular participation in the single most important macroeconomic decision-making body (e.g. the Federal Reserve) and direct community participation in schooling (e.g. autonomous local school boards). There is also nothing incoherent in the converse, with civil society (in the European sense) *concordat* to determine wage setting (and hence inflation) and schools with nationally controlled curricula and conditions.

2.2 A Prescient Example: “Policies” to “Programs” in the AIDS Pandemic

Though the efficacy of core services provision is central to development, we feel there is insufficient focus on the particular issues we have highlighted. Nowhere is this more evident than in the responses to the terrible tragedy of the AIDS pandemic in Africa. In certain influential quarters the core problem is cast as a “mercy failure” in the provision of antiretroviral drugs to combat the symptoms of AIDS, for which the solution is beating a path to foundations,

³⁹ On the challenges of delivering discretionary and transaction-intensive services (e.g., social work, policing, welfare assistance, legal aid) in the US, see the classic study by Lipsky (1980).

governments, and citizens' wallets in order to persuade them to provide funds for subsidizing the production and distribution of the necessary drugs, which will then (presumably) be made available at low cost to the masses of those infected through the national health service and/or private (NGO or for profit) clinics. The implicit, if not explicit, assumption is that once the funds are available and the "mercy failure" has been corrected, effective drugs will be available at last, and those suffering from AIDS will flock to their local clinic to purchase the medicines they have heretofore been denied. Game over.

So, as with so many other development problems, *the* solution is the solution. The "need" for cheap drugs is "the problem", the vast "supply" of subsidies to the technically appropriate pharmaceuticals to ensure they are available to the poor is "the solution", and some form of large-scale public or private bureaucratic infrastructure is "the instrument" for delivering the final product to its intended recipients. Securing this money and using it in this way doubtless has its place, but surely constitutes only a *part* of a strategy that is likely to be effective; it is a classic twin response in which the policy technocrats first calculate the size of the "gap" and promote it as a "need", then hand over to bureaucrats to implement the transaction-intensive but non-discretionary "program". This type of response to AIDS is consistent with the logic of "bureaucratic high modernism" (Scott, 1998), but unfortunately, as have seen, it is one which has failed early and often whenever it has been applied to a socially complex problem not amenable to logistics.

Virtually every serious analysis of the political economy, anthropology, and epidemiology of the AIDS pandemic in Africa, however, stresses as the key elements (a) the enormous social stigma that surrounds the issue, preventing politicians and religious leaders from openly addressing the subject, (b) the overwhelming power that men exert over the frequency, diversity, and nature of sexual encounters, (c) the role of particular occupational networks in establishing disease vectors that enable rapid transmission of the disease among vulnerable populations, and (d) the onerous economic, social, and psychological toll that the prolonged illness and eventual death of young adults is having on children, surviving household members, and extended kinship systems. Whether on the "prevention" or "cure" side (both of which, of course, are needed), dealing systematically with stigma, identity, power, networks, and kinship systems is not something amenable to routinization and uniform administrative management, but rather entails a legion of discretionary *and* highly transaction intensive decisions. If the African public health experts (and, importantly, the victims themselves) have a more accurate sense of what "the problem" actually is, and if the corresponding "solutions" are ones that necessarily eschew grand standardized designs, we should be simultaneously (a) skeptical of those promoting such designs, (b) unsurprised that there appears to be little coherence among the various particularistic strategies that practitioners offer, and yet (c) unrelenting in our quest to build the capacity, autonomy, and accountability of those making crucial decisions that are *necessarily* highly discretionary and transaction intensive.

3. Where We Are Today: The (Dis)Array of Alternatives

There does seem to be a broad consensus on objectives and adjectives. Few would

disagree that governments should be responsible for the provision of key services: children should learn, roads should be passable, bridges should not fall down, people should get healthier, water should arrive to crops. There is perhaps more, but still little, dispute that to accomplish these objectives the institutions and organizations of service delivery should satisfy certain adjectives⁴⁰: be “accountable” and “sustainable” and “responsive” and “transparent.” But there is tremendous controversy as to exactly *how* to bring about such institutions and organizations. Can “participation” really improve outcomes? Will “decentralization” really bring government “closer to the people”? What is the best way to get to “Denmark”? In the following section, we explore the characteristics of eight different answers to these questions.

3.1 Eight Responses to the Solutions to *the* Solution

In the beginning was the problem of poverty, and the answer to the problem was *the* solution: poverty defined as a series of “needs”, which could best be met (“supplied”) through a centralized civil service bureaucracy. When *the* solution failed, the initial response was intensification, amplification, and policy reform. Now that these solutions too have failed, and thereby become the problem, a variety of new responses have emerged. We argue that these responses in fact cohere into eight alternatives (see Table 4).

For each of these eight alternatives on the contemporary development agenda, we present a brief description of how it differs from traditional civil service delivery in terms of the five key elements outlined above (resources, information, decision-making, delivery mechanisms, and accountability), and the basic arguments of its proponents and detractors. These alternatives are: (1) Supplier autonomy (public sector reform II), (2) Single sector participatory, (3) Contracting out, (4) Decentralization to states/provinces, (5) Decentralization to localities/municipalities, (6) Demand side financing, (7) Social Funds, and (8) Community driven development (CDD).

⁴⁰ We rule out lots of the rhetoric as unhelpful tautologies, e.g., that “governance” should be “better.”

| Table 4: “The” Solution and the New Alternatives | | | | | |
|--|--|---|--|---|---|
| Alternative | How flows are structured | | | | |
| | Resources | Information | Decision-making | Delivery mechanisms | Accountability |
| “The” Solution (National Agency) | From Government to agency then within agency down to providers | Internal flows up from provider neither horizontal, nor to “out”) | All decisions centralized, little formal flexibility (but some discretion in practice) | From government provider to citizen | From providers up hierarchy |
| 1. <i>Supplier autonomy</i> | Flows to point of service in a flexible way | More horizontal flows | Provider works with formal discretion | By government provider | From providers up |
| 2. <i>Single sector participatory</i> | Government to agency into “programs” | Greater information flows to local communities | <i>Process</i> specified centrally, decisions made locally | Local group responsible for some functions | Still mostly internal to agency, but new criteria |
| 3. <i>Contracting out</i> | From center to agency to contractor | As specified in contract, usually to contracting party | Parameters specified in the contract; all decisions made by contractor | By employees of the contractor | From contractors to contracting party |
| 4. <i>Decentralization to states/regions</i> | Block grants from center to states/province then via agencies | Internal flows up from provider | By states/provinces, but subject to central control | From government provider to citizen | From providers up hierarchy |
| 5. <i>Decentralization to “localities”</i> | (As above) | | | | |
| 6. <i>Demand side financing</i> | Government directly to citizen | Individualized | By citizen and provider | By provider chosen | Citizens choose own provider |
| 7. <i>Social Funds</i> | Government to SF to “communities” /groups/ providers | Information about availability flows “out” | By SF office in response to demand, implemented locally | Contractors working directly for local group | SF to government |
| 8. <i>Community driven development</i> | Straight to communities (not local government) | Localized at community level (out and in) | Community chooses project and provider has autonomy | By provider chosen by community (with government input) | Providers to communities |

(1) Supplier Autonomy (Public Sector Reform II). This preserves much of the structure of the traditional civil service model, but here the diagnosis is that centralized constraints on the discretion of service providers are the key problem, and that increasing the scope for discretion at the point of service level would increase performance. The key change is a shift in *decision making*, with choices made with more local autonomy, accompanied by recommendations for increased training.

Examples. School autonomy in education; giving more control over decisions to headmasters; “hospital autonomy” in which increasing discretionary control is given to individual hospitals.

Proponents’ claims. Provision of services requires committed professionals; by giving adequately trained, committed professionals more resources and autonomy this will improve performance over systems that too narrowly dictate decisions. “Participatory” approaches involve untrained individuals and communities in decisions over which they have no competence.

Detractors’ claims. Too much focus on shifting discretion in decision-making without a complete shift in budget and accountability simply opens up too much latitude for abuse, and the providers have no more incentive to provide good services than before.

(2) Single Sector Participatory. This approach is popular in many sectors that produce local services, such as water. It is recognized that the “participation” of “beneficiaries” is essential for effective services. By “single sector” participatory we mean that *resources* continue to flow from the center directly into sectors (the budget decisions across sectors are not made at the community level) but users and beneficiaries usually bear more of the capital and recurrent costs. Moreover, in the implementation of individual projects and in operations of those projects, local communities or user groups are involved in more decisions, so there are greater *information* flows from the agency to citizens and back. *Delivery mechanisms* continue to be the purview of the sectoral line agencies, but *decision-making* is allowed to be more local and a menu of options is presented rather than the single “technologically best” option. As such, *accountability* now flows from citizen to service provider, often via newly created groups that are selected at the local level and that are responsible for certain functions (e.g. maintenance).

Examples. Water user groups; irrigation groups; (limited) community involvement in schools.

Proponents’ claims. Increased beneficiary participation brings more local knowledge. The commitment to the project demonstrated by participation (and contributions) of the community improves project sustainability. Appropriately structured participation can involve professional skills (e.g. engineering, “technical assistance”) in achieving the goals chosen by the community.

Detractors' claims. Retaining the same bureaucratic structures allows the same pressures. If forced to demonstrate “local ownership” bureaucracies will create user groups where none exist. “Participatory” research techniques⁴¹ are inadequate to truly elicit “community” preferences (even if such really existed, which they do not). Villagers can easily see through and manipulate such techniques—e.g., if an outsider in the village shows up to do an assessment of community needs and he/she is from a water project, the community will suddenly “need” a water project (cf. Abraham and Platteau, forthcoming). In the absence of broader political controls over the government, recourse is limited.

(3) Contracting out. In this case the responsibility for production of services shifts while governments continue to provide by contracting with outside providers. While *resource* flows do not necessarily change—resources can still flow directly from the center canalized into sectors—and *information* continues to flow upward from contractor to government, the difference is that instead of the *delivery mechanism* being via “force account” production by employees of the government, a government agency (at some level) contracts out the service provision to a distinct organization. There are typically two varieties of contracting out: those limited to not-for-profit providers (e.g. NGOs), and open bids to the most qualified (some combination of cost and qualifications). *Decision-making* can be made much more flexible, but the decision-making depends on the provider, not the government. *Accountability* now flows from service provider to government (or funder) and depends on contractual terms, which may or may not include assessments of beneficiary satisfaction.

Examples. Governments contracting out road construction to local firms; donors contracting out health activities to NGOs.

Proponents' claims. Non-government providers can be much more cost-efficient, as they are not limited by all of the bureaucratic (“red tape”) restrictions that encumber government agencies. In development, proponents of NGO contracting out argue that the greater “commitment” of NGO employees ensures higher quality services. Contracting out can achieve greater competition (among providers for the market, rather than in the market itself) that in turn provides innovation and reveals costs.

Detractors' claims. One strand argues that there is no good reason to limit contracting out to NGOs as opposed to an open bid among all qualified contractors. If NGOs can win an open bid, great; if not, there is no inherent reason to subsidize NGO activities. Another strand of criticism, particularly in very low-income situations where NGO provision is financed by donor contracts, is that by circumventing the national and local governments this perpetuates relationships of dependency between government and donors, and discourages the development of relationships of accountability of governments to citizens by placing decision-making in NGO/Donor hands. (Africans especially can see a return to colonial days in which social services were provided by the “missions” and nothing was expected [nor received] from the government itself). A third strand of criticism is that NGOs can be as “top down” and

⁴¹ On the uses (and potential abuses) of “participatory” approaches to development research and policy, see Narayan (1996), Robb (2001), Cooke and Kothari (2001), and Brock and McGee (2002).

unresponsive to local conditions and preferences as governments. NGOs often come with their own preferred technological solutions, and need not be any more flexible, participatory, or directly accountable to the community than governments, as their own accountability only flows to the contractor and/or internally within their own organization.

(4) Decentralization/Federalization. One type of decentralization shifts from national to a still large jurisdiction (such as a large sub-national state). *Resources* flow from center to states/provinces as fungible resources rather than as allocations to specific ministries, but *information* now flows inward and upward to the state/province. Typically more revenue instruments are allocated to local authorities (e.g. property taxes). The *delivery mechanism* continues to be state/province level line agencies, though there is now greater *decision-making* at the state/province level about inter and intra-sectoral allocations of resources. *Accountabilities* are now from service providers directly to state agencies.

Examples. Brazil in the 1990s.

Proponents' claims. The proponents claim that decentralization “brings the government closer to the people” and allows allocations of resources more closely in line with citizen preferences.

Detractors' claims. The range of negative views on decentralization varies widely. One view sees decentralization as a ploy to solve an intractable national fiscal situation by pushing expensive services onto the states without adequate commitments of financing. Another view is that since the change in large countries is from jurisdictions with hundreds of millions of people to jurisdictions with tens of millions it would be hard to expect any fundamental changes. Decentralization can also increase inter-regional differences in the level of services available.

(5) Decentralization/Localization. This is similar to “decentralization/federalization” but instead of resources flowing to states/provinces (political units with several million or more inhabitants) the bulk of resources flow to even smaller jurisdictions (e.g., “localities”).

Examples. *Panchayat Raj* movement in India; district-based decentralization in Indonesia; municipal decentralization in Bolivia.

Proponents' claims. In this case the argument is that the government really is “closer to the people” because the sizes of the jurisdiction are significantly smaller.

Detractors' claims. This ignores questions for which coordination is important (e.g., highway networks, large-scale irrigation works). Governments at these low levels do not have adequate capacity for technically demanding projects. Local governments are *less* rather than more responsive because locally prominent landlords or employers can more readily gain political control of small jurisdictions, with citizens having no recourse to higher levels.

(6) Demand-side Financing. In the literature on schooling this approach is called

“vouchers” or in health care financing, “single payer”—the individual chooses the providers and the government reimburses the citizen (or provider) in whole or part for this service. In this model *resources* flow directly from the government to individuals/ households, with *information* flowing horizontally among users. All *decision-making* about service provision is decentralized, and the primary *delivery mechanism* is via private sector (for profit or non-for-profit) providers. *Accountability* is through “exit”—unsatisfied users simply choose another supplier.

Examples. Single payer health insurance; educational loan programs that can be used at any number of suppliers.

Proponents’ claims. This uses all of the virtues of the market in terms of information, efficiency, and innovation while still maintaining socially desirable levels of consumption.

Detractors’ claims. This assumes that the market can actually work for things like education and health, in which providers are “experts” and can abuse their discretion with consumers. More importantly, this is limited only to those items in which a market can work. For local public goods like policing, or even sanitation, this individualistic approach cannot work.

(7) Social Funds. The “social fund” was an innovation in Latin America to respond to critical needs during episodes of “adjustment” but has since grown and expanded. In a social fund, *resources* are delivered to local communities (with or without the involvement of NGOs) to help them engage in their own *decision-making* pertaining to the design, *delivery mechanisms*, and maintenance of projects most appropriate for their needs, interests, and aspirations. As such, the flow of *information* is largely “out” to potential users of the fund. Governments (national and local) are largely financial conduits, not providers, and the social fund itself is held *accountable* (both by the government and clients) for how resources are utilized.

Examples: The Bolivian social fund was the first, followed by a number of others around the world (e.g., Jamaica, Romania).

Proponents’ claims. The virtues of the social fund are speed and flexibility; by-passing the usual civil service “bureaucracy” enables people to accomplish things faster and more cheaply.

Detractors’ claims. Service provision is still essentially top down. The speed and flexibility is by virtue of an exemption from rules. The “end around” the regular government channels does not assist in the long-run goal, as the social fund is neither itself a sustainable institution to deliver the broad range of services, nor does passing the budget around the usual channels encourage the strengthening of local communities in their relationship with their local government.

(8) Community Driven Development. Donors (or governments) give *resources* directly to “community groups” (*not* synonymous with NGOs), bypassing some levels of government

altogether (though their tacit “approval” may be sought for the project). *Information* thus flows horizontally, on the explicit assumption that community groups themselves are the most efficient (minimizing wastage, maximizing marginal benefits) and effective (assigning finite resources to their most useful common purpose) purveyors of that information. As such, *decision-making* regarding both which projects to undertake and whom they will benefit is left to the community; the *delivery mechanism* is usually the community itself, supported by small grants for any necessary technical assistance in the design and implementation phase. The goal is “empowering” the poor by enhancing their capacity to be more effective agents of “bottom-up development” (which in turn leads to local governance reform).

Examples. Kecamatan Development Project (KDP) in Indonesia.⁴²

Proponents’ claims. This avoids the problem of the Social Fund’s centralized decision-making. It has the advantage over decentralization (both “federalization” and “localization”) of starting at an organizational level below the government, and working up. Communities with funds are empowered in their relationships with governments and government agencies—that is, in a stronger position to demand government reform and responsiveness to constituents.

Detractors’ claims. These local processes are too disarticulated from the government to have any impact. While the (small) benefits of the project might be realized, the price paid for “by-passing” the government is that this does not feed into governance improvements. Also, communities lack the technical capacity to manage technologically complex tasks, so must defer to specialists (e.g., engineers). Finally, many development activities require coordination of efforts across multiple “communities” in order to be effective (e.g. power supply, urban sanitation, irrigation).

3.2 Eight Solutions to One Problem?

Though these alternatives are often associated with a given sector, it is also the case that all of them can be (and indeed have been) applied to a single sector. Schooling, for example, is one activity that everyone agrees is a *key* public responsibility that is a *discretionary* and *transaction intensive* service. How should schooling be organized? National control has been the norm, but recently nearly every one of the eight above alternatives has been attempted: federalization (Brazil, Argentina), localization (Indonesia), school autonomy (Nicaragua), vouchers (Chile, Czech Republic), community control (EDUCO in El Salvador), increased parental involvement, and contracting out to NGOs (Africa) have each been touted as the new, legitimate, participatory, accountable, institutional heir to the old (failed) development solution. Are all of these right and universalizable? Are none of these right in any circumstances? Are some right in some circumstances and others in others—if so, then which are which?

What is needed is a diagnostic decision tree with nodes so that one can move from a concrete problem (e.g. poor schooling quality) through a set of empirical criteria—“Is your

⁴² On the origins, design, and preliminary impact of KDP, see Wetterberg and Guggenheim (forthcoming).

country poor, low-middle, middle, rich”? “Is your country religiously homogenous?” “Are there important regional variations in language?”—to a specific solution. But perhaps those were the wrong set of questions, and now, with the existing state of empirical knowledge, no one even knows what the most important nodes in the decision tree are, much less are able to say what the thresholds are. Today there is currently no theoretical or empirical basis for making *any* claims about what the “right” solution is for any sector in any country that has not itself tried the alternatives.

Worse, it is not clear that *in principle* the new consensus can provide concrete answers, in two deep senses. First, if institutional conditions really do need to be tailored to individual circumstances, then conditions for replication elsewhere may simply not exist. That is, suppose the Minister of Education in a poor country learns that the community control of schooling in El Salvador (EDUCO) has been empirically demonstrated to be wildly successful. Should she adapt EDUCO? Maybe, but maybe not. Perhaps El Salvador and her country do not share the same “conditions.” But what are the conditions for community control to work well? Having the same political system? Common language? Colonial heritage? Ethnic homogeneity? Social capital? Low/high inequality? Levels of education? To empirically estimate each of these interactive effects would require sufficient experiences in each category, but the possible variations will rapidly and inevitably outstrip any conceivably empirical experience. So as a policymaker working in particular conditions, the Minister is left to make her way forward with the vacuous recommendations that “institutions matter”, that she should “learn from experience”, adopt “best practices”, and then “adapt to individual circumstances.”

4. Conclusion

The old king—that agencies of the nation-state organized through a bureaucratic (in the good sense) civil service were *the* development solution, or at least, the instrument for the development solution—is dead, wounded by disappointing experience and stabbed fatally from both the political left (Scott, 1998) and political right (de Soto, 2000). But there is no new king, or at least not one with the substantive coherence to take his place. The consensus around a long series of statements—“institutions matter”, “improved governance is central”, “there are no magic bullets”, “one size does not fit all”, “development should be more participatory”, “service providers need to be accountable”—do not add up to a consensus about action.

In this paper, we have endeavored to provide an analytical and historical framework for understanding why there is—and perhaps must necessarily be—an absence of a uniform consensus regarding *how* to improve service delivery. Discretionary, transaction intensive services intrinsically embody the tension between two desirable goals for public services—that they be “technocratically correct” and that they be “locally responsive.”⁴³ As with the tension in

⁴³ Hayes (1968: xiii) expressed this tension well in the 1968 preface to the paperback edition of his 1959 classic on the history of the conservation movement in early 20th century America:

Examination of the evolution of conservation political struggles, therefore, brings into sharp focus two competing political systems in American. On the one hand the spirit of science and technology,

a musical string, going too far in either direction leads to disharmony; the “right” creative tension depends on particular context and requires constant tuning.

It is not the case that one of the eight items currently on the development menu is inherently “better” than any of the others, yet neither should we conclude that therefore “anything goes”. If our analysis is correct, it is the very search for a consensus amenable to technocratic “policies” and bureaucratic “programs”—a consensus driven by the powerful logic and organizational imperatives of governments, donors, and aid agencies—that must be resisted, since a sizeable element of effective delivery in those services central to the well-being of the poor (schooling, health care, agricultural extension) resides in precisely that area where “policies” and “programs” alone cannot go.

It is in the tension between the interests and incentives of administrators, clients, and front-line providers that the solutions (plural) lie (Lipsky, 1980). These tensions—between specialists and the people, planners and citizens, authority and autonomy—cannot be escaped; rather, they need to be made creative rather than destructive. Moreover, maintaining this creative tension is crucial as historical forces (whether secular or intentional) change the balance of power between them. If the quest for *the* solution is in fact the problem, development professionals need to help create the conditions under which genuine experiments to discern the most appropriate local solutions to local problems can be nurtured and sustained.

of rational system and organization, shifted the location of decision making continually upward so as to narrow the range of influences impinging on it and to guide that decision making with large, cosmopolitan considerations, technical expertness, and the objectives of those involved in the wider networks of a modern society. These forces tended toward a more closed system of decision making.

On the other, however, were a host of political impulses, often separate and conflicting, diffuse and struggling against each other within the larger political order. Their political activities sustained a more open political system, in which the range of alternatives remained wide and always available for adoption, in which complex and esoteric facts possessed by only a few were not permitted to dominate the process of decision-making, and the satisfaction of grass-roots impulses remained a constantly viable element of the political order.

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