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Effective Development Assistance Through Competition

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Introduction

It is now generally accepted that development interventions can only be successful and sustainable if they are accepted by stakeholders and implemented in accordance with local institutions, culture and norms. "Tournament Approaches to Policy Reform—Making Development Assistance more Effective," by Clifford Zinnes (Brookings Press, 2009), identifies a new class of emerging development intervention designs fitting this mold. In these designs the intervention is approached as a "game" with players, predefined—and, therefore, prospective—rules and payoffs, strategies, and beliefs in which players must compete to achieve the best implementation. "Winning" is based on scores on preannounced purpose-built indicators. Rewards are the sponsor's aid. While players can be individual organizations (such as schools or even water companies), they are typically jurisdictions (from countries down to villages) so the underlying class of incentive mechanism is called "prospective inter-jurisdictional competition" (PIJC).

This brief summarizes an evaluation of past PIJC applications running from reducing red tape, youth unemployment, and pollution through to increasing literacy, public services, and governance. It asks how successful and sustainable they have been across a variety of situations and whether the approach merits replication and scaling up, particularly for improving the effectiveness of development assistance.

Challenges to Effective Development Assistance

Sponsors wish to provide development assistance to recipients in an environment in which they have limited local knowledge or operative control and in such a way that the sponsors' objectives are met. The sponsor must manage and empower its own staff to identify an appropriate area for recipient country improvement and then determine the requisite intervention to address the problem. The path of aid delivery must pass through a long chain of actors, including own-staff, implementers, national and local officials, and, ultimately, beneficiaries on the ground. Opportunities for mistakes as well as misconduct are formidable. Finally, sponsors would like their funds to be applied in a cost-effective fashion.

Adding to the challenge, reform activities, capacity building, or other improvements require that local stakeholders coordinate among themselves. Unfortunately, lack of trust and a "zero-sum" attitude make local groups reluctant to work together—what economists call "coordination failure." Likewise, how can a sponsor separate serious from frivolous local requests for assistance—what economists call "adverse selection?" Alternatively, how can a potential aid recipient signal to a sponsor its readiness to engage in intensive efforts to address the sponsor's objectives? What credible commitment mechanism can the recipients employ?

PIJC addresses these concerns. It can avoid "adverse selection" through its emphasis on performance-based participation. The lure of sponsor aid encourages interests within each beneficiary group to form a team—often including the private sector, civil society, and government—to work cooperatively to achieve the (much more valuable) intervention's objectives. Such designs can generate competition among teams, causing them to exert a higher level of effort than under a standard bilateral project agreement. Likewise, sponsor funds are leveraged since a limited number of rewards stimulates a larger number of teams attempting reform.

The Prospective Inter-Jurisdictional Competition Approach

So what would a generic, full-fledged PIJC look like? Say the sponsor wants subnational governments (SNGs) to implement a reform (for example, improving the budgeting process) in a target region. First, the sponsor must make the objective explicit to stakeholders (for instance, more efficient use of existing fiscal resources through better budget management and transparency) and identify with stakeholder consultation a list of tasks, each of which either contributes to the objective (for example, conformity of SNG budget to budget code or consolidation of extrabudgetary funds). Next the sponsor assigns a quantifiable, actionable indicator and weight to each task (such as the percent of the budget standardized or off-budget funding reduced). The weights reflect the task's importance to the sponsor's objective and may be thought of as game points. Then the sponsor convenes a conference with representatives of all prospective teams (SNGs) to explain the game. During the actual competition period, the SNGs would compete to amass as many points as possible. They do this by allocating their efforts across a subset of tasks (from the aforementioned list), subject to time, budget, collective action constraints, and community preferences. During the competition the sponsor offers basic technical assistance, generally in the form of multiplayer workshops and not one-on-one site visits. This demand-driven approach is also allocatively efficient: only the communities can know their own cost functions and preferences and only the sponsor can know how it values the proposed tasks. Likewise, with participation voluntary, reforms only occur with the population's cooperation so PIJC has great legitimacy.

PIJC is quite different from the sort of inter-jurisdictional competition that occurs naturally as municipalities, states, and even countries use tax holidays, regulatory and immigration exemptions, and publicly paid-for amenities and infrastructure to compete to attract business investment and new citizens with high human or financial capital. These "games" are invariably a "race to the bottom." Rather, PIJC is like public sector procurement or a call for grant applications: *competition* between bidding teams stimulates *cooperation* within teams to improve performance, resulting in a "race to the top".

Examples of the Approach

Additional examples of PIJC may be drawn from the case studies in *Tournament Approaches to Policy Reform*.

Local Government Reform Initiatives

In Russia, as part of a fiscal reform loan, the World Bank ran a tournament in which eighty-nine regions compete for budget support of $6–9 million apiece by implementing a range of reforms and administrative improvements on extending budget coverage, making local tax law more transparent and consistent with federal legislation, improving expenditure management, strengthening information and audit functions, and improving debt management. Quantitative targets (indicators) were used to ensure transparency and objectivity. So far fifteen regions have won, and the Russian government has been so impressed with the results that it has committed its own budget funds through 2008 to run three more tournaments.

USAID funded the IRIS Center to design and run a quasi-tournament to encourage further deregulation of administrative barriers degrading the business environment in Romania. Simple indicators were used to focus local efforts to address five specific impediments. Most efforts required effective private-public partnerships for success. Out of the eighty municipalities in the country, twenty-nine actively took part and four cities "won." Here, rather than pecuniary rewards or extra technical assistance, winners received unprecedented publicity and acknowledgement, which they viewed as a valuable signal to outside investors of their business friendliness (and mayors appreciated as political capital).

Dissemination and Signaling

The Indonesian environmental authorities developed a simple yet effective disclosure program called "PROPER" concerning large enterprise environmental performance based on a signaling model. Firms were color coded to reflect the degree to which they were meeting national standards, world standards, and state-of-the-art performance. The simple color codes, which were advertised and which the firms displayed, were easy for the average person to understand, unlike more precise statistics, and social pressures among elites led owners and managers to improve their environmental performance to avoid negative peer and social stigmas.

Donor Country Allocations

The Millennium Challenge Corporation conducts a tournament by only offering to work with countries that score above the median for their income group on sixteen governance-related indicators. The hope is that the lure of substantial funds—for example, $300 million in the case of Mongolia's proposed compact—will create a consensus of special interests within a country to focus on good governance.

Grant Programs

Many donors run grant programs aimed at every development sector imaginable. These are structured as tournaments and often encourage experimentation. Probably the largest is the World Bank's *kecamatan* (district with many villages) development program in Indonesia called KDP that seeks to address the ineffectiveness of top-down aid programs in reducing local-level poverty. Participating kecamatans receive a block grant budget of $50,000–150,000. An inter-village meeting is then held to decide which of the projects proposed by its villages should be funded. Villages can develop reputations for good project outcomes during the five competitive replenishment rounds of the overall project, which has disbursed over $1 billion to the poorest 34,233 villages in the country. The overall project appears successful since the government took over funding it once the World Bank's financing was exhausted.

Public Service Provision

Inadequate public services are a way of life in most developing countries, though these services are an important input to poverty alleviation. In Jharkhand, India, the Citizen Report Card (CRC) initiative "is a simple but powerful tool to provide public agencies with systematic feedback from users of public services…[by eliciting] feedback through sample surveys on aspects of service quality that users know best, and enabl[ing] public agencies to identify strengths and weakness in their work" (Public Affairs Foundation 2004). The CRC provides a benchmark on the initial quality of public services (in rural credit, forestry, health, education, and drinking water), as perceived by the intended beneficiaries, through "a comparison with other services, so that a strategic set of actions can be initiated."

To reduce illiteracy, especially among females in order to ensure an immediate social and economic impact on the country, the Senegalese government launched an education program using public-private partnerships to exploit the private sector competencies. Literacy course development and instruction were outsourced to private entities by utilizing competitive bidding based on *quality*, not price, which was fixed per enrolled beneficiary. Funding proposals were developed between groups of villages and a community-based organization, and then scored by a special government selection committee. Over five years, the program trained 200,000 women.

Understanding How PIJCs Work

Emerging from several continents and with diverse sponsors, it would seem that PIJCs would use unique mechanisms to motivate effort. Yet just three aspects characterize their differences.

First, all mechanisms used by PIJCs can be classified into just four types. In *simple certification* the sponsor "grades" players against a pre-established performance benchmark. The results of the certification process may, therefore, (1) impact player reputation—e.g., being a good place to do business, which might attract investors or (2) lead the player's constituency to demand changes or strengthen their support of the player. *Pecuniary certification* is the same as simple certification but, once certified, then in addition to (1) and (2) the player is guaranteed a tangible reward, such as access to financing or technical assistance. In *pure tournaments*, while all eligible players may compete, only those with the *N*-best performances (where *N* is announced in advance) win the rewards—the winning score is thus not known at the start. In a *mixed tournament*, a tournament is used to allocate rewards (e.g., investment financing) and pecuniary certification is used to encourage weaker or less confident players to participate in the tournament. It does this by offering "consolation prizes" to those whose performance was inadequate to win but exceeded some pre-set threshold. Winning a tournament depends on a player's performance *relative to* others while in certification the bar is *absolute* and the actions of others are irrelevant.

Second, many desirable features are available to PIJC designers such as leveraging technical assistance, peer rather than sponsor monitoring, actionable benchmarking indicators, demand-driven targeting of assistance, harnessing of social capital, and stimulating local offers of know-how.

Third, a project's incentives may stimulate production of either inputs (e.g., investment proposals) to a process necessary to achieve their objectives or outputs of the process achieving the objectives themselves (e.g., the satisfactory functioning of the investment or meeting of the reform target). The inputs and outputs could be "produced" prior to or after the project's incentives are in place. The incentives may target a participant's *level* of performance or the *change* of level. Beyond the inherent benefits of achieving the specific project goals, winning can confer to the successful participant benefits either directly by the project—e.g., a reward such as a grant—or indirectly as a result of recipient performance on the project—e.g., an award from the project signals to investors to do business (or not!) in the jurisdiction.

Implementation Opportunities

The case studies provides tentative lessons on the pros and cons of each type of PIJC and, therefore, on their implementation opportunities.

Usage rules of thumb. The *conventional* approach (standard bilateral contract) may be best where there are one or few recipients, where recipients require substantial technical or financial help, where objectives require limited idiosyncratic local information, and where rigorous evaluation is not desired.

A *certification* approach may be best where adequate performance is more important than achieving highest feasible performance, the sponsors have a clear idea of what feasible performance levels are, there are potentially many recipient-players, and, in the case of pecuniary rewards, where the sponsors have a flexible budget or clear idea of the number of likely certifications. Finally, *tournament* approaches come into their own when a scarce resource needs to be allocated to the best performers, systemic exogenous shocks are a concern, there are potentially many recipient-players, and the donor has a poor idea of what level of performance is achievable.

Which mechanism is more effective? No single mechanism type appears to dominate the others. Rather, the choice depends on the initial conditions, number of recipients, and sponsor objectives. Among *certification* approaches, projects that were able to build on strong social or cultural norms within the target region and that were successful in communicating the meaning of the certification were more successful than those that weren't successfully communicating, even if the project itself offered no specific pecuniary rewards. Alternatively, projects that were not able to enforce strict quality control on their certification were less successful than those that were. Likewise, poor dissemination of the certification scores weakened their incentive effects, contributing further to lost project impacts. Instituting multi-level certifications was seen to be more economically efficient, where feasible, than having a single certification level since it increased participation.

Among *tournament* approaches, projects that offered salient rewards and adequate technical assistance during the competition did better than those that didn't. PIJC projects whose programs maintained the quality of their reputation, which winning conferred, were able to have both a demonstration effect as well as a participation effect. Moreover, performance-based incentives as a class required less sponsor monitoring than conventional projects. However, a tournament in which competition was based on indicators of *past* performance had a much weaker incentive effect than those based on performance *during* the competition. Likewise, where rewards were insufficiently specific, their incentive impact was not commensurate with their implementation costs. Finally, PIJCs do not always take more time to design and to implement since conventional, bilateral, donor negotiation is also time-consuming and typically serves just one site while PIJCs serve many and typically place a credible deadline for project results.

The effect of initial conditions. Since PIJC applications often encourage *de facto* local-level implementation of *de jure* laws, a prerequisite for such applications is that an adequate legislative and regulatory framework already be in place to be exercised. Likewise, local public finance laws need to be sufficiently decentralized to accept the pecuniary distributions proposed by these mechanisms. Surprisingly, a lower level of development was *not* an obstacle *per se* to tournament-based incentives. Rather, tournament complexity lies in crafting and calibrating the incentive structure to fit local cultural and business norms. Due diligence, focus groups, and pre-testing are essential. While it is simpler to implement a PIJC on homogeneous players, with competition based on *levels* of performance, PIJCs with heterogeneous players are still feasible if competition is based on *changes* in performance (incremental improvements). Of course, the ambitiousness of PIJC tasks must be commensurate with the institutional capabilities of those organizations whose collaboration is required. Regardless, there is no evidence in the case studies of collusion, even in smaller tournaments. Finally, the initial conditions *within* the government or sponsor should be suitable for PIJC success, such as willingness to accept decentralized solutions, to commit for an extended period, and to subject interventions to quantitative measurement.

Implications for sustainability. One should distinguish between the sustainability of the PIJC's institutional process distributing assistance and the sustainability of the projects thereby implemented. Mechanism sustainability depends on the organizer's ability and commitment to the continued quality of its reputation and this requires the long-term credibility of the referee. This is easier if a foreign sponsor stays engaged. With only a local referee, care must be taken to avoid loss of mechanism reputation from creeping corruption, especially if there is a pecuniary prize at stake. Second, mechanism sustainability was more likely where the structure of rewards, whether directly offered or indirectly generated, led to both private *and* public capture of benefits and where the mechanism had strong ties to a government agency. Third, there is no evidence for "loser regret" in PIJCs or cases where player "boredom" set in jeopardizing PIJC sustainability.

What about the sustainability of the projects themselves awarded through PIJCs? Motivations (aside from corruption) for sole sourcing have often been speed and cheapness of contracting. More importantly, however, is the local legitimacy of the initiative and, in particular, whether there has been local ownership in project design and whether there are long-term gains that can be captured locally. The sustainability of projects funded through a tournament tend to be higher since often participation is voluntary and initial project goals are aligned to existing preferences in the target population. Moreover, sustainability was *more* likely in projects resulting from tournaments using output-based rather than input-based performance rewards and *less* likely in tournaments based on pre-tournament (yes, many donors do this!) rather than post-tournament performance to select winners. Finally, project sustainability was helped by using intermediate rewards for achieving concrete project milestones since this encouraged greater participation in weaker players.

Implications for scalability and cost. By examining the fixed and variable costs of the steps associated with each type of PIJC mechanism, the scalability and replicability can be determined. As with sustainability, a distinction should be made between process and product scalability. An example of *product* scalability is increasing the number of objectives in which the players compete. The more objectives included in an application, the more complex and time-consuming and the more sophisticated must be the players.

PIJCs are intrinsically amenable to both vertical and horizontal *process* scalability. Horizontally scalable opportunities exist by increasing the number of jurisdictions that are permitted to participate. Vertical scalability is possible in two ways. First, one can simply carry out a successful PIJC at a higher level of jurisdiction. The Jharkhand report card could have been run at the level of each Indian state, rather than within just one. Second, one can embed a PIJC at one jurisdictional level into another at the next jurisdictional level (or the reverse). For example, one could allocate future rounds of KDP funding to those kecamatans with the best average results at the level of their villages. This would have the added virtue of stimulating the kecamatan governments to pursue kecamatan-level reforms that would help boost the scores of all their villages.

Improving Aid Effectiveness through Tournament Approaches

The rich set of PIJC design options offer sponsors great flexibility—and a natural path to scalability—for increasing the effectiveness of their initiatives over conventional bilateral approaches. They do this *inter alia* by multiplying the outcomes from available funds, encouraging "teamwork" to strive toward measurable outcomes, stimulating participants to apply their own private information in the interest of the intervention, and reducing the need for sponsor monitoring. Tournament-based PIJCs offer the sponsor the added benefit of not needing to know in advance the degree of improvement a population is capable of. Donors should consider this class of delivery vehicle and investigate its suitability with pilot applications.

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