Leveraging Inter-Jurisdictional Competition to Improve Sub-National Performance*

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Overview of presentation

1. Statement of the problem
2. Summary of the literature
3. The PIJC concept and three degrees of application
4. Analysis of several case studies, past and present
5. Options for the future
In spite of how much we know about the economics of development policy and appropriate technical assistance responses,

- Client governments and international development partners are increasingly confronted with the challenge of stimulating improved SNG performance around a range of dimensions (e.g., service delivery, public financial management).

- Frequently, this proves challenging, given the state of the prevailing enabling fiscal, administrative, and political environment for decentralization, the transaction costs for dealing with SNGs simultaneously, and capacity differences across SNGs.
At a lower level, such difficulties may come from a sponsor’s:

1. Lack of knowledge of the local political, economic and social environment
2. Lack of knowledge of local preferences over what is publicly provided and desired
3. Lack of legitimacy (reform imposed on SNG, reducing local ownership)
4. Adverse selection (selects “wrong” recipient) and lack of recipient’s credible commitment to reform (time-inconsistency)
5. Difficulties in getting the local implementers to act and to monitor them (principal-agent problems)
6. Lack of staying power, so activity winds down as sponsor disengages (little sustainability)
**Summary of the literature (1)**

*Drawing on the economics literature can we design an incentive-compatible institution to address these obstacles?*

<table>
<thead>
<tr>
<th>Topic</th>
<th>Literature</th>
</tr>
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<tbody>
<tr>
<td>Tournaments vs. contracts</td>
<td>Lazear and Rosen (1981); Green and Stokey (1983); Nalebuff and Stiglitz (1983)</td>
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<td>Jurisdictional competition and “voting with your feet”</td>
<td>Tiebout (1956); Revesz (1996); Frey and Eichenberger (1999)</td>
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<td>“Yardstick” competition</td>
<td>Shleifer (1985)</td>
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<td>Decentralization, fiscal federalism</td>
<td>Bahl (many); Prud’Homme (1995); Weingast <em>et al.</em> (2002, 1995); Oates (1972), (2005); Smoke (2007)</td>
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<td>Participatory development</td>
<td>Platteau (1996); (2005)</td>
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<td>Mechanism design</td>
<td>Mookherjee (2006)</td>
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<td>Experimental design</td>
<td>Kagel and Roth (1995); Greenberg and Schroder (2004)</td>
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<td>Principal agency</td>
<td>Laffont and Tirole (1993); Holstrom (1992)</td>
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<td>Public disclosure</td>
<td>Tietenberg (2000)</td>
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<td>Common property regimes</td>
<td>Ostrom (1990), (2000)</td>
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<td>Collective action</td>
<td>Olson (1965), (1982)</td>
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A reading of this literature suggests some sources of obstacles to development effectiveness:

1. Institution failure (lack of cooperation, collective action, or accountability)
2. Inadequate care in adapting interventions to local conditions
3. A top-down non-participatory, non-voluntary approach
4. Fuzzy, nebulous, excessive and/or incompatible objectives not commonly shared by sponsor, implementers, and beneficiaries
5. Time-inconsistent rules
6. A bilateral “contract” approach to development assistance (“purchase” of reform)
The PIJC Approach (1)

We propose an approach based on prospective inter-jurisdictional competition (PIJC), which may hold promise to mitigate many of these concerns by

- harnessing inter-group competition to foster intra-group cooperation in a “race to the top”;
- using the sponsor (donor or central government) as referee;
- aligning sponsor and recipient incentives (and objectives); and
- combining existing, field-tested, governance components

Let’s look at three canonical cases…
The PIJC Approach (2) - Case I: Certification

1. **Idea**: Introduce rating system where jurisdiction gets score, which it can market to attract investors, donors, SNG transfers (Ex. “stars”)
   a. Reform-minded self-select to participate
   b. Results-oriented, not input-oriented
   c. Easy for “peasant-on-the-street” to understand
   d. Harnesses some social capital and creates some peer pressure, as political constituencies view neighboring performance
   e. A variant: provide a pecuniary or in-kind reward (or penalty)

2. **Examples**: Environmental labeling; audit of public accounts; “No Child Left Behind” school threshold testing; credit scoring

3. **Challenges**:
   a. Do we have the knowledge to set the threshold?
      • Too low and those above it won’t try to improve
      • Too high will discourage participation
   b. If there is systematic risk then there may be too little participation or too few winners
The PIJC Approach (3) - Case II: Pure Tournaments

1. **Idea**: Let the performance of participating entities ("players") determine the scope for change as they compete against each other in a "tournament" (rank, not absolute score matters) whose rules, tasks, pecuniary benefits, and opportunities for recognition are agreed upon in advance with the sponsor.
   a. All of the properties of certification, plus…
   b. No pre-set "standard" required; the standard is endogenously determined

2. **Example**: Selection of city for Olympics, some grant programs

3. **Challenges**:
   a. Even with runner-up prizes, the "winner-takes-all" incentives discourage players who do not expect to win.
   b. Measuring may be more complicated since scoring requires more than the presence or absence of a change in order to have performance spreads across the players
   c. May require more sophisticated participants than under certification
The PIJC Approach (4) - Case III: Mixed Tournaments

1. **Idea**: Same as pure tournament but with performance thresholds (certification for “consolation” prizes)
   - a. All of properties of pure tournaments
   - b. Greater peer pressure than certification
   - c. Increases participation (encourages self-identified weaker players to play)
   - d. Avoids winners with sub-standard performance

2. **Examples**:
   - a. Conglomerate funding allocations
   - b. New York Regent Scholarships

3. **Challenges**:
   - a. Measuring may be more complicated than under certification
   - b. Require more sophisticated participants than under certification
   - c. Most complicated implementation of the three cases
The PIJC Approach (5) - “Full” application components

Idealized checklist to assess successes and failures:

1. Sponsor-approved task menu selected by recipients (Ex. investment regulations, admin. procedures, governance at the municipal level)

2. Rating system of (absolute or improved) performance based on baseline and endline indicators of menu tasks for all jurisdictions in tournament frame (Ex. Up to 5 stars)

3. A voluntary tournament among eligible jurisdictions over a specified period (Ex. 160 communes over 18-months), ideally, a repeated game

4. Strategic communication plan Pre-tournament: “PR” campaign; post-tournament: dissemination of jurisdictional and officials’ performance

5. Technical assistance during competition for jurisdictions striving to improve (i.e., those who pre-commit)

6. Rewards structure for constituencies and officials within winning, placing, and, also-ran jurisdictions (Ex. financing, technical assistance, international marketing)

7. Evaluation methodology optional but low-cost (Ex. randomized trials)
The PIJC Approach (6) - Benefits of the approach

1. Builds on social capital and encourages voluntary cooperation
2. Better aid targeting through demand-driven, results-based allocations
3. Greater leveraging, allocational efficiency, and cost-effectiveness of sponsor funds
4. Greater use of local know-how
5. Increases legitimacy of reforms
6. Sponsor harnesses incentives rather than fights them
7. Minimal need for sponsor monitoring of reform activity
8. Information does not equal communication
9. Power of peer pressure and local reputation
10. Use of benchmarking permits use of evaluation by randomized trials
11. Signals jurisdiction’s seriousness to donors and investors, alike

Sounds great, but do any PIJCs exist?
### Case study analysis (1) - Tournaments examined

<table>
<thead>
<tr>
<th>Project (sponsor)</th>
<th>Description*</th>
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<tbody>
<tr>
<td>Romania Five Star (USAID)</td>
<td>Red tape reduction; Romania municipalities (C)</td>
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<tr>
<td>Galing Pook, Philippine (Rockefeller)</td>
<td>Local government innovation; Philippines (T)</td>
</tr>
<tr>
<td>Millennium Challenge Corp.</td>
<td>Governance and policy quality; country level (M)</td>
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<tr>
<td>Nigeria Score card (World Bank)</td>
<td>Red tape reduction; Nigerian counties (C or T?)</td>
</tr>
<tr>
<td>Nigeria Score card (World Bank)</td>
<td>Fiscal reform in 15 Russian regions (M)</td>
</tr>
<tr>
<td>MEPI Morocco (UNIDO, State)</td>
<td>Red tape, youth and women entrepreneurship (M)</td>
</tr>
<tr>
<td>Literacy in Senegal (World Bank)</td>
<td>Private delivery of literacy and BDS services</td>
</tr>
<tr>
<td>Mancomunidades, Honduras (USAID)</td>
<td>Local government strengthening to those best prepared to receive it (T)</td>
</tr>
<tr>
<td>KDP, Indonesia (World Bank)</td>
<td>Village infrastructure initiative grants (T)</td>
</tr>
<tr>
<td>PROPER Indonesia (GOI)</td>
<td>Large enterprise environmental performance (C)</td>
</tr>
<tr>
<td>Jharkhand scorecard (PAF &amp; WB)</td>
<td>Consumers rate local public service delivery (C)</td>
</tr>
<tr>
<td>USAID’s R4</td>
<td>Management indicators for project impacts (C)</td>
</tr>
</tbody>
</table>

*(C)=Certification; (T)=Tournament; (M)=Mixed tournament

**Many other applications:** IMF allocations, SEED/ILO, INJAZ (Lebanon), pollution in Chinese cities, performance-based budgeting, blue ribbon cities, etc.
Case study analysis (2) - Characteristics examined

- Problem statement
- Objectives
- Sponsors and implementers
- Cost and time requirements
- Players
- Rules of the game
- Rewards
- PIJC components
- Stated (claimed) results
- Initial conditions
- Assessment
- Sustainability
- Replicability / Scalability
Case study analysis (3) - Choice of mechanism

- **Conventional approach.** Best where there are one or few recipients who need substantial help, where objectives require limited idiosyncratic local information, and where rigorous evaluation is not desired;

- **Certification-type approach.** Best where a clear minimum level of performance is more important than achieving highest feasible performance, when 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;

- **Tournament-type approach.** Best 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.
Projects that offered salient rewards and adequate technical assistance during the competition (e.g., Russia Fiscal Reform project, KDP project in Indonesia) did better than those that didn’t.

Ownership (of reform) matters (Ex. KDP, Russia Fiscal)

Those 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 (e.g., Galing Pook).

We do not find evidence for tournament fatigue in well run programs (since players are constantly changing) nor “loser regret” (Russia Fiscal)

Competitive mechanisms (tournaments and certifications) seem to generate more cooperation and collective action than non-competitive mechanisms! (e.g., Senegal)

Competitive mechanisms create externalities as jurisdictions learn the power of collective action. (e.g., KDP; Morocco)

Tournaments reduce adverse selection (and, therefore, sponsor monitoring), since only true performance matters (Nigeria LEEMP; Honduras)
Case study analysis (5) - PIJC challenges

- Tournaments based on indicators of past performance had a much weaker incentive effect (Ex. Mancomunidades in Honduras, Nigerian Scorecard Project) than those based on performance during the competition (Ex. Russia Fiscal Reform project).

- Where rewards were insufficiently specific their incentive impact was not commensurate with their implementation costs (Ex. USAID’s R4).

- Setting the size and structure of rewards for optimal incentive effect is tricky (but successful projects were able to adapt to the local context); clever score dissemination can reduce cost of rewards.

- Where sponsor was not willing to withhold rewards for sub-standard performance, overall program performance deteriorated (Ex. Literacy in Senegal)

In short, PIJC components need to work together or problems occur.
Case study analysis (6) - Initial conditions impact

- Good to have a basic *de jure* legislative and regulatory framework in place (PIJC “exercises” *de jure* laws)
- While a sufficient number of jurisdictions is preferred a small number of players can be feasible (e.g., Russia Fiscal)
- Greater jurisdictional performance homogeneity required for tournaments in levels than tournaments in changes (improvements)
- The greater the culture of corruption or the lower is the level of education the simpler should be the tournament design (Literacy in Senegal)
- Higher jurisdictional cooperative spirit led to greater performance
- Requires stronger intra- vs. inter-jurisdictional identity
- (Somewhat) reliable official data can reduce project costs
- A general desire for change and task champions (in local government or civil society) should exist
Case study analysis (7) - PIJC sustainability

One must distinguish between process versus product sustainability

**Process:**
- Well run programs—even without pecuniary rewards—not only do *not* show tournament fatigue, they are replicated in other countries (Galing Pook, PROPER)
- Incentive mechanisms are more effective when run by an organization outside the one whose behavior is to be modified (Jharkhand vs. USAID R4; Literacy in Senegal)
- Sponsor should stay the course until a program’s reputation is firmly established

**Product:**
- Output-based tournaments were more sustainable than input-based ones
- When structure of rewards were both privately and publicly capture-able, results more sustainable
Case study analysis (8) - PIJC scalability

Also must distinguish between process versus product scalability

**Process:**
- Fixed costs of implementation are lumpy, falling until capacity constraints hit and then jump up discontinuously (Ex. MCC) However, it appears that most of the case studies could scale up without such problems (Russia Fiscal, KDP have been scaled up).
- Economies of scale (e.g., in public relations, data collection)

**Product:**
- Collective action is harder as the number of team members increases
- Consider nesting tournaments (Ex. communes within each province compete and provinces compete, based on average commune scores)
- Facilitate scalability and replicability by
  - adjusting the number of tournament tasks and indicators to track them
  - adjusting tasks to local cultural condition
- PIJC fixed costs of design fall as scale increases
A look to the future PIJC applications

We have only scratched the surface of PIJC possibility:

1. Existing MCC compacts contain tasks amenable for PIJC incentives (farmer organizations, WUAs, villages)

2. Zinnes (2007, forthcoming) identifies a half-dozen government or donor projects, running the gamut from tackling human rights abuse, improvement in higher education, and increasing dairy sector output—all of which have been proposed to (and rejected by) the donor community.

3. The World Bank has shown the potential of PIJC for decentralization applications, but more experimentation may be called for.

4. Creating temporary “mini-states” in Iraq and Afghanistan, slowly ceding powers voluntarily to a central authority over time.

But is PIJC only good for ad hoc fiscal grants or might it play a role in revenue sharing? Or will PIJC simply create a parallel local expenditure system?