Social Accountability to Contain Corruption

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We investigate the welfare properties of simple rules for reappointment aimed at holding a public official accountable and monitor his activity. The public official allocates budget resources to various activities which results in the delivery of public services to citizens. He has discretion over the use of resource so he can divert some of them for private ends. Because of a liability constraint, zero diversion can never be secured in all states. The optimal reappointment mechanism under complete information is shown to exhibit some leniency. Under asymmetric information (about the state), a rule with random verification in a pre-announced subset is shown to be optimal in a class of common rules. Surprisingly, most common rules make little use of hard information about service delivery when available. In contrast requesting that the PO defends his records publicly can be very useful if the service users can refute false claims with cheap talk complaints: the first best complete information outcome can be approached in the absence of any observation by the manager of the accountability mechanism.

HOLDING PUBLIC OFFICIALS ACCOUNTABLE

Typically, we do not observe high power incentive contracts for public officials (PO). Most often the official receives a fixed salary and incentive transfers are rare. Instead the decision as to whether or not to keep the official in office is used to discipline public officials. The recent developments of the so called transparency and accountability initiatives have come about because of a great frustration with elections and bureaucratic procedures as the dominating means for holding politicians and high level bureaucrats accountable for their decisions. **There is a broad consensus that those instruments are grossly inefficient** in terms of monitoring public officials and fighting corruption and that they need to be complemented with novel mechanisms.

The field of Transparency and Accountability (T&A) emerged as a field in development about 20 years ago. T&A initiatives to encourage social accountability have flourished, affecting very different activities ranging from service delivery (e.g., complaint mechanisms, citizen report cards, community monitoring and social audit) to the management of natural resources (e.g., the Extractive Industry Transparency Initiative (EITI)), the budget process (e.g., participatory budget approaches, public-expenditure monitoring, participatory auditing, open budget) and the enforcement of the right to work.

The aims and claims of what T&A initiatives can deliver tend to be broad. These include contributing to the fight against corruption, improving the quality of governance, increasing development effectiveness, greater citizen empowerment and redressing unequal power relations to achieve essential human rights. These broad and ill-defined aims have helped to create a fair amount of confusion. As emphasized in multiple evaluation reports **"we are facing a serious deficit of understanding of the mechanisms at work in those initiatives which makes their evaluation hazardous".** The present paper aims at contributing to filling this gap.

OUR APPROACH

Accountability is a composite concept. It has been described as comprising three elements: "answerability**"** - the obligation to justify one's action; "enforcement" - the sanction if the action and/or the justification are not satisfactory; and "responsiveness**"** - the willingness of those held accountable to respond to demand made. **Accountability can be reformulated as a monitoring mechanism that includes an obligation to participate to an ex post persuasion procedure.** The kind of situation that we consider is the provision of public services such as education, health, sanitation or any other valuable service to citizens.

Les Mémos ETA

In our model, the provision of public services depends on the resources the PO allocates to the service as well as on some stochastic (service specific) state of productivity only observed by the PO. **Our main focus is on corruption here defined as the diversion of public funds from the provision of public services to private ends**. The public official has effective discretion to divert resources because of a liability constraint (the hardest punishment is dismissal) and because of informational asymmetry.

The question we ask in this paper is whether and **how much welfare can be increased (service delivery improved) when associating service users** to an accountability mechanism that has limited verification resources. On the one hand we have a PO who implicitly or explicitly claims that he spends the money properly and always wants to be reappointed in office. On the other hand we have the citizens who also want to reappoint the PO but only if he spend the money properly. They know a corrupt PO diverts money unless he is punished for doing so. They have to devise a mechanism to learn about his behavior and sanction it. The most natural thing that comes to mind is verification i.e., to verify the (explicit or implicit) claims of the PO and if diversion is detected dismiss the PO. Clearly, if the citizens can verify all the claims, they have complete information and first-best can be achieved. Systematic verification is not a realistic option however. Citizens typically lack the necessary time (not to mention willingness) and information processing capacity. In this paper we consider limited verification i.e., only a few - most of the time only one - service can be verified.

Our focus is on accountability mechanisms of the form: **to persuade the citizens that he did not divert fund and deserves reappointment, the PO must provide some evidence specified by the mechanism**. Otherwise, i.e., if he fails to provide the evidence, the citizens believe that he diverted money and he will be dismissed. The accountability mechanism is announced before the PO makes his allocation decision. The objective is to minimize diversion (monitoring).

ACCOUNTABILITY TO CONTAIN CORRUPTION: WHAT DO WE LEARN?

We first characterize **a (first best) complete information optimal mechanism** which **departs from the zero tolerance principle** as a consequence of the liability constraint. It features a satisfaction level (a sufficient target) above which the PO is implicitly allowed to divert funds. Next we show that in the absence of any information about the PO's behavior, the optimal P-rule (persuasion rule) based on random verification calls for verification in a pre-announced subset of services. It secures no diversion within that subset of services only. Surprisingly, the availability of information about the quality of service delivery (a signal of PO's behavior) is of little value. In particular we find that **a most intuitive mechanism** which consists in a rule that calls for the verification of one of the services where diversion might have occurred i.e. low quality services, is a very bad idea. It **leads to maximal diversion.** The intuition is that such a rule increases the PO's cost of refraining from diversion in the first place. Instead diluting detection probability maximally by diverting whenever possible becomes optimal. Combining random verification with a necessary performance target weakly improves upon the optimal random verification outcome. We next turn to social accountability and investigate the value of communication. We show that **a debate where the public official publicly defends his record and where service users may refute his claim with cheap talk complaints** can be exploited in a mechanism that **approaches the complete information first best outcome.** The reason is that proposed P-rule allows exploiting service users' information about local conditions (state of productivity). We show that **this can be done in a way that is little demanding from service users**.

POLICY IMPLICATIONS

Our results support the intuition behind social accountability initiatives. It reveals that a well-designed persuasion procedure involving service users can play a significant role in improving welfare. In particular **existing internet based complaint platforms can be adapted for that purpose.** We trust that clarifying the properties of citizen-led accountability mechanisms can play an important role in grounding their legitimacy. A direct integration of well-understood accountability mechanisms in more formal contractual relationships can also be considered. For instance a public official employment contract can include a provision where he commits to accept the outcome of the accountability mechanism just as professional evaluation affects the career of employees.

References

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