



## Regular article

Social accountability to contain corruption<sup>☆</sup>A. Lambert-Mogiliansky<sup>\*</sup>

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## ABSTRACT

In this paper we investigate the welfare properties of simple reappointment rules aimed at holding public officials accountable and monitoring their activity. Public officials allocate budget resources to various activities delivering public services to citizens. Officials have discretion over the use of resource, and can divert some of them for private ends. Due to a liability constraint, zero diversion can never be obtained in all states. The optimal reappointment mechanism under complete information is shown to exhibit some leniency. In the absence of information a rule with random verification in a pre-announced subset is shown to be optimal. Surprisingly, most common rules make little use of hard information about service delivery when available. By way of contrast, requesting that the public official defend his record publicly can be very useful if service users can refute false claims with cheap-talk complaints: the first-best complete information outcome can be approached.

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## 1. Introduction

We typically do not observe high-powered incentive contracts for public officials. Most often the official receives a fixed salary and incentive transfers are rare. Instead the decision as to whether to retain the official in their job is used to discipline public officials. Politicians can be ousted from power by general elections, and high-level bureaucrats by politicians or bureaucratic procedures. The recent developments of so-called transparency and accountability initiatives have come about because of considerable frustration with elections and bureaucratic procedures as the dominant means of holding politicians and high level bureaucrats accountable for their decisions.<sup>1</sup> 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 new mechanisms.

Transparency and accountability initiatives have a long tradition in the US (cf. Open Government) with some recent very interesting developments (see e.g., Noveck, 2009). There has also been a fascinating recent upsurge of activities in developing countries including India. This is partly due to the enactment of the Right to Information Act, and partly to the development of new technologies that allow for innovative approaches based on Web 2.0 technology. For a review of those initiatives see e.g., Posani and Ayard (2009). As emphasized in multiple evaluation reports (see McGee and Gaventa, 2011a, 2011b, for example)

“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 to help fill this gap.

Accountability is a composite concept. It has been described (see Malena et al., 2004) 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 demands made. The first element is informational, and we can formulate it as the obligation to persuade of the suitability of one’s action upon request. The second is incentives (or effective sanctions). The third element is monitoring. Accountability can be reformulated as a monitoring mechanism that includes an obligation to participate in an ex post persuasion procedure. As noted above, the use of monetary incentives is typically very constrained: the wage is fixed and sanctions are often reduced to reputation costs affecting the chance of reappointment. The emphasis in this paper is therefore on (ex-post) mechanisms managed by citizens that determine how the public official (hereafter the official) can persuade them that he or she deserves reappointment.

The kind of situation we consider is the provision of public services such as education, health, sanitation or some other service valued by citizens.<sup>2</sup> In our model, the provision of public services depends on the resources the official allocates to the service, as well as some stochastic (service-specific) state of productivity that is only observed by the official. Our main focus is on corruption, defined here as the diversion of public funds from the provision of public services to private ends. The public official has effective discretion to divert resources due to a liability constraint (the harshest punishment is dismissal) and informational

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<sup>1</sup> Criminal courts are not perceived as an alternative either. This is partly due to the process being slow and very demanding in terms of evidence.

<sup>2</sup> In Andhra Pradesh the National Rural Employment Guarantee Act has been the playground for well-documented social-accountability initiatives.

asymmetry. In the absence of any signal of the official's behavior (e.g., a performance measure, a verification outcome, announcements, and service users' complaints) citizens have no way of preventing a corrupt official from diverting money: the official is in effect not at all accountable for the use of resources.

The question we ask here is whether and how much welfare can be increased (service delivery improved) by associating service users to an accountability mechanism that has limited verification resources. On the one hand we have an official 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 citizens who also want to reappoint the official, but only if he spends the money properly. They know a corrupt official diverts money unless he is punished for doing so.<sup>3</sup> They have to devise a mechanism to monitor his behavior. The most natural thing that comes to mind is verification i.e. to check the (explicit or implicit) claims of the official, and if diversion is detected dismiss the official. Clearly, if citizens can check all claims, they have complete information and the 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. But they could appeal to a professional auditor and pay for his services. In this paper we do not consider costly verification. One reason – consistent with our concern for corruption – is that in most LDCs there is no reason to trust independent auditors more than a bureaucratic audit.<sup>4</sup> The failure of bureaucratic verification is precisely what triggers the development of citizen-based initiatives: bureaucrats collude with the official and the official is expected to collude with an outside auditor. Therefore, instead of costly verification, we consider limited verification where only a few – most of the time only one – services can be checked. The verification is performed by the citizens themselves: they process the evidence provided by the official upon their request.<sup>5</sup> The question boils down to the design of a selection rule that determines which services will be checked. Our focus is therefore on accountability mechanisms with the following form: to persuade the citizens that he deserves reappointment, the official must provide some evidence specified by the mechanism. Otherwise (i.e. if he fails to provide the evidence) the citizens believe that he has diverted money and so will be dismissed.

We first characterize a (first-best) complete-information optimal mechanism which departs from the zero-tolerance principle due to the liability constraint. This is characterized by a satisfaction level (a sufficient target) above which the official is implicitly allowed to divert funds. In the absence of any information about the official's behavior, the optimal P-rule (persuasion rule) calls for random verification within a pre-announced subset of services. This ensures that there is no diversion in that subset of services only. Surprisingly, the availability of information about the quality of service delivery (a signal of the official's behavior) is of little value. In particular we find that the most intuitive mechanism, which consists of a rule calling for the verification of one of the services where diversion might have occurred, i.e. low-quality services, is a very bad idea as it leads to maximal diversion. The intuition here is that such a rule increases the official's cost of refraining from diversion in the first place. Instead the maximal dilution of the detection probability 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 comes close to the complete-information first-best outcome. This result provides some support for the intuition behind social accountability initiatives, and shows that a well-designed persuasion game involving the public can play a significant role in improving welfare. In particular existing internet-based complaint platforms can be adapted for this purpose.

### 1.1. Related literature

The issue of accountability has been addressed in the political science and political economy literature (e.g., Persson et al., 1997, Maskin and Tirole, 2004). The emphasis there is on election rules and organizational structures. Our approach shares common features with the literature on optimal monitoring with ex-post verification (cf. Gale and Hellwig, 1985, Townsend, 1997, Ben Porath et al., 2012). In contrast with e.g., Townsend, we do not consider an explicit cost of verification: we instead assume limited verification resources. Moreover we are interested in the value of communication. This brings us closer to the persuasion literature (cf. Glazer and Rubinstein, 2004, 2006). A first contribution of this paper is to formulate accountability in terms of persuasion. This allows us to integrate the communication features typical in social-accountability initiatives into an optimal regulation analysis. A second contribution is to characterize the optimal use of limited verification resources with and without communication to deter corruption in a common situation of delegated resource allocation.

The paper is organized as follows. In Section 2 we discuss the state of the art in the development community, and in Section 3 the general model is introduced. Section 4 characterizes two benchmarks: the complete-information first-best and the optimal mechanism in the polar case of absence of any observation. Section 5 investigates the optimal accountability rule (within a restricted class) when information about service delivery is available. Section 6 develops the full mechanism with both communication and verification, and our concluding remarks appear in the final section.

## 2. Social accountability: Toward a “theory of change”

According to the World Bank “while the concept of social accountability remains contested, it can broadly be understood as a range of actions and strategies beyond voting, that societal actors – namely the citizens – employ to hold the state to account” (World Bank, 2013). Accordingly, we shall not deal with the design of a public monitoring agency. Instead, we consider a situation where citizens, via NGOs or ad-hoc associations, manage the mechanism by themselves, as in most social-accountability initiatives.

Social accountability is developing because of the frustrating inefficiency of traditional forms of control over bureaucracies in certain environments and, as mentioned in the Introduction section, due to the development of new technologies. Keeping bureaucrats accountable has long been recognized as an issue in democracies. In his celebrated essay “Bureaucracy” (1958) Max Weber argues that delegating decision power to bureaucrats is basically abdication as their expertise (private information) makes effective control by legislators impossible. Others have responded that institutional design and procedures are efficient means to overcome this problem. As argued in Lupia and McCubbins (1994), the latter underestimate the lack of willingness of bureaucrats to facilitate control, as they can be obstructive in order to keep information hidden. Further, they write “Whether a legislator can overcome the problem associated with bureaucratic accountability depends on their ability to obtain information about the consequences of bureaucratic activity” (p.92). When bureaucrats' obstructive activity is of particular concern and outside experts cannot be relied on (two features that characterize an environment where corruption is a problem) appealing to citizens appears as one possible way of improving information and monitoring bureaucrats.

<sup>3</sup> We here use the term corruption in the sense of embezzlement.

<sup>4</sup> The recent scandals with auditing firms, for example Enron, show that it can be difficult to prevent collusion even in developed economies.

<sup>5</sup> In contrast to Glazer and Rubinstein, 2006, but in line with their 2004 paper, we do not let the PO choose the service on which evidence is provided. Instead the receiver (here the citizens) chooses according to an explicit pre-announced rule.

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