



# Addressing governance challenges in the provision of animal health services: A review of the literature and empirical application transaction cost theory



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## ABSTRACT

Providing adequate animal health services to smallholder farmers in developing countries has remained a challenge, in spite of various reform efforts during the past decades. The focuses of the past reforms were on market failures to decide what the public sector, the private sector, and the “third sector” (the community-based sector) should do with regard to providing animal health services. However, such frameworks have paid limited attention to the governance challenges inherent in the provision of animal health services. This paper presents a framework for analyzing institutional arrangements for providing animal health services that focus not only on market failures, but also on governance challenges, such as elite capture, and absenteeism of staff. As an analytical basis, Williamson’s discriminating alignment hypothesis is applied to assess the cost-effectiveness of different institutional arrangements for animal health services in view of both market failures and governance challenges. This framework is used to generate testable hypotheses on the appropriateness of different institutional arrangements for providing animal health services, depending on context-specific circumstances. Data from Uganda and Kenya on clinical veterinary services is used to provide an empirical test of these hypotheses and to demonstrate application of Williamson’s transaction cost theory to veterinary service delivery. The paper concludes that strong public sector involvement, especially in building and strengthening a synergistic relation-based referral arrangement between paraprofessionals and veterinarians is imperative in improving animal health service delivery in developing countries.

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## 1. Introduction

Providing effective animal health services to livestock keepers in developing countries has remained a challenge. Provision of these services by the government prevailed in the first decades after developing countries reached their independence. In the structural adjustment period that began in the 1980s, government provision of livestock services came under increasing criticism for high costs and limited effectiveness. A solution was seen in the privatization of those veterinary services for which no market failure was assumed to exist (Leonard, 2002; Pica-Ciamarra and Otte, 2008; Riviere-Cinnamond, 2004). An important analytical framework to

justify this approach was developed by Umali et al. (1994), who applied concepts of public economics to determine the services for which a market for animal health services was expected to emerge – a market in which private veterinarians and other private service providers could flourish. The experience showed that this approach had its merits. High-potential areas and market-oriented livestock systems, such as the intensive dairy systems of Kenya, are indeed served by this market (Oruko and Ndung’u, 2009). However, marginal areas and poorer livestock keepers continued to lack adequate access to animal health services (Okwiri et al., 2001; Oruko et al., 2000).

Following the failures of both the public and the private sector in these areas, a new wave of reform focused on a “third sector” consisting of community-based animal health workers. In spite of initial concerns about their capacity, they became a major feature of recent reform efforts (McSherry and Brass, 2008). And indeed, this approach had its merits, too. For example, the eradication of the rinderpest – which is without a doubt the single biggest suc-

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cess in animal health provision in modern history—would not have been possible without the thousands of community-animal health workers who vaccinated animals in the most remote and conflict-affected areas of the developing world (FAO, 2012a).

However, the “third sector” approach is not a panacea and serious problems remain in spite of reform efforts and their successes (Oruko and Ndung’u, 2009). Foot and Mouth disease (FMD), Contagious Bovine Pleurapneumonia (CBPP) in cattle and Rift Valley Fever disease in both cattle and humans have continued to inflict serious losses to livestock farmers, especially the rural poor. For example, in 2011 there were 60 outbreaks of FMD reported in Kenya, 58 in Ethiopia, 15 in Uganda, 57 in Ghana, and 161 in Burkina-Faso (FAO, 2012b). Over 15 million cattle, sheep and goats suffer from FMD annually (Knight-Jones and Rushton, 2013). The overall economic costs of FMD for each country in East Africa is estimated to be US\$4.5 billion annually (ILRI, 2012). In 2002, 87 outbreaks of CBPP were reported in East Africa, 54 of which occurred in Uganda, 18 in Kenya and 15 in Tanzania (Tambi et al., 2006). Estimates by Rich and Wanyoike, (2010) indicate that the 2007 outbreak of Rift Valley Fever disease in Garrisa and Injara districts in Kenya led to economic losses of US\$9.3 million in the two districts (Rich and Wanyoike, 2010) which is more than twice the budget expenditures of the two districts estimated to be US\$3.5 million. These values include both direct and indirect costs such as loss in milk, and abortions as well as losses made when sick animals are sold to avoid total loss due to death and losses to traders and slaughter houses.

A study of livestock keepers in Northern Ghana by Mockshell et al. (2014) showed that such losses are not only important from the perspective of national development, but are also important for household welfare especially as a source of food (milk and meat), income, draft power (transportation and animal traction) and food nutrients required for human development (Bender et al., 2006; FAO, 2011). For poor people who depend on livestock, every animal lost can be a threat to the family’s livelihood and future development opportunity. Moreover, with the current European Union (EU) led “zero tolerance” standards on free disease regions, poor livestock keepers are missing out from the increasing global demand for food of animal origin, which is the driving force behind the “livestock revolution” (Otte et al., 2004; Wymann et al., 2007).

Why do these problems remain in spite of all of the previous reform efforts? As will be discussed in this paper, a major reason can be seen in the neglect of the governance challenges that are inherent in each of the three sectors—public, private, and third—which can be involved in the provision of animal health services (Birner and Gunaweera, 2002). While “good governance” [deliberate effort to create workable arrangements to ensure continuity and mutuality in exchange (Williamson, 2005)] has been on the development agenda since the late 1990s (UN, 1998), governance issues have remained relatively neglected in the debate on animal health services. As noted by Vallat and Mallet (2006), good governance is a key to addressing the emerging and re-emerging animal disease threats. Yet, little attention has been paid to this problem. According to the World Bank (1994), good governance is characterized by predictable, open and enlightened policy making; a bureaucracy instilled with a professional character; an executive arm of government accountable for its actions; and a strong civil society participating in public affairs; and all behaving under the rule of law. This definition is of particular relevance because it emphasizes the need for transparency and accountability in policy making process and the significance of all actors performing their responsibilities effectively, in a sustainable, coordinated and coherent manner. Such actors may include political actors and institutions, interest groups, civil society, and non-governmental and transnational organizations. Sustaining coordination and coherence among actors is key to promoting suitable governance for veterinary health policies (Vallat and Mallet, 2006).

The problems inherent in public sector service provision are well known. In fact, they have been the major reason for the drive towards privatization in the 1980s. One problem is the absenteeism of extension staff: veterinarians and other staff are absent from their duty stations and fail to visit their clients since it is very difficult for the government, especially the central government, to supervise them. The problem of absenteeism of civil servants is a serious problem for service providers in primary education and health (Chaudhury and Hammer, 2006). Another problem is sub-standard performance, which arises from the information asymmetry problem—the livestock keeper has difficulties to assess whether a negative result, such as the death of a sick animal, is due to lack of effort and skills of the service provider or due to reasons beyond his or her control (Leonard and Leonard, 1998, 1999; Leonard, 2002). A third problem is the propensity of public sector service providers to demand “fees” or accept favors or bribes in return for preferential treatment from veterinarians (Heffernan and Misturelli, 2000). As a consequence, poor livestock farmers have less access to their services, resulting in a problem also referred to as “elite capture”—the better off farmers are able to capture a larger share, or all, of the public spending made for the provision of these services (Birner and Anderson, 2007). Public sector service provision is also affected by a range of problems, which are not the “fault” of individual staff. Lack or delay of the government funding necessary to buy vaccines and equipment, low salaries and failure to pay the salary of service providers in time, are frequent problems in developing countries.

The private sector has its own challenges just like the public sector. Some challenges were well-known and addressed in the early analytical frameworks (ref to Ahuja et al., 2004; Umali et al., 1994). Preventive services such vaccinations have positive externalities and involve collective action problems. For example, individual livestock keepers have incentives to “free-ride” and save costs by not vaccinating their animals, assuming that others vaccinate. Such problems justify government involvement. However, other governance challenges of private service provision have been underestimated, as the experience of the privatization reform has shown. Substantial market failures arise due to the high travel costs of serving livestock keepers, especially in pastoral areas and for private veterinarians who for the most part do not live close to or in marginal areas. Cash constraints faced by such farmers aggravate the problem. The challenge of information asymmetry mentioned above also applies to private animal service providers. Hence, sub-standard service provision may also apply in this case. Private veterinarians who sell veterinary drugs also face a conflict of interest or adverse selection and moral hazard problem, as they may be inclined to sell substandard or non-essential drugs (Leonard, 2000).

Community animal health workers — the “third-sector” providers — are subject to the same governance challenges that arise from information asymmetry, yet may be better able to overcome the problem of high transaction costs of service provision. They can demand lower fees because they live in rural areas and do not have to recover the high investment in education that a university-trained veterinarian has to make. However, the downside of this low-cost provision is that they are also less well-trained. Moreover, they are not subject to the same mechanisms of government regulation and self-regulation that characterizes the veterinary profession. In addition, if the community is expected to fund such health workers collectively, the typical free-rider problem of collective action problems may jeopardize their funding. If non-governmental organizations or donors provide funds for community animal health workers, they are subject to a similar or even greater problem regarding the unreliability of funding than their public sector counterparts. Also, people may not feel obliged to pay for their services or value their services if a donor is providing the funding

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