

# Incentives for public service delivery

## Evidence from field experiments

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# The public sector and the economy

- ▶ Public sector provides several key inputs to economic growth:
  - ▶ human capital (health and education)
  - ▶ physical capital (infrastructure, transport)
  - ▶ property rights and contract enforcement
- ▶ The effectiveness of these factors ultimately relies on the effort and skills of the agents hired to deliver them – e.g. teachers, health workers, tax collectors, bureaucrats, etc.
- ▶ How can the State use incentives to recruit, motivate and retain talented agents?

# Agents in the public sector

- ▶ Individuals sort into jobs according to their preferences, skills, and the jobs' own attributes
- ▶ Recent theory and survey evidence suggest that:
  - ▶ individuals who sort into public service jobs have stronger **pro-social preferences** (they put a positive weight on the utility of others)
  - ▶ these jobs tend to have low **material incentives** (earnings, performance rewards)

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  - ▶ motivate agents to perform better
  - ▶ vs. crowd-out their intrinsic motivation and reduce performance
  - ▶ attract talented agents who deliver public services effectively
  - ▶ vs agents with weak pro-social preferences who perform poorly on non-incentivised dimensions

# Today

- ▶ Review micro evidence on the effect of financial incentives on:
  - ▶ the performance of existing agents [*effort channel*]
  - ▶ the selection of agents into public service delivery [*selection channel*]
- ▶ Mostly field experiments run by researchers in collaboration with governments/NGOs in low-income countries
- ▶ Public service delivery, not politics (hired, not elected)

# Do performance rewards improve performance?

- ▶ Performance rewards: any form of reward (monetary bonus, promotion, recognition) tied to performance
- ▶ How do they work?
  - ▶ principal agent model: give the agent a stake/reward for behavior that benefits the principal
- ▶ How does this differ between private and public sectors?

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- ▶ How does this differ between private and public sectors?
- ▶ Motivation crowding out, two channels [Benabou and Tirole 03,06]
  - ▶ reputation
  - ▶ signal (about the nature of the task, or anything that affects the agents' utility)

# Do performance rewards improve performance?

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- ▶ Performance rewards improve the measure of performance that is being rewarded
- ▶ “Camera experiment”: rewarding teachers’ attendance (verified by photo) reduces absenteeism (incentivised dimension) and improves students’ test scores (non-incentivised) [Duflo et al 12]
- ▶ Rewarding teachers for students’ test scores improves test scores (also on non-incentivised subjects) and is more cost-effective than providing extra resources [Lavy 02, Muralidharan and Sundararaman 11]

# Do performance rewards crowd-out intrinsic motivation?

- ▶ In Ashraf et al (14) we vary rewards for agents hired by an NGO to sell condoms in Lusaka, Zambia
- ▶ We measure “intrinsic motivation” via a dictator game and test whether performance rewards are less effective/counterproductive for highly motivated agents
- ▶ We find that
  - ▶ highly motivated agents sell more condoms
  - ▶ performance rewards *crowd in* intrinsic motivation
- ▶ More evidence needed from settings where reputation or signalling effects are likely to strong

## Do performance rewards ever fail?

- ▶ The implementer/quality of implementation matters -“camera incentives” for nurses were ineffective when implemented by the government [Banerjee et al 08]
- ▶ Agents can improve the measure, not overall “performance” [Glewwe et al 10]
- ▶ Schemes too complex for agents to know how to affect the performance measure are ineffective [Fryer 13]
- ▶ Rewarding “box ticking” can reduce bureaucrats performance [Rasul & Rogger 14]
- ▶ Performance rewards can increase corruption by increasing the bargaining power of the agents vs. the citizens [Khan et al 14]

## Performance rewards: an assessment

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- ▶ If not, they are ineffective or detrimental
- ▶ Same as in the private sector
- ▶ Where to from here?
  - ▶ focus on broader motivators: wages, autonomy
  - ▶ focus on selecting the right people
    - ▶ “right”= talented? pro-social? is there a trade-off?

# Do higher wages improve performance?

- ▶ Why would they?
  - ▶ agents might fear losing the well-paid job if they underperform
  - ▶ agents might reciprocate the employer's generosity
- ▶ Micro-evidence from two natural experiments:
  - ▶ lower real wages for hospital staff are associated with worse hospital performance [Propper and Van Reenen 10]
  - ▶ random audits more effective at curtailing corruption when wages are high [Di Tella and Schargrodsky,03]
  - ▶ selection or effort?

# Do incentives affect applicants' traits?

- ▶ Dal Bo et al (13) advertise the same civil service job (in Mexico) with two different wages in different localities
- ▶ They find that higher wages:
  - ▶ attract more, and higher ability applicants
  - ▶ do not “crowd-out” publicly-motivated applicants

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  - ▶ do not “crowd-out” publicly-motivated applicants
- ▶ Will individuals recruited with higher wages perform better?

## Do incentives crowd-out pro-social agents?

- ▶ Deserranno (14) recruits community health promoters (on behalf of BRAC in Uganda) with different earnings expectations in different localities
- ▶ The job has two tasks: sales of medicines and basic products & health advice
- ▶ She finds that higher earnings expectations:
  - ▶ make agents think the job is mostly about sales
  - ▶ attract agents who like sales
  - ▶ discourage agents who are pro-socially motivated
  - ▶ reduce retention rates
- ▶ Results consistent with crowding-out on the extensive (selection) margin

## Do incentives affects performance through selection?

- ▶ In Ashraf et al (2014) we run a nationwide field experiment in collaboration with GoZ (government of Zambia) in the context of their new Community Health Assistant (CHA) program meant to address shortages in rural areas
- ▶ Aim is to test how **career incentives** affect (i) **who self-selects** into public health jobs and (ii) **their performance** *through selection*

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- ▶ Aim is to test how **career incentives** affect (i) **who self-selects** into public health jobs and (ii) **their performance** *through selection*
- ▶ **Career advancement (salary progression) within the civil service can, but does not have to, be used as incentive**
- ▶ *“What will happen now that they see themselves as civil servants? will they retain their connection to the community?” (Mr Mwila, HR director, June 2010)*

## Do incentives affect performance through selection?

- ▶ Career incentives attract more talented candidates who perform better:
  - ▶ 13,800 more household visits over 18 months
  - ▶ 3,200 more community meetings over 18 months
- ▶ Career incentives candidates are equally likely to remain in their posts after 1 year
- ▶ The two main sources of motivation that attract applicants to these jobs, material benefits in the form of career prospects and intrinsic utility due to helping the community, do not clash.

## The lessons so far

- ▶ Economists have made some progress in understanding how to attract, motivate and retain agents in public service delivery
- ▶ Still, much remains to be discovered, especially regarding:
  - ▶ the trade-off between rules and discretion: does autonomy motivate good performance? or is it just a “blank cheque”?
  - ▶ how to harness pro-social preferences