

Tool

Analysis of Governance Mechanisms in Service Provision

Area of Application	Analysis of Institutional Arrangements in Service Provision
Objective	This analytical tool facilitates the analysis of service provision with respect to the identification of bottlenecks relating to the mechanisms regulating service provision

1 Context

When trying to understand the exchange of services within a network of participating actors, simply using a 'service interaction analysis' (SIA) to make the various services exchanged and their associated problems transparent is insufficient. When analysing service networks, studying the underlying institutional arrangements, particularly the '**exchange systems**' and associated '**exchange mechanisms**', could prove equally important, since these largely determine how such networks function. The term 'exchange system' is derived from the 'new institutional economics' literature, and refers to the laws, procedures and common practices that determine the ability of exchange partners to take managerial decisions regarding their 'exchange relationship'¹.

2 Description of the tool

Analysis of governance mechanism follows two basic steps:

1. Identification of Governance Modes
2. Analysis of Governance Modes

Step 1 Identification of Governance Modes

Service delivery occurs in different 'governance modes'. In other words, there are different systems designed to control and regulate interactions between exchange partners. The predominant exchange system in the Western world, for example, is the market, while the main mechanism 'shaping' this relationship is 'price'. At the opposite extreme to market-controlled service provision is centralised state control (either by the state or by a directive-

¹ It is to the credit of the "new political economy" and its scholars that the diversity of possible exchange systems has been brought to the fore. In our opinion, HERDER-DORNEICH is of special significance here, and the ideas developed here refer explicitly to his work (cf. e.g. Ph. Herder-Dorneich 1986: Theorie der sozialen Steuerung I. Die Theorie der Scheine, Baden-Baden)

issuing authority) – or, in more general terms, the ‘exchange system’ of ‘hierarchy’. The exchange mechanism here comes from plans, directives and other elements, by which a management level with directive management authority ensures that pre-set goals are achieved.

Besides these two aspects, recent discussion on the new institutionalism has identified a number of further exchange systems and associated mechanisms that regulate the exchange of goods and services. Examples of this are the ‘election’ (regulating the exchange of services, e.g. in associations and political parties) and so-called ‘non-market’ exchange systems, where the interchange of services is regulated through traditions and social rules (as can be found in many traditional communities in South America and Asia). A selection of different exchange systems and their respective regulatory mechanisms are summarised in Fig. 1, which also names a number of typical problems found to have been relevant concerning the functioning of the respective exchange system².

Obviously, in many situations several exchange systems and mechanisms are involved simultaneously. In a traditional Andean village, for example, maintenance services might be organised according to traditional rules and regulations based on solidarity mechanisms, whereas the interchange of goods will be regulated through the market and prices. In some cases they might even overlap, meaning that social rules (e.g. complex forms of reciprocal family cooperation) might apply in a situation where the service delivery process is basically hierarchically controlled. Generally, however, it is possible to identify the predominant exchange system and its respective mechanisms for every individual service delivery process (maintenance, provision of inputs, representation of interests, etc.)

Step 2 Analysis of Governance Modes

Why is it important to analyse ‘exchange systems’ and their way they function in a development cooperation context? To answer this question, we would like to refer to an example from the irrigation sector which illustrates what advantages analysing the underlying institutional framework, and especially the ‘exchange systems’ involved, might bring.

Maintenance problems are very frequent in the irrigation sector. A typical approach designed to overcome these problems in many development cooperation projects has been to propose the introduction of (higher) irrigation fees, i.e. to make the users pay a (higher) price for water. However, the ‘design’ of the pricing system rarely took the underlying institutional arrangement, i.e. the exchange systems, into account. The question of whether - or more accurately, to what extent - the establishment of a ‘pricing system’ for maintenance was coherent with the rules and regulations affecting the management of maintenance in the respective area was mostly not systematically addressed. But how can a user group that has regulated ‘maintenance’ for centuries according to traditional laws and procedures (e.g. reciprocal family help, as found in Andean villages) be expected to introduce a complex ‘pricing system’? What would the basic preconditions for such an approach to be successful entail? The same argument applies regarding the ‘installation’ of ‘water user associations’ with elected representatives in situations where ‘elections’ are not customary (in tribal systems or autocratic societies, for example).

Unsurprisingly, the introduction of water pricing as a solution for maintenance crises was only successful under conditions where market and price mechanisms were fairly well established

² It is interesting to note that for a long time the debate on exchange systems exclusively focused on the two ‘market’ and ‘state’ systems. The current privatisation debate is also frequently simplified in that it only refers to these two alternatives. However, more recently the existence of a variety of different exchange systems has been acknowledged by many scholars.

(as recently seen in Chile, for example). In many other situations (and not purely in very traditional areas in Africa and other parts of South America), such attempts have unfortunately been unsuccessful.

3 Use of the tool

We have hitherto used this tool by applying it to case studies. The case studies illustrate how analysis of the socio-economic framework, i.e. of the 'exchange systems' underlying service delivery, can help to identify possible restrictions and obstacles to the implementation of (project) strategies that have their origin in the underlying socio-economic framework. We are convinced that understanding the underlying socio-economic framework and mechanisms can significantly improve the identification of solutions and strategies that are better adapted to the socio-economic conditions of a given situation.

(See concepts: A illustrated version of two case studies on the 'Analysis of Governance Mechanisms' can be found in Huppert, W. and Urban, K. (1998): Analysing Service Provision instruments for development cooperation illustrated by examples from irrigation, Schriftenreihe der GTZ No. 265, GTZ, Eschborn, Germany, 103 pp)