China: Urban Services and Governance

Hana Brixi

June 2009
Abstract

The study addresses governance challenges in public service delivery in China. It builds on the citizen scorecard survey conducted in five Chinese cities in 2006 to gauge citizens’ experience with public services, and demonstrates the usefulness of citizens’ feedback for policy development and implementation.

The survey found that citizens were generally pleased with urban public services, but worried about the associated fees. Compared to the official urban residents, the urban poor and rural migrants in cities reported sharper utilization constraints, lower readiness to complain or pay informal fees, and a much larger income share spent on public services. The reported citizens’ perceptions sometimes diverged from the evidence and pointed to significant information asymmetries.

Explaining the survey results, the study reveals problems of inadequacy, inequality and misaligned incentives in public resource allocation. The study presents several successful experiments reducing the dependence on user fees in basic education and primary healthcare. It recognizes that China has been undertaking comprehensive reforms to enhance equity and quality in public service delivery. Such reforms have included measures to strengthen the regulatory, monitoring and enforcement systems and accountability relationships.

In the context of the ongoing reforms, this study highlights the need to: a) Hold the provincial governments accountable for public service delivery performance; b) Develop effective mechanisms to align public resources and incentives at each level of government with the national priorities; and c) Develop proper means to empower the citizens. In this context, the study affirms that the Chinese Government is rightly placing reforms in the intergovernmental, administrative and public finance systems on the top of its agenda.

---

1 The paper was developed on the basis of citizens’ scorecard survey analysis and case studies, sponsored by the World Bank in partnership with the Government of China. The survey and background research were conducted in collaboration with the Center for China Study of Tsinghua University, the Development Research Center of the State Council, and the National Bureau of Statistics. UNICEF cosponsored and contributed to the final analysis. Advice was received from Yang Jian of the Ministry of Education, Rao Keqin of the Ministry of Health, and Xu Zongwei of the Ministry of Construction, as well as David Dollar, Vikram Nehru, Ardo Hansson, Bert Hofman, Louis Kuijs and Barbara Nunberg of the World Bank, Yin Yin Nwe of UNICEF, and Hu Angang of Tsinghua University. The authors of background papers include Gordon Liu and Wei Wang (health), Rong Wang and Kin Bing Wu (education), Michael Whitebread and Colin Xu (water), Yongheng Yang (questionnaire and sampling design and data analysis). Albert Park, Hubert Jenny, Phillip Keefer, Shen Mingming, Jack Langenbrunner, Magnus Lindelow, David Hipgrave, Gao Jun, Wu Yaowu, Victor Yuan, Yuan Weiliang, Zhu Xiaomeng, Dong Xiaoyan, and Guo Peiyuan provided inputs and comments. The earlier stages of the project were managed by Mei Wang. Mu Yan, Shi Weilin and Bai Xiaojing of UNICEF assisted in the final stages of the research. Liu Jian translated the paper.

Author contact information: hbrixi@unicef.org and hanabrixi@hotmail.com
Table of Contents

EXECUTIVE SUMMARY ..................................................................................................................................................3

1. CITIZENS’ SCORECARD ...........................................................................................................................................12

1.1 INTRODUCTION..........................................................................................................................................................12
   National policy context ................................................................................................................................................12
   Citizen scorecard survey – rationale and international experience ........................................................................13

1.2 CITIZEN SCORECARD SURVEY IN FIVE CITIES – RESULTS .................................................................14
   Areas of satisfaction ....................................................................................................................................................16
   Areas of dissatisfaction ...............................................................................................................................................18
   Inequality in the financial burden .............................................................................................................................22
   Inequality in utilization and quality of services ......................................................................................................25
   Willingness to complain ..............................................................................................................................................27
   Information asymmetry and barriers ........................................................................................................................29

2. GOVERNANCE CHALLENGES IN URBAN SERVICE DELIVERY ...........................................................31

2.1 FINANCING SERVICE DELIVERY..........................................................................................................................31
   Public finance for service delivery ............................................................................................................................31
   Provider payment system ............................................................................................................................................34

2.2 ACCOUNTABILITY RELATIONSHIPS FOR SERVICE DELIVERY ...................................................................36
   Relationships within government ..............................................................................................................................37
   Relationships between government and providers .................................................................................................39
   The role of citizens .......................................................................................................................................................41

3. BETTER GOVERNANCE FOR PUBLIC SERVICES ........................................................................................43

3.1 HOLDING PROVINCIAL GOVERNMENTS ACCOUNTABLE FOR SERVICES ........................................43
3.2 ALIGNING RESOURCES AND INCENTIVES WITH NATIONAL PRIORITIES ........................................44
3.3 EMPOWERING CITIZENS ..................................................................................................................................47
Executive Summary

*Public service delivery has drawn Government attention in China.* China has a long tradition of providing access to basic public services and achieving human development indicators that are higher than expected for a country at its level of economic development. Over the past 30 years, China’s economic development has been spectacular, lifting hundreds of millions out of poverty and raising average per capita income to the level of lower middle income countries. Analyses suggest, however, that the improvements in human development outcomes during this time period have been somewhat slower compared to the preceding 30 years and compared to the rates of improvement that would be expected to accompany such high levels of economic growth. Furthermore, China has experienced rising disparities in human development outcomes as well as income. Slower progress in human development and rising disparities have partly reflected the expected challenges of transition, including rapid structural shifts in the economy, massive urbanization and vast transformation in the public service delivery systems. In recent years, the Chinese Government has reemphasized the importance of public services and launched large-scale policies to enhance their coverage, quality and equity in utilization. Importantly, China has set for itself an overarching development objective to create a *Harmonious Society*, which puts people at the center of development.

The Government of China has recognized that in order to achieve the development objective to create a *Harmonious Society*, it is necessary to make public services work for all citizens. China’s leadership has accelerated efforts to develop “service-oriented” government. In this perspective, top policymakers have emphasized the importance of increasing transparency, expanding public participation and improving accountability in government and public service delivery.

*This study concentrates on urban services and employs an innovative approach to gauge citizens’ experience and address governance challenges in public service delivery.* To gather citizens’ feedback, a citizen report card was developed and provides a scientific basis for a large-scale survey conducted in 2006, covering 5,000 households in five cities (Chengdu, Dalian, Shanghai-Pudong, Shenzhen and Xi’an). Several case studies complemented the survey to explore the related governance issues, emphasizing financing mechanisms and accountability relationships for public service delivery.

*The study mainly illustrates the usefulness of citizens’ feedback for policy development and implementation.* Specifically, the study shows that the citizen scorecard survey – using a carefully designed questionnaire to gauge citizens’ satisfaction with public services – can help policymakers reveal weaknesses and monitor progress in public service delivery. From the time of the citizen scorecard survey quoted in this study, China has continued enhancing the institutional and policy frameworks for public service delivery. Hence, many issues
identified in this study are already being addressed through new initiatives at the central and local levels.

**The survey found that citizens are generally pleased with public services in urban areas, but worry about the associated fees.** Citizens reported general satisfaction with the schooling of their children, with the quality of healthcare services, and with some administrative aspects of public service delivery, such as the convenience of water bill payment. On the other hand, most surveyed citizens showed dissatisfaction with the amount of fees that they have to pay out of pocket. In fact, the extent of fees paid for essential public services out of pocket by households may be found surprising against the background of the policies that had already been in place at the time of the survey to promote utilization of essential services by the poor and migrant population groups.

In education and health, fees and out-of-pocket charges ranked as the top concern. The survey in the five cities showed that households spent on average nearly 10% of their annual household income on basic education per child during one school year. Among the five cities, households on average spent a similar share of their annual income on primary education per child during one school year, from 8% in Shanghai-Pudong up to 10% in Shenzhen. The differentiation was much greater in the average share of annual household income spent on junior secondary education per child during one school year, which is from 9% in Shanghai-Pudong up to 15% in Dalian.

In education and health, fees and out-of-pocket charges ranked as the top concern. The survey in the five cities showed that households spent on average nearly 10% of their annual household income on basic education per child during one school year. Among the five cities, households on average spent a similar share of their annual income on primary education per child during one school year, from 8% in Shanghai-Pudong up to 10% in Shenzhen. The differentiation was much greater in the average share of annual household income spent on junior secondary education per child during one school year, which is from 9% in Shanghai-Pudong up to 15% in Dalian.

In health, the respondents on average paid out of pocket 57% of medical bills, namely 70% of medical bills for outpatient care and 55% of medical bills for inpatient care. Out-of-pocket spending on health care accounted for 10% of annual income per capita. Specifically, out-of-pocket payments on a single hospitalization accounted for 27% of average annual income per capita. Out-of-pocket payments on a single outpatient visit accounted for 22% of average monthly income per capita. The lowest spending out of pocket relative to income per capita on an average episode of outpatient and inpatient care was in Shenzhen and Shanghai-Pudong. The highest spending out of pocket on an average episode of inpatient care was in Chengdu at 37% of annual income per capita. The highest spending out of pocket on an outpatient visit was in Dalian at 39% of average monthly income per capita. This is very high by international comparison.

The price of utilities was also perceived as a concern by citizens, although household water tariffs fall short of cost recovery and household spending on water at 1% of annual household income (2% of annual household income for the poorest quintile) is acceptable by international comparison.

**The urban poor and migrants spent a large share of household budget on public services and benefit relatively little.** The survey showed that the official urban residents in higher income groups had access to better quality services (including “key schools” and specialized hospitals), were more ready to pay informal fees (such as a hongbao to medical staff which has been reported as common in hospitals), and more ready to complain if they do not receive the expected quality of services. The poorer official urban residents and migrants, on the
other hand, spent a higher share of their budget on public services although they utilized fewer services (for instance, trying to avoid preventive healthcare as well as clinical care when sick). They also reported serious financial and administrative constraints in access to better quality services (including the choice of school and medical providers) and unwillingness to raise concerns or complain. In relative terms, the lowest income quintile group spent the highest proportion of household income on fees and out-of-pocket payments for public services. Migrants registered the greatest limitations with respect to public services (with migrant children being more likely to depend on private schools that according to the analysis charge higher fees and offer lower quality of education).

Relative to household incomes, spending on primary and junior secondary education during one school year per child represented 5% and 7%, respectively, of annual income in households in the richest quintile, and 14% and 19%, respectively, for households in the poorest quintile. Among the five cities, the share of annual household income spent on primary education during one school year per child ranged from 2% in Shanghai-Pudong to 7% in Chengdu for the richest quintile, and from 11% in Shanghai-Pudong to 19% in Shenzhen for the poorest quintile. The share spent on junior secondary education during one school year per child ranged from 6% in Shanghai-Pudong to 13% in Chengdu for the richest quintile, and from 11% in Shanghai-Pudong to 28% in Dalian for the poorest quintile.

In health, out-of-pocket payments for inpatient visits were reported as a common source of household indebtedness and impoverishment among the poor. Out-of-pocket payment associated with a single average hospitalization episode exceeded 140% of annual per capita income in the poorest quintile compared to about 10% in the richest quintile. On a single average hospitalization episode, the poorest quintile spent a 60% of their annual per capita income in Shenzhen compared to nearly 170% in Chengdu. An average outpatient visit required an out-of-pocket payment equal to 84% of monthly per capita income among patients in the poorest quintile compared to about 11% in the richest quintile. On a single outpatient visit, the poorest quintile spent 20% of their monthly per capita income in Shanghai-Pudong compared to 135% in Dalian and Chengdu.

The survey illustrated that citizens’ perceptions sometimes diverge from the evidence and implied the existence of information asymmetries and other information barriers in service delivery. As in other countries, citizens’ perceptions of the quality of services may differ from the results of government inspection. For instance, although government inspections have concluded that the majority of Chinese cities suffer from serious ground water pollution and from secondary contamination in the water distribution system, the surveyed revealed citizens’ lack of awareness of the results in their locality and satisfaction with the quality of their tap water. In healthcare, citizens’ satisfaction with the quality of services contrasted the results of studies pointing to over-provision of expensive services and drugs and under-provision of cheap effective treatments.

Such divergence and the underlying information asymmetries are common internationally. This is mainly because public services generally require specialized expertise to assess their quality, appropriateness, or even safety. The safety of tap water cannot be determined by
human senses. The appropriateness and cost-effectiveness of medical diagnostics and care is little known to a non-specialist. And, the relative performance of schools is also difficult to judge without any scientific evaluation.

The surveyed cities displayed a limited effort to reduce information barriers in service delivery. Case studies revealed that inspection results, as in the case of tap water quality, were kept confidential and unavailable through the public channels. The system to monitor performance of service providers was generally weak and did not provide citizens with the kind of information needed to make informed choices and hold providers accountable. Moreover, in some areas, information about government policies, the administrative procedures (such as school enrollment procedures), standards and fees (such as prices of medical treatments) was not readily available. The survey indicated that obtaining relevant information was most difficult for the poor official urban residents.

The analysis underscored the validity of the government’s effort to enhance equity and quality in public service delivery. The study revealed that, with respect to public services within cities, wide disparities by population group existed in access, utilization, fees and quality. These problems are not surprising given the massive changes in the urban economic and social landscape that have been underpinning China’s fast advancement. Transforming the service delivery system so as to be responsive to the needs of the disadvantaged population groups and flexible enough to accommodate the increasing labor mobility is not an easy task in any country. Making public services work for all is especially difficult in the context of fast economic and social transitions and extensive decentralization. The Chinese government has rightly recognized the importance of public services for sustained economic and social development and, accordingly, has been adjusting national policies and encouraging local governments to promote equity and quality in public service delivery.

Two pressing service delivery issues, both of which are known to the government, are addressed in this report. One is on the financing front, namely lack of access to quality services because of financial constraints. The second is on the public sector governance front, namely lack of access because systems for accountability and overseeing service providers are not sufficiently robust. Service delivery is difficult to improve by focusing on one of these and not the other and, in fact, the government has made significant strides in increasing resources budgeted to service delivery while beginning to strengthen the oversight of service providers. This report emphasizes the importance of continuing these efforts.

First, the financing challenges in public service delivery largely relate to the weaknesses with respect to adequacy and equity in the public finance system and with respect to the provider payment mechanisms. Earlier studies have documented and the government has already started to address the problem of inadequacy and inequality in the allocation of public resources for the delivery of basic public services at the national level. Since late 1990s, a massive public investment program boosted infrastructure, especially the transport sector, across the country. More recently, the government has shifted attention and funding to social sectors and raised public spending on the 9-year compulsory basic education. New initiatives have been launched and backed by higher public spending on health (albeit starting from a
very low level in order to ensure that all citizens can benefit from public health programs and basic care. New spending programs in education and health, involving a greater share of equalization subsidies from the central government, target the rural areas with the objective to reduce the sharp rural-urban inequality in public resource allocation and in public service delivery.

The problems of inadequacy in public resource allocation for public services have also been detected in cities, although to a lesser degree than in rural areas. The study illustrates that funding for many primary and secondary schools, primary healthcare centers and the urban water system failed to meet the needs in many cities. In the surveyed cities, underfunding has jeopardized the reliability and quality of some public services. The underinvestment in water distribution networks, for instance, has been causing frequent delivery problems and contamination in old water pipes.

Similarly, inequality in public resource allocation has emerged among population groups within cities, although less sharp than the rural-urban divide. Analysis suggests that the allocation of public resources has been regressive in cities. Although it is not government policy, public resources in effect favored selected “key schools” and specialized hospitals, which generally catered to the more affluent urban residents. The lower-income official urban residents and migrants generally could not afford or faced administrative barriers when accessing the better funded facilities.

Some cities have successfully adjusted their public spending programs to address the needs of the disadvantaged population groups. The survey and case studies revealed several successful experiments in ensuring appropriate resources for public services at the municipal level. Dalian’s policy of equalization of resources and school capacity has helped improve equity and quality in service delivery in schools in the entire municipality. As a result, among the surveyed cities, Dalian served the poor and migrants best in terms of basic schooling. Jiangsu and Zhejiang offered a good experience with scholarships for poor students. In health, among the surveyed cities, Shanghai-Pudong and Shenzhen have supported training in community health center personnel and have financially encouraged the utilization of community health centers. Consequently, these measures have allowed more low-income citizens to obtain affordable quality care.

The existing provider payment system has distorted incentives away from the interest of the citizens. In China’s cities as well as rural areas, public sector units entrusted with the provision of services and vital government functions, including monitoring and surveillance, have been obliged to generate revenues to cover salaries and other operating cost. International experience and anecdotal evidence in China suggest that the pressure and autonomy to generate revenues, in the presence of information asymmetry and weak monitoring, may have diverted providers toward revenue maximization and away from the citizens’ needs and public interest. Well-intended price controls to make basic services universally accessible may have in fact exacerbated this problem. In urban as well as rural areas, the health providers have substituted expensive diagnostics, services and drugs for cheap effective care to circumvent price caps. Price controls have also distorted the behavior
of consumers. The survey suggested, for instance, water use efficiency was low particularly among the more affluent urban households.

Although national guidelines and exceptions exist, it is largely the task for the municipal governments in China to strike a balance between public resource allocation, user fees, price controls and compensating transfers to poor households. The municipal governments would also need to design the provider payment system so as to promote better performance in service delivery.

*The study finds that cities are gradually reforming the local provider payment system.* The surveyed cities have demonstrated a positive trend to move away from user fees and toward stronger public resource contribution in basic education and basic healthcare. Several cities have been innovating the way providers are paid. Shanghai-Pudong, for instance, has been pre-paying general practitioners to enhance cost-effectiveness of primary care. Cities have been also gradually introducing more realistic and fair pricing for utilities. For the poor official urban residents, household transfers programs have been strengthened.

**Second, at the public sector governance front, the core issues relate to the institutional mechanisms to safeguard the interests of the citizens, and support citizens’ empowerment as well as the alignment of incentives with policy objectives.** The study reveals that the motives of service providers and sub-national levels of government have sometimes differed from the strategic priorities set by the central government. Case studies suggested that the existing institutional arrangements and administrative structures do not always create a basis for appropriate incentives and capacities among local government agencies and providers of services to implement government policies and ensure equitable access to essential services of acceptable quality. The implementation of the “equal treatment” policy for migrants, for instance, seemed uneven across cities.

**China is moving in the direction to improve the regulatory, monitoring and enforcement systems and accountability relationships for public service delivery.** The nature of public services, including the existence of positive externalities and information asymmetries, make governance reforms difficult. In China, the effort is further complicated by the high number of agencies with policy interest in any given sector at the central and sub-national levels. At the central level, improvements are expected under the government reorganization process launched in March 2008.

At the sub-national level, this study indicates that the provincial governments are finding it challenging to enforce regulations and monitor public services within their jurisdiction. Service providers generally act as agents (and in some cases, such as water utilities, the local monopolies) of respective government bureaus, subject to sometimes ineffective restrictions of their autonomy and limited performance evaluation.

The institutional mechanisms to safeguard the interests of the citizens are yet to fully emerge and support citizens’ empowerment. The current initiative to enhance the performance evaluation of senior government officials at the sub-national level – which introduces a more balanced set of performance indicators, including those reflecting equity and quality in public
service delivery – provides a good basis to strengthen the accountability relationships for public service delivery at the local level.

Based on the analysis, the study offers a set of recommendations for governance reforms to enhance public service delivery in China. Sector-specific policy frameworks are outside the scope of this report. On the institutional front, across sectors, public service delivery closely reflects public sector governance. In this context, the Chinese government is rightly placing reforms in the intergovernmental, administrative and public finance systems on the top of its agenda.

Among its recommendations, the study highlights the need to:

1) Hold the provincial governments accountable for public service delivery results in the entire province
2) Develop effective mechanisms to align public resources and incentives at each level of government with the national priorities
3) Develop proper means to empower the citizens.

1. **Hold the provincial governments accountable for public service delivery results in the entire province.** In a country as diverse as China, the central government needs to provide an ultimate guarantee for equitable access to essential public services of acceptable quality. At the central level, China has shown significant progress in recent years in developing the appropriate institutional and policy frameworks across sectors and in strengthening the system of equalization transfers from rich to poor provinces. In effect, it is the role of provinces to ensure the implementation of national policies and to enforce appropriate government performance at the sub-provincial levels.

In the absence of other accountability mechanisms at the sub-national levels, the central government needs to hold the provincial governments accountable for ensuring the implementation of national policies and for enforcing good performance in public service delivery within provinces (including but not limited to the adherence to national standards, equity in access, cost control, safety and quality). With respect to the migrant population in cities, the provincial governments – supported and monitored by the central government – need to be held accountable for promoting cohesion and access to essential services of acceptable quality to all citizens in their province regardless of their income and residence. In this context, provinces would be held accountable for ensuring the implementation of vital national policies, such as the right of migrant children to affordable and decent education, and the obligation of public schools to serve as the primary service provider toward migrant children.

Consequently, guided and supervised more effectively by the provincial governments, the municipal governments would be encouraged to ensure appropriate resource allocation to public service delivery, monitor and enforce standards and good practice; monitor the performance of service providers, holding providers accountable; facilitate transparency and
information sharing regarding public services, service providers and relevant policies and procedures; and address citizens feedback.

2. **Develop effective mechanisms to align public resources and incentives at each level of government with the national priorities.** Since resource allocation and the delivery of public services are heavily decentralized and delegated to many agencies in China, a strong alignment of resources, incentives, and responsibilities is a necessary condition for an effective implementation of national policies and standards in public service delivery.

The mechanisms to facilitate such an alignment need to involve policy coordination, resource allocation, provider payment, performance evaluation, and accountability relationships among the different government levels, service providers and citizens. Important steps toward better policy coordination have been recently announced at the central level of government. An unambiguous division of functions across ministries and inter-ministerial coordination could pave the way for a clearer division of functions and resources and for better coordination across the different government levels and across agencies at the lower levels of governments. Greater clarity in functions and adequacy in resource allocation across government levels would support a stronger accountability framework.

Building on the performance evaluation initiatives underway at the sub-national levels, the citizens’ scorecard, which was developed and used for this report, could become a useful tool to gather citizens feedback regarding the access to, cost/fees and quality of public services, and to help assess the performance of both sub-national governments and service providers. Such a comprehensive performance evaluation could in turn become a powerful basis for strengthening the accountability relationships across government levels, agencies and service providers and for addressing citizens’ concerns. In order to minimize conflicts of interest, it will be important to make the performance evaluation system relatively independent of agencies involved in policy implementation.

Stronger accountability of sub-national governments along with an adequate division of responsibilities and resources across government levels would both encourage and enable the responsible government levels and agencies to facilitate adequacy, equity and efficiency in the allocation of public resources to essential public services in line with national policies. Greater accountability at the sub-national level would also encourage sub-national governments to better monitor the performance of service providers and continue reforming the provider payment mechanisms so as to boost equity, cost control and quality in public service delivery.

In this context, it would be very beneficial to continue and scale up the recent successful innovations that have been implemented at the municipal level. In monitoring service providers, it will be crucial to make inspections effective in all areas of public services and public safety, and publicly disclose the results of inspections so as to provide means to empower the citizens, which in turn would help strengthen the accountability of service providers.
3. *Develop proper means to empower the citizens.* Citizens can effectively assist in making service providers accountable and in promoting equity, cost control and quality in public service delivery. Citizens can also assist in encouraging sub-national governments to implement national policies and standards. To be able to do so, however, citizens need information and voice.

China can build on the government’s rich experience in promoting public awareness. Over the past decades, China’s implementation of family planning policies, for instance, involved a very efficient and effective information dissemination facilitated by government agencies at the local as well as central level. More recently, the Government of China has been very successful in soliciting citizens’ feedback on the reconstruction strategy after the Wenchuan Earthquake in 2008, on health system reform, tax reform, and many other reform and policy proposals. Government agencies in all sectors need to be required to actively disseminate information, facilitate information sharing and promote transparency about government policies, public resource allocation, standards, procedures, fees, and the quality of public services. Moreover, local governments could further expand recent pilots to involve citizens in decision making.

Government also needs to be active in facilitating the collection of citizens’ feedback and in ensuring that citizens’ feedback is addressed. In this respect, it is useful to consider the possible utilization of the citizens’ scorecard, targeted local household surveys, public service complaint hot line and other innovative information channels. Citizens’ feedback can usefully feed into the performance evaluation system discussed above and help in assessing the performance of service providers or local government agencies. A well-functioning performance evaluation system would thus also help address citizens’ feedback.

This study reveals that cities in China offer a tremendous experience in developing new ways to enhance public service delivery. The analysis gives confidence that China is able to harness its growing public resources and to implement governance reforms so as to make public services work well for all its citizens.
1. Citizens’ Scorecard

1.1 Introduction

This study seeks to promote understanding of citizens’ experience with public services and of the institutional challenges in public service delivery, and to contribute to enhancing governance for public service delivery in China. It concentrates on urban services and employs an innovative approach to gauge citizens’ experience. Chapter one briefly introduces the national policy context for public service delivery in China, explains the rationale and use of the citizen score card survey, and presents the its findings from five cities. On the basis of citizen scorecard survey and several case studies, chapter two explores the institutional challenges of public service delivery in China’s urban areas. To conclude, chapter three outlines the main recommendations to help enhance governance for public service delivery.

National policy context

China has set for itself an overarching development objective to create a Harmonious Society that emphasizes sustainability, equity and citizens’ satisfaction. The government has recognized that achieving this development objective would be impossible without making public services work for all citizens. China’s leadership has accelerated efforts to develop “service-oriented” government. In this perspective, top policymakers have emphasized the importance of increasing transparency, expanding public participation and improving accountability in government and public service delivery. Accordingly, important laws and regulations have been enacted in recent years, including the Administrative License Law, Civil Servants Law, and Provisions on the Disclosure of Government Information.

The central government recognizes that the new strategic emphasis on public service delivery in China needs to rely on a strong institutional framework involving all sub-national levels of government and entities involved in service delivery, financing and regulation. The Government of China has already launched a government reorganization process that is to contribute toward comprehensive institutional reforms to enhance policy coordination and public sector governance. In terms of public sector governance, the broad objective has been to gradually move from administrative control toward a new governance mode, one that would be more appropriate for China’s open and dynamic socialist market economy and rapidly evolving society. In this context, it is indeed very appropriate for the Government to continue strengthening transparency, participation and accountability as the building blocks of good governance. While clear in their broad objectives, the evolving

---

2 Provisions on the Disclosure of Government Information (unveiled in April 2007 and in effect since 2008) require the central and all sub-national governments to release information that affects the immediate interests of citizens, legal persons and other organizations, and information for which transparency is desirable. Citizens have the right to file a written inquiry for information not included in official announcements.
governance reforms are yet to be fully designed in terms of their exact content and implementation strategy.

The Government has rightly acknowledged that “building service-oriented government” is a comprehensive undertaking. It has been recognized that this undertaking needs to involve conceptual changes and fundamental transformations in laws, rules, public resource allocation and management, accountability mechanisms, institutional arrangements and capacities, and administrative systems. Making these changes will require defining concrete tasks with clear objectives, technically sound approaches, and practical measures.

Reflecting China’s strategic priority to create a Harmonious Society and build service-oriented government, this study was launched to assist the Government of China in improving governance for public service delivery. The study concentrates on urban services in the education, health and water sectors. It employs innovative approaches, including a citizens’ scorecard survey to gauge citizens’ satisfaction with public services, and case studies to explore the related governance issues, emphasizing the financing mechanisms and accountability relationships for public service delivery.

Citizen scorecard survey – rationale and international experience

The citizen scorecard consists of a carefully designed questionnaire, which is used in a survey to gather citizens’ feedback. In partnership, Chinese and international experts designed the questionnaire and sampling framework in a scientific manner, using rigorous techniques as well as sound technical expertise and knowledge of sector-specific issues.

With respect to public services, the citizen scorecard survey explores citizens’ perceptions to pinpoint good and bad practices in the surveyed sectors and localities, expose problems in policy implementation, and identify any related factors contributing to social harmony or sources of social tension. The survey also helps raise citizens’ awareness with respect to public services and the related policies, and can serve as a channel for citizens to communicate their experience to the decision makers. International experience suggests that when used by a government or civil society, a citizen report card survey helps assess and enhance governance for public service delivery (see Box 1).

The next section presents the main findings of the citizen scorecard survey conducted in year 2006 in Chengdu, Dalian, Shanghai-Pudong, Shenzhen, and Xi’an. In these five cities, the survey covered about 5,000 households, and gathered their experience and opinion on public services. The National Bureau of Statistics jointly with several academic and research institutions took the lead on the survey.

---

3 In essence, citizen report card survey is similar to an investment climate survey. While investment climate survey collects feedback from firms, citizen report card survey interviews citizens.
Box 1  International Experiences with Citizen Report Cards

Citizen report cards are being used to rate the performance of public agencies in several countries, including Canada, Denmark, Ghana, India, Sweden, Ukraine, the United Kingdom, and the United States. The preparation and use of the report card can be led by a civil society organization, government service provider agency, or a government coordinating agency possibly in collaboration with an independent civil society organization.

In some countries, the initiative for preparing the report card comes from a civil society organization, often a policy research institute. A primary example of this is the Public Affairs Center in Bangalore, Karnataka State, India. The advantage of this model is that it is independent of government, so it enjoys greater credibility. On the other hand, its links with service providers and public coordinating agencies are tenuous. Service providers may resist the results and/or even undermine the findings. Moreover, the report card may not be sustainable in the medium and long term: regular funding for it is uncertain, and the rigorous technical requirements may be burdensome for some civil society organizations.

In other countries, a government service provider takes the initiative for the report card. The agency contracts out the actual survey and the preparation of the draft report to a private sector group or civil society organization. The draft report is vetted by the agency, finalized, and sometimes disseminated to the public. The focus of the report card may be confined to a single program or service, or a facet relevant to a program. Examples of countries using this model include Canada and the United Kingdom. A major strength of this model is the ownership of the exercise by the public service provider, while preparation of the report card by an outside firm brings some degree of independence to the exercise. On the other hand, for the same reason, the objectivity of the findings may be questioned by the public at large.

In yet other countries, a government coordinating agency engages an independent organization to design and prepare the report card. This work is done in consultation with—but independent of—the public service agencies. The experience in the United States is instructive in this context. The Government Performance and Results Act of 1993 forces the executive branch to report to Congress on the performance of government agencies. The General Services Administration, a government coordination agency, is charged with assessing the performance of federal agencies.

Among the three models discussed above, the third model is the most comprehensive in terms of the product and process. Legislation sets the mandate and confirms resources for the report card. An independent and credible consortium of institutions is established to prepare it. A well established methodology is used to assess the performance of federal agencies.

1.2 Citizen Scorecard Survey in Five Cities – Results

Analyzing the responses given by the surveyed citizens in five Chinese cities, this section explores the areas of citizens’ satisfaction and dissatisfaction, and issues of equity and quality of public services. With respect to equity, the survey echoed the findings of other studies China in implying that the funding and structures in the education system and especially healthcare system generally exacerbated rather than narrowed income inequalities among population groups. Earlier studies have pointed out particularly the rural-urban divide in access to quality public services. This study illustrates that public services have not played an equalizing role within cities. With respect to the quality of services, the survey revealed that citizens, in fact, had little information that would enable them to reliably assess the quality of services received. Moreover, although citizens admitted to commonly complain informally, they generally expressed unwillingness to complain formally and actively seek improvement in public service delivery.

Table 1 captures selected results of a cross-city comparison in public service delivery performance based on the citizen score card survey and analysis. A citizen scorecard
survey conducted in 2006 in Chengdu, Dalian, Shanghai-Pudong, Shenzhen, and Xi’an allows us to analyze the strengths and weaknesses of public service delivery systems from the citizens’ experience. It is worth noting the differences in the average annual income per capita among the five cities, ranging from RMB11,110 in Xi’an, RMB11,470 in Dalian, RMB12,700 in Chengdu, RMB18,600 in Shanghai-Pudong to RMB31,560 in Shenzhen as reported by the survey. The survey suggested that income distribution was most unequal in Shanghai-Pudong (gini coefficient of 0.44), less in Shenzhen and Chengdu (both having gini coefficient of 0.41), and least in Dalian (0.36) and Xi’an (0.34). More detailed analysis follows below.

Table 1 Five cities – many different outcomes in public service delivery (ranking in 2006)¹

<table>
<thead>
<tr>
<th></th>
<th>Chengdu</th>
<th>Dalian</th>
<th>Shanghai-Pudong</th>
<th>Shenzhen</th>
<th>Xi’an</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual income per capita</td>
<td>12,700</td>
<td>11,500</td>
<td>18,600</td>
<td>31,560</td>
<td>11,100</td>
</tr>
<tr>
<td>Income disparity - Gini coefficient</td>
<td>0.41</td>
<td>0.36</td>
<td>0.44</td>
<td>0.41</td>
<td>0.34</td>
</tr>
</tbody>
</table>

*Health*

<table>
<thead>
<tr>
<th></th>
<th>Chengdu</th>
<th>Dalian</th>
<th>Shanghai-Pudong</th>
<th>Shenzhen</th>
<th>Xi’an</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seeking care when sick</td>
<td>5</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Overall satisfaction</td>
<td>1</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Affordability of outpatient care for the poor</td>
<td>5</td>
<td>4</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Affordability of inpatient care for the poor</td>
<td>5</td>
<td>4</td>
<td>2</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Seeking care when sick among migrants</td>
<td>5</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>4</td>
</tr>
</tbody>
</table>

*Education*

<table>
<thead>
<tr>
<th></th>
<th>Chengdu</th>
<th>Dalian</th>
<th>Shanghai-Pudong</th>
<th>Shenzhen</th>
<th>Xi’an</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall satisfaction</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Affordability of primary education for the poor</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Affordability of junior secondary for the poor</td>
<td>4</td>
<td>5</td>
<td>1</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Satisfaction among migrants</td>
<td>2</td>
<td>1</td>
<td>4</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Transparency and access to information</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

*Water*

<table>
<thead>
<tr>
<th></th>
<th>Chengdu</th>
<th>Dalian</th>
<th>Shanghai-Pudong</th>
<th>Shenzhen</th>
<th>Xi’an</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water taste and purity</td>
<td>3</td>
<td>2</td>
<td>5</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Equity by residence status</td>
<td>2</td>
<td>4</td>
<td>1</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Transparency and access to information</td>
<td>1</td>
<td>5</td>
<td>2</td>
<td>4</td>
<td>3</td>
</tr>
</tbody>
</table>

¹ Best performers are ranked 1, worst 5.

² Out-of-pocket payments and fees paid by the poorest quintile relative to their income.
Areas of satisfaction

The survey found that citizens were generally pleased with public services in urban areas. A majority of citizens expressed satisfaction with the basic schooling of their children, with the quality of healthcare services, and with some administrative aspects of public service delivery, such as the convenience of water bill payment.

In basic education, 60% of the surveyed parents expressed at least moderate satisfaction with the schools attended by their children. As shown in Figure 1, schools generally received high ranking from parents for promoting harmony and friendship among students, for the perceived teaching skills and good attitude of teachers, and for school facilities and equipment.

Figure 1 Parent satisfaction with the different aspects of school performance, 2006

Furthermore, a significant share of respondents perceived improvements in basic education, probably reflecting the results of reform initiatives launched by both the national and local governments in recent years. In total, 46% of parents reported improvements in the quality of compulsory education in recent years. Interestingly, the improvement was perceived more strongly by the poorest compared to the richest quintile. The survey showed that, at 54%, the highest share of parents reporting improvements in schooling quality in recent years is in Chengdu.

Analysis of the survey results showed the extent of satisfaction with schooling as positively correlated with household income and attendance in public schools, particularly the so-called “key schools” which are to offer good quality of schooling at the provincial, municipal and district level, supported by the respective level of government (for more information on key schools see Chapter 2).

Among the five surveyed cities, parents reported the highest overall satisfaction with education in Dalian (see Figures 2-4). It is useful to note that Dalian also ranked first in the percentage of children studying in public schools, and particularly in the schools of parents’

4 The survey focused on the nine-year compulsory schooling, namely primary and junior secondary schools.
preference, and in equality of schooling opportunities for children regardless of their official residency or family background.

Reporting on their experience with health care, respondents expressed a degree of satisfaction with certain aspects of the health system. Citizens recognized the perceived good medical outcomes of care. They seemed to like the technical and physical quality of provincial hospitals, ease of use of private clinics and district hospitals, and the reasonably good attitude in private clinics and community health centers.

Survey responses indicated that among the five cities, the medical system performs best in Shanghai-Pudong and second-best in Shenzhen. Respondents in these cities reported higher rates of perceived recovery (for instance, the perceived health outcomes at discharge from hospitalization) and fewer instances of denied care for financial reasons. Relative to the other cities, in Shanghai-Pudong and Shenzhen fewer people failed to seek care when ill (57% and 60%, respectively, compared to 81% in Chengdu as show in Figure 7). The highest level of trust in health professionals was reported in Shanghai-Pudong.

Regarding water, citizens reported satisfaction with the convenience of bill payment and stability of water supply. The highest access to tap water, reaching nearly 100% and the highest level of satisfaction about bill payment was reported in Shanghai-Pudong. Chengdu and Xi’an reported the highest levels of satisfaction with water taste and purity.

---

5 In China, official residency (called hukou) is largely given by birth, inherited from mother. Citizens’ entitlements to public services generally accrue only in the locality of their hukou. Although major policy changes have taken place in recent years, citizens with rural hukou find it more difficult to access public services in urban areas (for more details see Box 2).
The reported satisfaction level, however, needs to be considered in a broader context. For instance, the extent of informal complaints (shared, for instance, with family and friends) and formal complaints (officially submitted), which is discussed in a separate section below, adds an interesting perspective. Citizens’ overall satisfaction may reflect many factors, including perhaps their age, income, local culture, trends and expectations. Among the five surveyed cities, the respondents in Chengdu, for instance, reported high overall satisfaction with education and healthcare and lower rates of formal complaints. This, however, stood out against the findings that education and health systems in Chengdu performed worse and the reported level of informal complaints in Chengdu was higher than in the other surveyed cities. On the other hand, as Figure 5 shows, the overall perceptions of satisfaction in Shanghai and Shenzhen were relatively low and diverged from the findings that the medical system in these cities performed best among the five surveyed cities. Some of these contrasts emerge clearly in Table 1.

Areas of dissatisfaction

Most surveyed citizens revealed dissatisfaction with the high fees charged for services. In education and health, fees and out-of-pocket charges ranked as the top concern. They are also generally very high by international standards. Price of utilities was also perceived as a concern by citizens, although household water tariffs fall short of cost recovery and household spending on water at 1% of annual household income (2% of annual household income for the poorest quintile) is acceptable by international comparison.

The survey’s findings of relatively high school fees for the 9-year compulsory education diverged from government policies. For more than a decade, the Government of China has put equality as the priority for 9-year compulsory education. Repeatedly, schools providing basic education have been prohibited from charging tuition and miscellaneous fees. Short of resources, however, schools have sought and often found ways to raise revenues.

The survey revealed that household’s spend, on average, nearly 10% of their annual income on basic schooling per child during one school year. Among the five cities (as shown in Figure 12 in the next section), households on average spent a similar share of their annual income on primary education per child during one school year, from 8% in Shanghai-Pudong, to 9% in Chengdu, Dalian and Xi’an, to 10% in Shenzhen. The differentiation was much greater in the average share of annual household income spent on junior secondary education per child during one school year, from 9% in Shanghai-Pudong, to 11% in Shenzhen and Xi’an, up to 14% in Chengdu and 15% in Dalian. Fees and charges related to education constituted the primary source of dissatisfaction for 70% of parents in Xi’an, and about 50% of parents in Dalian, Shenzhen and Chengdu.
Household spending on education included payments to schools (mainly miscellaneous and textbook fees, and school selection fees\(^6\) and outside schools (private tutoring and remedial classes taken by about 50% of all pupils, transport, school uniforms, and education supplies).

Among the fees, school selection fees were relatively prominent. School selection fees were highest in Shenzhen, averaging RMB5,070, and lowest in Xi’an at RMB2,610 on average. The burden of the different types of fees differed across cities. Parents in Chengdu, for instance, reported as the most prominent the annual library fees ranging from RMB800 in ordinary primary schools to RMB1,600 in primary key schools; and from RMB2,000 in ordinary junior high schools, up to RMB2,800 in municipality junior high key schools and RMB3,600 in provincial junior high key schools.

Aside from fees, the surveyed households expressed dissatisfaction with school enrollment policies. More than 30% of parents in Shenzhen, Xi’an and Shanghai-Pudong conveyed dissatisfaction with the enrollment options of their children. Dissatisfaction about schooling and, in particular, about the quality of schooling was most commonly expressed by parents in Shenzhen. Parents in Shenzhen and Xi’an also reported the lowest rate of improvement. On the other hand, as discussed and shown in Figure 20 below, parents in Chengdu admitted the highest rates of informal complaints across income groups, and the highest rate of formal complaints by the richest quintile.

When reporting about their medical experience, citizens gave the lowest mark to the perceived value for their money spent on healthcare. On average, the respondents paid out of pocket 57% of medical bills, specifically 70% of medical bills for outpatient care and 55% of medical bills for inpatient care. On average, as Figure 6 shows, out-of-pocket payments as a share of medical bills were the highest in Chengdu and Shenzhen – exceeding 80% for outpatient care and 60% for inpatient care.

\(^6\) Fees collected by schools that have been selected by parents as a preferred choice compared to their “nearby” school to which each officially registered child is automatically mapped according residence.
Analysis of the survey results implies a higher share of out-of-pocket payments as being somewhat correlated with the failure to seek care when sick (Figure 7) and with the incidence of early discharge – that is discharge at the patient’s request before recovery, against the physician’s advice – and with worse perceived overall health outcome. Among the five cities, Shanghai, having the lowest out-of-pocket payments as a share of medical bills, also had the lowest share of population who fail to seek care when sick, the lowest incidence of early discharge against the physician’s advice (in less than 12% of hospitalization episodes) and the highest rate of perceived recovery (in over 68% of hospitalization episodes).

Related to the low perceived value for money, citizens revealed dissatisfaction with the health insurance system. At the time of the survey in 2006, on average, 68% of the surveyed population in cities was covered by health insurance. At the top among the five cities, Shanghai had 88% of the surveyed population covered by an existing health insurance scheme, compared to only 53% of the surveyed population covered in Shenzhen (see Figure 8). In interpreting these results, it should be noted that, thanks to new policy initiatives – such as the introduction of the basic medical insurance for the previously uninsured official urban residents, such as children, unemployed and those outside the labor force – population coverage of health insurance schemes has continued to expand in China’s cities (as well as in rural areas) since 2006.  

There are major differences in the service benefit package and co-payment levels among the three types of health insurance schemes available in cities. As of 2006, the commercial insurance fared worst, covering only 13% of outpatient and 56% of inpatient visits in health facilities, and reimbursing 10% of outpatient and 39% of inpatient medical bills. Social insurance schemes, on average, covered 58% of outpatient and 91% of inpatient visits in health facilities, and reimbursing 45% of outpatient and 57% of inpatient medical bills.

---

7 The increase in population coverage has been particularly fast in rural areas. As of June 2008, RCMS covered 815 million (92% of) rural residents, as reported by MOH, Report on the National RCMS Work (2008). Similarly, a fast progress is expected in urban areas after the new scheme for urban residents has been introduced.
Among the available health insurance schemes, the government health insurance scheme was the most generous but available only to government officials.

**Aside from reimbursement rates, respondents expressed dissatisfaction regarding health insurance policies and management.** In particular, respondents found objectionable the time and effort needed in dealing with health insurance companies in order to obtain any reimbursement under the social and commercial health insurance schemes.

**Among the surveyed population, per capita healthcare spending out of pocket on average accounted for 10% of average annual income per capita** (see Figure 9). The average per capita spending on healthcare, however, masks huge differences between those who needed healthcare, particularly hospitalization, and those who did not. Specifically, out-of-pocket payments on a single hospitalization episode accounted for 27% of average annual income per capita. Out-of-pocket payments on a single outpatient visit accounted for 22% of average monthly income per capita. Relative to income per capita, the lowest average spending out of pocket on an average episode of outpatient and inpatient care was in Shenzhen and Shanghai-Pudong. The highest spending out of pocket on an average episode of inpatient care was in Changdu at 37% of annual income per capita. The highest spending out of pocket on an outpatient visit was in Dalian at 39% of average monthly income per capita (see Figure 10).

**The cost of care** (including both the portion paid out of pocket and the portion that is later reimbursed through health insurance), **in both absolute terms and as a share of income per capita, differed widely across cities.** According to the survey, a typical hospitalization episode lasted for about 16 days and costs over RMB7,600. One outpatient visit on average costed RMB410. In absolute terms, among the five cities, the cost of an average hospitalization episode was the highest in Shanghail at RMB9,000, and an average outpatient visit was most costly in Dalian at RMB540. As a share of average income per capita, the cost of both inpatient and outpatient care was the highest in Dalian, with a single hospitalization episode accounting for 66% of average annual income per capita, and a single outpatient visit accounting for 57% of average monthly income per capita (see Figure 11).

**In addition, the survey revealed that citizens commonly believe that informal payments and gifts are needed in both health facilities and schools.** About one half of respondents expressed belief that informal payments (hongbao) to medical staff improve their performance; 41% said that gifts to teachers make a difference. In particular, 64% of respondents deemed informal payments to medical staff as necessary in case of surgery. Only 4% of respondents, however, admitted that they actually make such informal payments to medical professionals. Among those who made such informal payments, the average reported amount was RMB750 for outpatient care and RMB1055 for inpatient care. In education, 4% of respondents admitted giving gifts to teachers, 1% invited teachers for dinner, and only 0.3% admitted giving an informal payment to teachers. The highest rate of informal payments in health facilities was reported in Dalian and Shenzen, the highest rate of gift-giving to teachers in Shenzhen. The lowest rate of informal payments and gifts, both in health facilities and schools, was reported in Chengdu.
With respect to water, the dissatisfaction with water supply tariffs may have reflected their increases by more than 70% in large cities since 1998, rather than their overall level. In fact, water tariffs are still relatively low in China, falling short of their cost recovery levels according to economic analysis. Analysis suggests that bringing household water tariffs to the full cost-recovery level would raise household spending on water somewhat above 3% of household income in the poorest quintile.

Aside from water tariffs, citizens expressed relative dissatisfaction about the reliability of maintenance of the water distribution system and effectiveness of water service hotline. Respondents in Xi’an reported the lowest access to tap water at 89% on average. Citizens in Shanghai-Pudong reported the highest level of dissatisfaction about water taste and purity.

Inequality in the financial burden

The problem of service fees has been especially harsh for the urban poor and for migrants in cities. This is illustrated in a broader context in Box 2. The lowest income quintile group among the official urban residents and migrants has been spending the highest proportion of household income on fees and out-of-pocket payments for public services.

In education, the survey in cities showed that in absolute terms the richer households spent more on education compared to poorer households. The richest quintile reported to spend RMB5,800 per child during one school year compared to RMB3,500 spent per child during one school year by the poorest quintile.

Relative to household incomes, however, spending on primary and junior secondary education per child during one school year represented 5% and 7%, respectively, of annual income in households in the richest quintile, and 14% and 19%, respectively, for households in the poorest quintile. Among the five cities, the share of annual household income spent on primary education per child during one school year ranged from 2% in Shanghai-Pudong to 7% in Chengdu for the richest quintile, and from 11% in Shanghai-Pudong to 19% in Shenzhen for the poorest quintile. The share spent on junior secondary education per child during one school year ranged from 6% in Shanghai-Pudong to 13% in Chengdu for the richest quintile, and from 11% in Shanghai-Pudong to 28% in Dalian for the poorest quintile (see Figure 12).

Figure 12: Spending on education as a share of annual household income by income group
During the last decade, the Chinese migrant population, generally moving from rural areas to work in cities without an official urban residential status (hukou), has been expanding in size and gradually benefiting from policies to ensure their basic rights and reduce discrimination. The survey in five cities conducted for this report has illustrated the progress and revealed several remaining challenges in governance for public service delivery in urban areas from the perspective of migrant workers and their children.

Not all migrants are poor. The survey indicated that in 2006 the poorest quintile in the surveyed five cities contained 50% migrants and 50% urban residents. The richest quintile comprised 25% migrants and 75% urban residents.

**Education** The survey revealed problems in the schooling of migrant children. Discrimination by urban public schools against migrant children has been officially abolished by the State Council Decisions on Basic Education Reform and Development of 2001, and follow-up circulars and plans issued by Ministry of Education. The student information management system, however, is yet to be fully developed and funding is yet to follow students. As a consequence, local governments have used various means, such as ceilings and school financing requirements, to constrain and discourage the enrollment of migrant children in public schools. School selection fees charged by public schools in the surveyed cities in 2006, for instance, on average reached RMB1,100 for the registered urban residents and RMB3,650 for migrants. Over 30% of migrants whose child enrolled in public schools reported difficulties in enrollment, such as discrimination, rejection and payment request. Among migrants who failed to enroll their child in public schools, over 70% reported rejection by the schools (out of which 98% reported the rejection as unjustified) and 12% reported excessive fees as the reason. As a result, 10% of migrant children ended up in private "migrant schools", which have been commonly criticized and occasionally shut down by the government as they fail to meet basic standards and performance requirements. For instance, in Beijing, out of its 500 migrant schools in 2004, only 46 met the government standards in 2004 (Center for Educational Research, 2006). Unlike public schools, migrant schools have not benefited from any government financial contribution. Hence, ironically, in spite of their generally low quality, migrant schools charge higher fees (averaging RMB2,400 per year) compared to the fees charged by public schools for a registered urban child (averaging about RMB900 per year) in the surveyed cities in 2006. According to the survey, an average migrant household during one year spent 13% of its income on schooling, compared to 9% of household income for the registered urban households. In the survey, Dalian treated migrant children most fairly, enrolling nearly all migrant children in public schools compared to only 60% in Shenzhen. In terms of satisfaction with education services, Dalian received the highest and Shenzhen the lowest marks from migrants.

**Health and healthcare** According to the survey, migrants are generally younger (on average 28 years old compared 40 years of average age for the registered urban residents), perceive themselves healthier than the officially registered urban population, and are less likely to have health insurance compared to the registered urban residents. Although the Labor Law demands local governments to facilitate the employer-subsidized basic medical insurance for all employees, only 21% of migrant employees (compared to 80% of registered urban employees) benefited in the surveyed cities in 2006. To fill the gap, 4% of migrant employees (compared to 2% of registered urban employees) bought private health insurance. Partly as a result of low health insurance coverage, migrants paid high out-of-pocket fees (91% and 71% of medical bills for outpatient and inpatient care, respectively, compared to 58% and 44% of medical bills for outpatient and inpatient care, respectively, paid by the registered urban residents). Out-of-pocket payment on a single outpatient visit accounted for 90% of migrant monthly income per capita, and on a single hospitalization episode for 90% of migrant annual income per capita. These shares were a double of income share paid out of pocket by the registered urban residents. Among the five surveyed cities, although the income gap between the registered urban residents and migrants was largest in Shenzhen, Shenzhen showed the smallest disparity between migrants and the registered urban residents with respect to healthcare. The disparity was greatest in Dalian and Xi’an.

**Water** While problems in access of migrants to essential healthcare and schooling have stemmed from the weaknesses in the implementation and enforcement of central government policies and regulations, problems in access to piped water have related to the migrants’ often temporary lodging arrangements. In the surveyed cities, 10% of migrants (compared to 0.6% of the registered urban residents) were without piped water. The worst situation is in Xi’an and Dalian, where 29% and 14% of migrants, respectively, reported no access to piped water, compared to 2-4% in Shanghai, Chengdu and Shenzhen.

**Overall** Rural migrants have been coming to pursue jobs in cities voluntarily to raise their incomes. They have been a major driving force of many industries, construction and consumer services, and of continued urbanization, poverty alleviation and economic development in China. While there may be important reasons for managing migration carefully, the barriers in access to basic public services have appeared unnecessarily pronounced and possibly threatening social cohesion and harmony particularly if many migrant children grow up with an acute perception of missed opportunities, inequality and discrimination.
In health, out-of-pocket payments on inpatient care have been reported as a common source of household indebtedness and impoverishment among the poor. In the surveyed cities in 2006, out-of-pocket payment associated with a single average hospitalization episode exceeded 140% of annual per capita income in the poorest quintile compared to about 10% in the richest quintile. Figure 13 shows that on a single average hospitalization episode, the poorest quintile spent nearly 170% of their annual per capita income in Chengdu compared to 60% in Shenzhen.

An average outpatient visit required an out-of-pocket payment equal to 84% of monthly per capita income among patients in the poorest quintile compared to about 11% in the richest quintile. As Figure 13 shows, on a single outpatient visit, the poorest quintile spent 20% of their monthly per capita income in Shanghai-Pudong compared to 135% in Dalian and Chengdu. Interestingly, the survey showed that the population in the poorest quintile spent a higher share of their outpatient payments on medicines (14% of their total outpatient cost compared to 7% spent on medicines by the richest quintile), possibly as a substitute for seeing a health professional when sick.

The heavy burden of health care cost on the poor has been partly explained by the regressive nature of population coverage by the existing health insurance schemes. As Figures 14 and 15 illustrate, the existing health insurance scheme covered disproportionately a smaller share of the poor compared to the non-poor.

Alarmingly, the survey showed that both the cost of hospital episode and the
related out-of-pocket payments have been, on average, higher for the poor not only in relative, but also in absolute terms. For those undertaking hospitalization, the average cost was over RMB8,000 (of which 61% is paid out of pocket) in the poorest quintile, and about RMB7,200 (of which 45% was paid out of pocket) in the richest quintile. The difference may reflect the possibility that the poorer citizens (partly because of being more likely to be uninsured) wait until their medical condition becomes more serious before they seek care, hence treatment is more costly. Across the five cities, out-of-pocket payments paid as a share of medical bills by the poorest quintile ranged from 54% in Dalian to 69% in Shenzhen for inpatient care, and from 50% in Shanghai to 87% in Dalian (see Figure 16).

The survey illustrates that the cost of hospitalization has been very high in absolute terms in China compared to countries at a similar level of development, and that the related financial burden on the poor is truly excessive. Other studies have documented this issue in the rural areas. This study shows that high out-of-pocket payments have created a major burden for the poor also in urban areas.

Inequality in utilization and quality of services

While the registered urban poor and migrants have spent relatively a much larger share of household income on public services, the survey suggested that, compared to the richer population groups, they have benefited less in terms of public service utilization and quality. Moreover, a wide disparity in the quality of services has also existed in terms of hierarchy and geography within cities. In both education and health systems, there has been a clear hierarchy among service providers. Provincial key schools and provincial hospitals have had the highest rank, best professionals and facilities. Municipal key schools and municipal hospitals have come second, and district key schools and district hospitals third. Below all the key schools and hospitals have fallen ordinary schools and community health centers. At the bottom with respect to quality have been the private migrant schools and small private clinics.

In education, registered urban residents, and particularly higher income groups, have reported a better access to the key schools. As shown in Figure 17, provincial key schools provided schooling to 28% of children from the richest quintile but only 11% from the poorest quintile, and only 8% of migrant children (compared to 16% of registered urban resident children).

---

9 The information about the cost of inpatient and outpatient care, as it is collected in household survey, may suffer from the fact that those insured are less aware of the cost than those uninsured.

in the surveyed cities in 2006. Ordinary schools, on the other hand, educated 22% of children from the richest quintile 45% from the poorest quintile, and 55% of migrant children (compared to 37% of registered urban resident children).

From another perspective, the survey suggested that 39% of children from the richest quintile attended self-selected (as opposed to nearby) schools, while only 16% of children from the poorest quintile had a choice. Among the five cities, the gap in choice was relatively narrow in Shenzhen, where self-selected schools were attended by 28% of children from the richest quintile and 23% of children from the poorest quintile. The largest disparity in choice between the richest and poorest quintile was in Shanghai-Pudong (52% versus 6%) and Chengdu (63% versus 27%).

Parents of children attending self-selected schools reported quality, convenience and special talent focus as the main reasons, and special entrance examination and school-selection fees as the main condition. Among those parents whose child failed to enroll in the self-selected school, 51% reported the local residency status, 30% high fees and 10% failure in entrance examination as the main reason.

Analysis of survey responses suggests that access to key schools and self-selected schools has been also correlated with the education level of parents, which generally differs by income groups. Similarly, parents’ knowledge of enrollment policies and procedures differed significantly (see Figure 18) with 46% in the poorest quintile and 18% in the richest quintile reporting zero knowledge.

With respect to healthcare, the survey complements numerous studies\textsuperscript{11} in China by showing that utilization of care is strongly correlated with the ability to pay. While literature has emphasized the differences between rural and urban areas, this study has revealed similar, albeit somewhat narrower, differences within cities. The survey indicated that the poor tend to forego preventive care and delay clinical treatment until their medical condition becomes serious, which is probably influencing the outcome as well as the required length and cost of stay discussed above. Among the respondents in the poorest quintile and migrants, none indicated having had a physical check-up at the last time they visited a health facility. In fact, case studies have implied under-utilization of community health centers in their important preventive functions. Among those in the poorest quintile, 71% (compared to

\footnotesize{\textsuperscript{11} See, for example, Health System Reform in China, The Lancet, October 2008; Meng Qingyue (2007), China Healthcare System and Health Equity, China Health Economics; and Wang Shaoguang (Hong Kong University) Policy Orientation, Access and Ability to Pay, and Health Equity (2005) at http://www.tecn.cn/academic/paper/wangshaoguang1.pdf.}
67% of those in the richest quintile) reported not to seek care when ill. Among those who failed to seek care when ill, 61% of the respondents in the poorest quintile (compared to 22% of respondents in the richest quintile) stated that excessive fees are the main reason. With respect to hospitalization, 35% of patients from the poorest quintile (and 9% from the richest quintile) requested an early discharge, that is, before full recovery or against the physician’s advice. Among all the patients discharged prematurely, 72% reported the inability to pay as the main reason. The high rate of early discharge among the poor was correlated with their perceived worse medical outcome and contrasted to the relatively high cost of a single episode of inpatient care among the poor discussed above. For the poorest quintile among the five cities, the responses indicated the best recovery rates at the time of discharge from hospital in Shanghai-Pudong. The worst recover rates were reported in Xi’an, where the patients in the poorest quintile were also most likely to request early discharge.

Similarly, the quality of care seems correlated with the ability to pay. When seeking care, 25% of households in the poorest quintile (compared to less than 9% in the richest quintile) indicated that they approach lower tier providers, such as community health centers and small private clinics. Only 14% of households in the poorest quintile (compared to the 28% of households in the richest quintile) used the upper tier providers, such as specialized provincial hospitals (see Figure 19). From the perspective of citizens’ experience, on average, community health centers and small private clinics received the lowest satisfaction rating among all providers of care.

If the quality of care is influenced by informal payments, as discussed above, then the reliance on informal payments has further disadvantaged the poor. Only 1% of persons in the poorest quintile and 5% of persons in the richest quintile reported giving informal payments to medical professionals in order to enhance the quality of care received. Similarly, only 2% of parents in the poorest quintile compared to 13% of parents in the richest quintile admitted giving gifts to teachers. The survey indicated that gift-giving is most common in Shenzhen, where 4% of parents in the poorest quintile and 17% of parents in the richest quintile reported giving gifts to teachers.

Willingness to complain

Information about the willingness of citizens to complain provides a useful insight. It sheds a different light at the reported level of satisfaction with public services, and reveals important dimensions of citizens’ trust, equity and voice.
In the surveyed cities, citizens generally and the poor and migrants in particular appeared to be unwilling to submit a formal complaint and seek redress. Generally the citizens in the richest quintile and officially registered urban residents demonstrated a higher willingness to complain formally, that is through official channels. Across sectors, the respondents in Shenzhen reported the highest rates of formal complaints (above 3% compared to less than 1% in the other surveyed cities). Analysis suggests that the willingness to complain formally may be somewhat related to the younger age of citizens in Shenzhen compared to the other surveyed cities.

In education, about half of respondents admitted to have complained informally, but only 8% in the richest quintile and 2% in the poorest quintile had ever complained formally. Chengdu had the highest rate of parents complaining about education informally at 68%, and also the highest rate of official complaints at 18% among the richest quintile (Figure 20). This finding may raise questions about the openness of citizens in Chengdu when reporting their satisfaction in the citizen scorecard. Compared to the other surveyed cities, citizens in Chengdu reported higher levels of satisfaction in the scorecard while admitting to have complained more often (especially informally).

Among the parents who complained, only 38% received response, and the response was considered satisfactory by 21% of recipients. Among those who did not complain, nearly 30% of parents, including 41% percent of parents in the poorest quintile, considered complaining useless; and nearly 20% of parents worried about a possible negative consequence of complaining on their child’s schooling.

With respect to healthcare, among the respondents, 58% admitted that they shared their discontent with family or friends, but only 1% submitted a formal complaint. Among those who complained formally, less than one third received any response from the responsible agency and the response was considered satisfactory by 30% of recipients. Among those who did not complain formally, one third thought it would be useless to complain and one quarter thought that the problem in question has become common practice.

Regarding water, nearly 50% of respondents said that they shared their dissatisfaction about some aspects of their city’s water services with their friends and relatives, but only 3% complained formally. Among those who did not complain, 60% reported that it is not useful to complain, 15% worried about the monetary and time cost of complaining, and 3% worried about a possible revenge.
Information asymmetry and barriers

The survey illustrated that citizens’ perceptions sometimes diverge from the evidence. In some instances, citizens’ perceptions of the quality of services have differed from the results of government inspection. Regarding water, for instance, although the inspections conducted by the Ministry of Water Resources have repeatedly concluded that groundwater was polluted in 97% of Chinese cities (seriously in 64% of cities) and that among those cities that meet the groundwater standards, secondary contamination in water distribution system compromises the quality of tap water, citizens displayed a lack of awareness about inspection results and general satisfaction with the quality of their tap water. In healthcare, citizens’ satisfaction with the quality of services diverged from the findings of numerous studies that both over-provision of expensive unnecessary care and under-provision of cheap effective care occur in China.12

Information asymmetries are common in public service delivery internationally and require government action toward informing and protecting citizens. This is mainly because public services generally require specialized expertise to assess their quality, appropriateness, or even safety. The safety of tap water cannot be determined by human senses. The appropriateness and cost-effectiveness of medical diagnostics and care is little known to a non-specialist. And, the relative performance of schools in schooling attainment is also difficult to judge without any scientific evaluation. International good practice is to ensure that citizens have timely access to relevant and reliable information and that services can be purchased by an informed agency on their behalf with their interest as the priority.

The surveyed cities demonstrated a limited effort to overcome information asymmetries, which in some instances have been exacerbated by confidentiality restrictions. The mechanisms to monitor performance of service providers are yet to be fully developed and provide citizens with the kind of information needed to make informed choices and hold providers accountable. In instances when government inspections have revealed problems in public service delivery, these findings have often remained confidential, failing to reach citizens and allow them to adjust their patterns of service utilization accordingly.

The respondents showed little knowledge about government policies, the administrative procedures, and standards and fees. This was the case to a different degree in the surveyed cities, but uniformly across the surveyed sectors of public service delivery. The survey indicated that poor official urban residents and migrants find it most difficult to obtain relevant information.

With respect to education, citizens have lacked information mainly about school enrollment policies, school enrollment procedures and fees. Among the five surveyed cities parents were on average best informed about matters of enrollment and fees in Shanghai-Pudong and least informed in Shenzhen and Xi’an. Regarding communications by schools, over 72% of parents in Chengdu and Dalian, but only 47% of parents in Shenzhen, reported timely communication.

Citizens also showed limited knowledge about government policies with respect to health insurance, about health insurance reimbursement practice, and about the prices of medical interventions. The majority of respondents, for instance, reported that they lack information about the prices of medical treatments (only 5% of respondents reported that they knew the price before treatment, while 79% reported that they found out the price only shortly before or during payment).

As to water, a major problem for citizens is access to information about the quality – including safety – of tap water. Only 18% of respondents said that they heard about water quality inspection reports. At 26%, Chengdu had the largest share of respondents who said that they heard about water quality inspection (see Figure 21). Case studies have revealed that inspection results, as in the case of tap water quality, have been generally kept confidential and unavailable through the public channels. Citizens also appeared unaware about the cost of tap water, including the fact that the current fees still fall short of full cost recovery. The survey revealed that citizens wish for both low fees and better service, which is obviously not realistic. With respect to reliability of water supply, Shanghai seemed to be doing the best job among the five cities in informing citizens about any water outages in advance.

Hence, the survey indicated that citizens had only a limited access to relevant information regarding local public services and that the institutional mechanisms to safeguard their interest are yet to be fully developed (as illustrated above in the case of the inadequate resolution of citizens’ complaints across sectors). This poses a significant challenge for governance in public service delivery discussed in the next chapter.
2. Governance Challenges in Urban Service Delivery

The analysis of survey results and case studies has underscored the validity of the government’s effort to enhance equity and quality in public service delivery. The analysis revealed that wide disparities exist in access, utilization, fees and quality of public services by population group, jurisdiction of providers, and by district/county within cities. These problems are not surprising given the massive changes in the urban economic and social landscape that underpin China’s fast advancement. Transforming the service delivery system so as to be responsive to the needs of the disadvantaged population groups and flexible enough to accommodate the increasing labor mobility is not an easy task in any country. Making public services work for all is especially difficult in the context of the fast economic and social transitions and extensive decentralization that occur in China. The Chinese government has rightly recognized the importance of public services for sustained economic and social development and, accordingly, has been adjusting national policies and encouraging local governments to promote equity and quality in public service delivery.

Building on the survey analysis and case studies, this chapter explores the institutional challenges facing China in urban service delivery. The chapter highlights the financing arrangements and accountability relationships that lie at the core of the existing constraints in terms of equity in access and quality of essential public services.

2.1 Financing service delivery

Performance in public service delivery is largely determined by the financing system and by the associated incentive structures at the level of local governments and service providers. This section explains that the challenges in public service delivery in the five surveyed cities reflect particularly the nature of China’s intergovernmental fiscal system. In addition, especially in health, the nature of the provider payment mechanism has a strong impact on equity, effectiveness and quality in health care.

Public finance for service delivery

At the national level, the government has been already addressing the under-funding, inequities and inefficiencies in the allocation of public resources for essential public services, problems that have been documented in numerous studies. Over the past decade, the government has adopted policies to address some of the inadequacies, inequalities and inefficiencies in the allocation of public resources for the delivery of basic public services at the national level targeting regional inequities through its ‘Go West’ strategy, the basic needs of the poor through the national policy alleviation strategy, and the rural-urban

---

inequities through special policy initiatives across sectors. Since late 1990s, a massive public investment program boosted infrastructure, especially in the transport sector, across the country, with the national policy emphasis on the twelve under-developed provinces. Investments under the national poverty alleviation program have been supporting basic infrastructure, including safe water and roads, in poor counties and villages across China. Although in 2007 government spending on education was still only 2.9% of GDP and government spending on health was 0.9%,

important policy initiatives have emerged in both sectors. Public spending on the 9-year basic education has been rising, emphasizing the need to accomplish the objective of universal 9-year schooling in the Western provinces and in rural areas across provinces. Similarly in health, new initiatives in the form of investments in public health infrastructure, New Rural Cooperative System in rural areas, and the urban basic health insurance for unemployed for urban residents, including children, outside the formal labor market have been launched and backed by higher public spending with the objective to enable that all Chinese citizens to benefit from public health programs and essential care. In line with China’s 11th Five-Year Plan, new spending programs target the development of a Socialist Countryside with the objective to reduce the existing sharp rural-urban disparities in public service delivery.

This study has revealed that inadequacy, inequalities and inefficiencies in public resource allocation for basic public services have been also present within cities although to a lesser degree than in rural areas. In the surveyed cities, under-funding has jeopardized the reliability and quality of some public services, and equitable utilization of others. Case studies have illustrated that funding for many “ordinary” primary and secondary schools, community healthcare centers and the urban water systems fail to meet the basic needs in some cities.

Disparities by jurisdiction, location and socio-economic population group within cities have been evident, although smaller than the existing disparities between the urban and rural areas. Geographically, within cities, the disparity in quality mainly has reflected the fiscal capacity of any given district or county within the municipality. Fiscal equalization mechanisms within municipalities (as well as within provinces) have appeared weak, which has reduced the potential role of public services in equalizing opportunities for children and citizens at large. Accordingly, case studies have revealed that public service outcomes, such as the shares of graduates enrolling in senior high schools, differ by jurisdiction of the service providers and also by district/county within the same city.

Furthermore, the survey and case studies have suggested inequities in the allocation of public resources, indirectly favoring the richer population groups in cities. Although it is not government policy, public resources have in effect favored selected “key schools” and specialized hospitals, which have generally catered to the more affluent urban residents. The lower-income official urban residents and migrants generally could not afford or have faced administrative barriers when accessing the better funded facilities. Furthermore, as the higher-ranked key schools and hospitals are in great demand, they have extracted additional

---

14 As per China National Health Accounts Report 2008, the total health spending in 2007 included government health spending (0.9% of GDP), social health expenditure (1.6% of GDP) and out-of-pocket health expenditure (2.0% of GDP).
revenues from school-selection fees and hospital registration and service fees, further exacerbating the inequities in the allocation of public resources. Moreover, financing constraints in schools – particularly in so called “ordinary” schools – have contributed to the obstacles in access to schools facing migrant children and to quality deficiencies in schooling of many, both migrant and officially registered, poor children in cities.

The problems in health financing have been even harsher and rightly on the government agenda for health sector reform plan (as announced in 2008). Underinvestment, inequities and inefficiencies in the allocation of public resources (coupled with inappropriate provider payment system discussed below) have brought about under-provision of essential public health functions and services, and basic clinical care also within cities, and often poorly functioning community health centers that have generally served the poor in urban areas. The inadequacy of public resources in health has compromised the delivery of essential public health functions, public health services and essential clinical healthcare to the poor in cities.

The underinvestment in water distribution networks has been causing frequent delivery problems and water contamination in old pipes. In the surveyed cities, bursts in water distribution networks have typically occurred two per km per year, which is about 10 times the level observed in European cities. In fact, urban water distribution networks in the surveyed cities require relatively low investment and maintenance per capita since population density in cities is high and pipe-work per capita lower than in an average European or US city.

The inequities in public resource allocation and public service outcomes have largely reflected the deep decentralization, down to the level of districts and counties within cities, in the assignment of responsibilities for financing service delivery in China. Compared to international practice, a relatively very low share of financing responsibility for basic public services has been shared by the provincial and central government.

The challenges in public resource allocation for essential public services within cities seem less urgent than they are in rural areas and nationally. Survey analysis and case studies, however, suggested that they are real, unnecessarily exacerbating income disparities, and giving rise to social unfairness and to citizens’ dissatisfaction.

Some cities have successfully adjusted their public spending programs to address the needs of the disadvantaged population groups. Successful experiments have helped ensure appropriate resources for public services at the municipal level.

Dalian’s municipal policy to equalize funding per students in all schools across city districts and to finance standardization of educational capacity of schools has helped improve equity and quality in service delivery in schools in at least across Dalian’s four city districts. Furthermore, Dalian has mandated substantive fiscal transfers from the municipal government to its three (rural) county towns with the objective to achieve provincial standards for basic schooling in all schools within the municipality. Dalian’s initiatives in basic education have contributed to equity in access to primary schooling and to
quality of compulsory education. The commitment of the municipal government to fiscal equalization is an important element of Dalian’s success in serving the poor and migrants best in terms of basic schooling among the five surveyed cities. Of course, a lot of useful experience in improving the allocation of public resources to basic education exists also outside the surveyed cities, namely in other cities and at provincial level. Worth noting is, for instance, the initiative of Jiangsu and Zhejiang provinces, in which the provincial governments fund vouchers to distribute scholarships to poor students province-wide.

In health, among the surveyed cities, Shanghai-Pudong and Shenzhen have supported training in community health center personnel and have financially encouraged the utilization of community health centers (see Box 3). Consequently, these measures have allowed more low-income citizens to obtain affordable quality care.

**Box 3 Strategy for community health centers in Shanghai-Pudong and Shenzhen**

In Shanghai-Pudong and Shenzhen, municipal governments support community health centers (CHCs) as grassroots-level providers for health prevention, health promotion, and basic clinical and family planning services. The objective is to expand access to affordable and timely primary care and reduce the demand for primary care at specialized hospitals.

According to the citizens’ scorecard survey, CHCs serve more than a quarter of the total outpatient visits and about three percent of the total inpatient visits in Shanghai-Pudong, which are the highest shares among the five surveyed cities. In Shenzhen, the survey revealed high use of CHCs for non-medical purposes.

Both cities increased funding for CHCs and took measures to enhance their capacities and utilization. For instance, the cities established a center to train general practitioners for CHCs, and require specialized hospitals and Centers for Disease Control to rotate their staff to CHCs, train community health workers, and actively participate in health promotion in the community. For health professionals, practice in CHCs has become a requirement prior to promotion. Furthermore, the cities mandate urban basic medical insurance and similar schemes to offer higher reimbursement for services in CHCs compared to hospitals.

Among the other measures to strengthen CHCs, Shanghai-Pudong has introduced vertical integration of the local health resources, dual referral system between CHCs and hospitals, systems for sharing information and resources across the different levels of health facilities, and better internal financial management processes. Since 2007, Shanghai-Pudong has also experimented in performance monitoring, delinking CHC staff salaries from the cost of treatments provided, and adjusting salaries according to overall, well defined, performance.

In Shenzhen, CHCs are sponsored and managed by hospitals and particularly engage in health promotion and prevention (with a strong role in immunization), family planning, mother and child health, chronic disease management, rehabilitation, and care for senior citizens. To enhance the quality of CHC services, Shenzhen has also implemented a comprehensive performance monitoring and evaluation system.

Source: Background papers and municipal government websites

---

Provider payment system

Research has shown that the existing provider payment mechanisms have distorted incentives away from the interest of citizens. In China’s cities as well as rural areas, public sector units entrusted with the provision of public services and vital government functions, including monitoring and surveillance, have been obliged to generate their own revenues. To a large extent, the revenues come in the form of user fees, count for extra-budgetary revenues, and are used to cover salaries and other operating cost. Fees and other extra-

---

Budgetary revenues are largely collected at the sub-national level and remain outside the government budget management systems. Officially reported at 3-5% of GDP, the total extra-budgetary revenues may have reached nearly 7% of GDP in China in 2007 according to some estimates.16

**In public service delivery, the reliance on fees has differed widely by sector.** In education, fees have accounted for 10% of total spending, although the share has been declining for the 9-year compulsory education. In health, the National Health Accounts show that the reliance on out-of-pocket payment has declined in recent years, from about 60% of total health spending in 2001 to 45% in 2007. But this level is still considered excessive by international standards, with multiple negative consequences, including the risk of impoverishment and care avoidance. Moreover, in terms of provider payment mechanisms, user fees still account for more than 70% of providers’ income. This is because social health expenditures are largely in the form of ex-post reimbursements by insurance schemes, such as the Basic Medical Insurance, to patients for fees they paid at the time of service.

**International experience and studies in China suggest that the reliance on user fees, accompanied by a pressure on and autonomy of service providers to generate revenues, has negative consequences particularly in the presence of information asymmetry and weak monitoring.** Namely, it may divert the incentives of providers toward revenue maximization and away from the citizens’ needs and public interest. More broadly, for instance in health, the reliance on fees has the following negative consequences:

- significant challenges in the implementation of national policies (incentives to raise revenues differ from the incentives to implement national policy priorities and standards)

- exclusion (financial barriers in access to and low utilization of both preventive and cost-effective clinical care with grave impact on neonatal and maternal mortality in poor localities and among poor disadvantaged population groups on one hand, and “catastrophic” expenditure and impoverishment due to healthcare spending on the other)

- inequalities (within as well as between urban and rural areas, high within provinces)

- inefficiency (being outside the formal budget management framework, fees and other extra-budgetary revenues are largely used for wages and operating / administrative cost and account on average for 37% of total revenues in public sector units and government agencies)

- quality and safety problems (due to information asymmetries discussed above, citizens are not able to act as well-informed purchasers and monitor the appropriate ness, quality and safety of services received)

- citizens’ dissatisfaction (as the previous chapter illustrated).

Well-intended price controls to make basic services universally accessible may have in fact exacerbated these negative consequences. In health, where information asymmetry is most significant, China’s own as well as international experience shows that providers of care raise the volume of care (for instance the amount of medicines prescribed) and substitute expensive diagnostics, services and drugs for cheap effective care in order to circumvent price caps and maximize their revenues.\(^{17}\) This adds to the financial burden of healthcare shouldered by households and to all the negative consequences listed above. Moreover, price caps may also distort the behavior of households. The survey suggests, for instance, that water use efficiency is low particularly among the more affluent urban households. If the price of water is subsidized regardless of the volume consumed, it is those who consume most, hence the affluent households, who benefit most from the subsidies. Research suggests that the behavioral impact of price controls on both providers and households makes price controls regressive and anti-poor.\(^{18}\)

Although national guidelines and standards exist, it has been largely the task for the municipal governments in China to strike a balance between public resource allocation, user fees, price controls and compensating transfers to poor households. It has been also up to the municipal government to design the provider payment system so as to promote better performance in service delivery.

The report finds that cities are gradually reforming the local provider payment system. The surveyed cities have been recently moving away from user fees and toward stronger public resource contribution in basic education and basic healthcare. Several cities have been innovating the way providers are paid. ShanghaiPudong, for instance, has been pre-paying general practitioners in community health centers to enhance utilization and cost-effectiveness of primary care. Cities have been also gradually introducing a more realistic (reflecting the actual cost) and fair (reflecting the quantities used) pricing structure for utilities. For the poor official urban residents, household transfers programs, which partly compensate for the increases in the price of utilities, have been strengthened.

Continuing improvements in the provider payment system are critical. China’s own and international experience implies that an appropriate provider payment system and accountability mechanisms are more important for promoting effectiveness, efficiency, cost control and quality than ownership structures.\(^{19}\)

### 2.2 Accountability relationships for service delivery

Accountability relationships lie at the heart of the challenges in public service delivery.\(^{20}\) (Box 4 briefly explains the term accountability.) The study reveals that the objectives of

---

\(^{17}\) OECD (2002): Health-Care Systems: Lessons from the Reform Experience


service providers and sub-national levels of government have sometimes differed from the strategic priorities set by the central government. Case studies suggest that the existing institutional arrangements and administrative structures have not created a basis for appropriate incentives and capacities among local government agencies and providers of services to implement government policies and, for instance, ensure equitable access to essential services of acceptable quality. As the previous chapter illustrated, for instance, the implementation of the “equal treatment” policy for migrants is uneven across cities.

Box 4 Accountability in Governance

Accountability ensures actions and decisions taken by public officials are subject to oversight so as to guarantee that government initiatives meet their stated objectives and respond to the needs of the community they are meant to be benefiting. Accountability, along with responsiveness, fairness and responsibility, is a dimension of public sector governance.

Accountability exists when there is a relationship where an individual or body, and the performance of tasks or functions by that individual or body, are subject to another’s oversight, direction or request that they provide information or justification for their actions. Therefore, the concept of accountability involves two distinct stages: answerability and enforcement.

Answerability refers to the obligation of the government, its agencies and public officials to provide information about their decisions and actions and to justify them to the public and those institutions of accountability tasked with providing oversight. Enforcement suggests that the public or the institution responsible for accountability can sanction the offending party or remedy the contravening behavior. As such, different institutions of accountability might be responsible for either or both of these stages.

Source: World Bank

China is moving in the direction to improve accountability relationships for public service delivery, including the underlying regulatory, monitoring and enforcement systems. As international experience suggests, the nature of public services, including their role in economic and social development, positive externalities that need to be promoted, and information asymmetries that need to be overcome, make governance reforms difficult. In China, the effort is further complicated as agencies with policy interest in any given sector at the central and sub-national level are numerous and only weakly coordinated, their relationships with providers are often plagued by inadequate funding allocations and arrangements, and conflicts of interest, and citizens are yet to play an active role in public services.

Relationships within government

Within government, accountability relationships related to essential public services are yet to be clearly defined in both the vertical dimension (across government levels) and horizontal dimension (across agencies at each government level). As discussed below, this problem has been widely recognized and in 2008 the Government of China launched a new initiative to reorganize ministries and government agencies with the objective of greater clarity and efficiency in the government administrative structure.
In every sector, multiple ministries and government departments have shared interest in policy making. At the central level, these have included nearly 20 bodies with respect to health (including public health safety), and nearly 10 bodies with respect to education and water each. Each of the central-level ministries and departments has their own partial responsibilities, without any particular ministry assuming a clear leadership or an effective coordinating role. These problems are multiplied by the four different levels of government in urban areas (five levels – including townships – in rural areas), recurring horizontally at each of the government levels and exacerbated vertically by the existing ambiguities in the division of responsibilities between the different sub-national government levels.

Policy coordinating mechanisms have been generally weak, and ambiguity, overlaps as well as gaps and conflicting interest emerge. As each responsible agency at the higher level of government issues its opinions, notices, circulars and other forms of guidance, the lower level agencies may find themselves confused about their objectives and tasks. Numerous studies have illustrated that such ambiguity and weak accountability within government structures may complicate the implementation of national policies. The existing emphasis on administrative controls, namely controls of inputs, such as personnel and their wage levels, contributes little to better performance. At the sub-national level, the provincial governments are sometimes reported as uneven in compliance to implement policies, enforce regulations and monitor public services within their jurisdiction.

In recent years, the central government has recognized the problems of ambiguity, confusion, and competing interests within government structures, and has launched promising reform initiatives and invited policy debate. To clarify responsibilities and strengthen accountability across government levels, the central government has been seeking to enhance the performance evaluation system. As the basis for evaluating performance and aligning incentives of sub-national governments, the improved system is to introduce a more balanced set of performance indicators, including those reflecting equity and quality in public service delivery. At the horizontal level, the central government has launched a reorganization process to enhance the structure and division of responsibilities across ministries government agencies. As top policy makers have recognized certain weaknesses in the functioning of government and have expressed their commitment to government restructuring and broader governance reforms, policy debate on governance has been flourishing (see Box 5).

---

The relationships between the government and providers have been generally unbalanced and subject to ongoing reforms. On one hand, government has been officially encouraging public sector units serving as service providers of key government functions and public services across sectors to raise revenues (with the recent exception of compulsory education).
Yet the government has limited capacity and responsibility for ensuring adequate funding, enforcing regulations, and for monitoring and evaluating the performance of providers. Instead, government has applied administrative controls, such as controls of personnel, wages and fees for selected outputs. Given the complex horizontal and vertical relationships within government, discussed in the previous section, government oversight in relation to public services has suffered from ambiguity and conflicting interests. Service providers generally act as agents of respective government bureaus and, in some cases, such as water utilities, as the local monopolies. The same bureaus, which are in effect responsible for delivering services, are also to supervise and report on the delivery of services. The lack of effective performance monitoring mechanisms has been, in fact, one of the key weaknesses in the relationship between government and providers.

The weak capacity of government to effectively regulate and monitor providers has been particularly worrisome in health — and has become one of the areas of the 2008 health system reform plan. Hospitals and other health facilities, pharmaceutical companies and distributors, and various private enterprises have launched aggressive health-oriented commercial activities. Enforcement of cost controls, for instance, has been inconsistent and the prices of health services exceed the regulated level. Most health facilities lack clinical governance system. The regulatory framework and enforcement have suffered from significant gaps. For instance, hospital accreditation is not linked to pricing compliance and comprehensive safety records, doctors and health institutions are not effectively constrained in their engagement in commercial (especially pharmaceutical) incentive programs, which may not always represent the best options for their patients. Health insurance companies, which could potentially serve as the active purchasers of care and act on behalf of citizens vis-à-vis providers, have so far restricted their function mainly to processing reimbursement of claims. Chart 1 captures these relationships with respect to healthcare in cities. It illustrates how the weak financing and governance links affect the performance of local governments and service providers.

---

The role of citizens

As the survey also illustrated, citizens have had limited information and few options to hold service providers or local government officials directly accountable. The institutional mechanisms to safeguard the citizens’ interests in utilizing public services are yet to fully emerge. Similarly, mechanisms to support citizens’ empowerment and voice are yet to be fully established. The citizen scorecards survey illustrates that while many citizens share their discontent informally, very few feel empowered to complain formally and seek any redress. In recent years, there have been signals of gradual improvement, including several court cases satisfactorily resolving citizens’ complaints with respect to public services.\(^{23}\) The

\(^{23}\) Notably, in big cities such as Beijing, Shanghai and Guangzhou, courts have been reported as occasionally addressing citizens’ complaints on health care quality, schooling fees, teacher behavior, and similar. In provinces and at the sub-provincial level, while courts deal with severe complaints, complaint hotlines and other local mechanisms commonly accept citizens’ complaints.
survey suggested, however, that while having some faith in the regulatory and legal system to protect their interest, citizens lack sense of empowerment relative to service providers.

While citizens’ demands may not find an immediate response through the existing accountability relationships, careful analysis of government policy initiatives and policy adjustments over the past decade suggests that responsiveness is, in fact, an important feature of governance for public services in both urban and rural areas in China. The track record suggests that citizens’ concerns, voiced through formal channels (such as the People’s Congress at the central, provincial or municipal levels, the Chinese Communist Party, or the relevant government departments) or captured through informal channels (such as media and academic research) indirectly find their way into the policymaking process.

Citizens’ client power in relation to service providers has been more limited. Across the surveyed sectors of public services, citizens reported having very little power in relation to service providers. In some instances, citizens reported insufficient understanding of their entitlements, partly because of insufficient knowledge about government policies and administrative processes. Yet in other instances, the survey demonstrated that citizens often lack information about the quality of the services, and have no means to overcome the inherent information asymmetries. In cities, the poor official urban residents and migrants have exhibited the weakest client power. This has been, to some extent, because these population groups have had the lowest knowledge of and access to information about government policies and administrative processes.
3. Better Governance for Public Services

Based on the above analysis, this chapter recommends a set of reforms to enhance governance for public service delivery in China. Apart from sector-specific policy frameworks, which are outside the scope of this report, public service delivery closely reflects public sector governance. In this context, the Chinese government is rightly placing reforms in the intergovernmental, administrative and public finance systems on the top of its agenda.

Specifically, this chapter elaborates three main recommendations:

1) Develop mechanisms to hold the provincial governments accountable for public service delivery results in the entire province

2) Develop effective mechanisms to align public resources and incentives at each level of government with the national priorities

3) Develop proper means to empower citizens.

3.1 Holding provincial governments accountable for services

In a country as diverse and decentralized with respect to public services as China, the central and provincial governments have a key role to play. Namely, the provincial governments need to be made accountable for public service delivery in the entire province, while the central government provides an ultimate guarantee (and an equalizing fiscal support) for equitable access to essential public services of acceptable quality. In effect, it is the role of provinces to ensure the implementation of national policies, appropriate and equitable resource allocation within province, and to enforce appropriate government performance at the sub-provincial levels.

At the central level, China has shown significant progress in recent years in developing the appropriate institutional and policy frameworks across sectors and in strengthening the system of equalization transfers from rich to poor provinces. With respect to public service delivery, the central government could further strengthen its role in specifying and ensuring enforcement of national standards, and the rights and obligations of the different government agencies and levels, service providers and citizens. The central government may need to further strengthen its role providing leadership and ensuring national cohesion in comprehensive reforms, such as those toward greater equity, quality and cost-control in public service delivery. Furthermore, the central government needs to enhance the analytic and institutional basis for independent monitoring and performance evaluation in relation to the sub-national governments and service providers; for accountability relationships among the different levels of government, service providers and citizens; and for citizens’ empowerment and voice.
In the existing governance system in China, it would be appropriate for the central government to hold the provincial governments accountable for ensuring the implementation of national policies, allocating public resources accordingly, and for enforcing good performance in public service delivery within provinces (including but not limited to the adherence to national standards, equity in access, cost control, safety and quality). With respect to the migrant population in cities, the provincial governments need to be held accountable for promoting cohesion and access to essential services of acceptable quality to all citizens in their province regardless of their income and residence. In this context, provinces would be held accountable for ensuring the implementation of vital national policies, such as the right of migrant children to affordable and decent education, and the obligation of public schools to serve as the primary service provider toward migrant children.

Consequently, guided and supervised more effectively by the provincial governments, the municipal governments would be encouraged to enhance their performance in regard to public services. Emphasis should be placed on the role of municipal governments to ensure appropriate resource allocation to public service delivery, monitor and enforce standards and good practice; monitor the performance of service providers, holding providers accountable; facilitate transparency and information sharing regarding public services, service providers and relevant policies and procedures; and address citizens feedback.

3.2 Aligning resources and incentives with national priorities

Strengthening the performance of public services requires that resources, incentives and responsibilities at each level of government be aligned with the national priorities. Such an alignment is of critical importance in China because the responsibilities for financing and providing public services are heavily decentralized down to the level of district- and county-level governments and delegated to many agencies across the five official government levels. Namely, alignment of resources and incentives with national priorities across government levels and agencies and across providers is necessary if government policies are to be implemented and strategic priorities accomplished across China.

Achieving such an alignment at each level of government requires strong institutional mechanisms. These mechanisms need to involve policy coordination, resource allocation, provider payment, performance evaluation, and accountability relationships among the different government levels, service providers and citizens. Important steps toward better policy coordination have been recently announced at the central level of government. An unambiguous division of functions across ministries and inter-ministerial coordination could pave the way for a clearer division of functions and resources and for better coordination across the different government levels and across agencies at the lower levels of governments. Greater clarity in functions and adequacy in resource allocation across government levels would support a stronger accountability framework.
With respect to resource allocation, this study finds that it remains essential to further increase and equalize government contribution to essential public service delivery across localities and population groups also within cities. As discussed above, with the equalizing support and ultimate guarantee of the central government, the provincial governments need to take the lead in ensuring that all localities and population groups within province are able to utilize essential public services of good quality and according to the needs.

A faster progress is most urgently needed with respect to the essential health package, provider payment mechanism and contracting in the health sector. In their effort to improve the performance of service providers and minimize information asymmetries, the municipal governments could further explore the option of introducing an active purchasing function into the health system. Effective active purchasing, in turn, involves a well designed provider payment mechanism, contracting (that is competition among – public, private or other – service providers for contracts rather than individual patients, accompanied by an effective engagement of the purchasers of care in monitoring performance of the providers of care) and an appropriate service benefit package. Furthermore, the recent policy effort to expand population coverage of health insurance schemes in urban areas (and of the New Cooperative Medical System in rural areas) needs to be supported by additional public resources toward essential public health functions, public health services and essential clinical services for the poor and vulnerable. Using the insurance schemes for channeling some of the resources is appropriate, but insurance schemes must be required to emphasize essential outpatient and inpatient services – such as those included in the basic mother and child healthcare package – in their service benefit packages and gradually reduce the co-payment levels in line with the additional funding contributions. Public goods, such as public health safety and public health programs need to be appropriately prioritized and funded directly from the government budget to contract providers, along with the enforcement of appropriate national and provincial standards. It is encouraging that the Government Health System Reform Plan unveiled in 2008 is pursuing such funding and institutional improvements.

In education, the government could usefully expand its commitment to compulsory nine-year education and provide more resources toward expanding early childhood development and senior high school education. Analyses have shown that both upper secondary education and early childhood development are very important for developing high-skill labor force and sustaining China’s rapid economic development.

24 Good examples of local initiatives include Tieling in Liaoning, and Jinan and Qingdao in Shandong. In Tieling, the government allocates capitation-based resources (RMB10 per person) to purchase 18 types of public health services from qualified service provider – public or private – based on competition for contracts at the community level. In Jinan and Qingdao of Shandong Province, government allocates capitation-based resources to purchase three types of service package, namely, essential public health service package, extended package, and locality-specific package. The essential service package serves as the minimum benchmark package in the province, and city districts choose among the three packages to contract service providers. Tieling, Jinan and Qingdao have all strengthened the provider performance evaluation systems. In this context, Qingdao also actively collects citizens’ feedback regarding the providers’ performance.
With respect to water supplies in urban areas, the citizen scorecard survey suggested that there is still a scope for further increases in water tariffs, particularly for higher volumes of water consumption in households, which may reduce the need for additional government funding. Provincial government may need to strengthen their regulatory and enforcement role in relation to the performance of utilities, and continue adjusting the levels and structure of tariffs within the overarching policy of full cost recovery and equity, safeguarding the interests of the poor.

Building on the performance evaluation initiatives underway at the sub-national levels, citizen scorecards could become a useful tool to gather citizens’ feedback regarding the access to, cost/fees and quality of public services, and to help assess the performance of both sub-national governments and service providers. For instance, citizen scorecard surveys could assist the government to evaluate service providers particularly on items that are difficult to monitor through administrative channels, including equity and fairness in access to essential services.

Comprehensive performance evaluation could in turn become a powerful basis for strengthening the accountability relationships across government levels, agencies and service providers and for addressing citizens’ concerns. The emphasis on accountability for performance, including outputs and outcomes, would also allow for greater management autonomy at the level of sub-national governments and service providers. Appropriate performance indicators and targets, and effective monitoring and evaluation mechanisms need to be developed, building on the existing reform initiatives. In order to minimize conflicts of interest, it will be important to make the performance evaluation system relatively independent from the influence of agencies responsible for policy implementation.

Stronger accountability of sub-national governments along with an adequate division of responsibilities and resources across government levels would both encourage and enable the responsible government levels and agencies to facilitate adequacy, equity and efficiency in the allocation of public resources to essential public services in line with national policies.

Greater accountability at the sub-national level would also encourage sub-national governments to better monitor the performance of service providers and continue reforming the provider payment mechanisms so as to boost equity, cost control and quality in public service delivery. In this context, it would be very beneficial to continue and scale up the recent successful innovations that have been implemented at the municipal level. In monitoring service providers, it will be crucial to make inspections effective in all areas of public services and public safety, and publicly disclose the results of inspections so as to

---

(Chinese) [Vol 1, 2008], and Zhang (2006), Senior High School Education and Laborforce Development, in *Shanghai Education Journal (Chinese)* [Vol. 6, 2007].

27 There are many such initiatives underway across localities in China. In education, for instance, Shanghai-Xuhui Education Bureau regularly evaluates students’ competency, teachers’ ethics, and the schools’ cost-effectiveness, enforcing zero tolerance for teachers’ misbehavior and campus crime. Beijing-Tongzhou Education Bureau monitors the performances of schools and requires the schools to evaluate teachers’ performances according to their results, including students’ competency and own involvement in research and innovation. In both locations, the evaluation system is complemented by financial incentives through budget allocations and penalties.
provide means to empower the citizens, which in turn would help strengthen the accountability of service providers.

### 3.3 Empowering citizens

**Citizens can effectively assist in making service providers accountable and in promoting equity, cost control and quality in public service delivery.** Citizens can also assist in encouraging sub-national governments to implement national policies and standards. To be able to do so, however, citizens need information (for instance, regarding policies and procedures to utilize public services, appropriateness and quality of services, and so on). They also need voice, including channels for involvement in the evaluation of performance of service providers and local government, in policy development and policy evaluation, and for filing complains and achieving corrective measures on the side of service providers.

**China can build on the government's rich experience in promoting public awareness.** Over the past decades, China’s remarkable success in implementing family planning policies, for instance, involved a very efficient and effective information dissemination facilitated by government agencies at the local as well as central level. With respect to public services, government agencies in all sectors and at all levels need to be required to actively disseminate information about government policies and promote information sharing and transparency about public resource allocation, national and local service standards, administrative procedures, fees, and the quality of public services. Specific regulations on transparency and information sharing also need to apply directly to all service providers, including schools, health facilities, public utilities and others. Provincial governments may need to take the lead on developing effective channels to raise citizens’ awareness and ensuring the reliability of information provided with respect to public services. Furthermore, to address the needs of the migrant population (and facilitate labor mobility within China), it would be appropriate for the central government to support the creation of record transfer systems, such as migrant children registration and student record transfer system. (Box 6 explains the migrant student record transfer system in the United States.)

**Government also needs to be active in facilitating the collection of citizens’ feedback and in ensuring that citizens’ feedback is addressed.** The government or specialized agencies could

---

**Box 6 Migrant student records in the United States**

The US Government created the Federal Migrant Education Program in 1966 with the objective to provide supplemental educational and supportive services for migrant children. Consequently in 1969, the Migrant Student Record Transfer System (MSRTS) was created as a nationwide computerized information network to maintain and share education and health data of migrant children. The federally funded system operates under a contract between the US Department of Education and the Arkansas Department of Education. From its base in Little Rock, Arkansas, the MSRTS records, maintains, and rapidly transfers educational and health information on more than 750,000 migrant children across the United States. When a child moves, his or her records are forwarded to the enrolling school after MSRTS receives notification. The school can then concentrate on serving the child's needs rather than identifying those needs. The MSRTS also coordinates with the local and national migrant programs, medical facilities, and other entities serving migrants to facilitate continuity of services.

consider using the citizens’ scorecard, targeted local household surveys, public service complaint hot line and other innovative information channels. Since citizens’ feedback may reveal weaknesses in the performance of service providers or local government agencies, it is useful to feed citizens’ feedback into the independent performance evaluation system discussed above. The system to evaluate the performance of sub-national governments and service providers could be also effective in addressing citizens’ feedback. Moreover, citizens’ feedback could help in policy evaluation and decision making. Local governments could further expand recent pilots in this direction as well.

This study reveals that cities in China offer a rich experience in seeking new ways to enhance public service delivery. The analysis gives confidence that China is on the right track to harness its growing public resources and to implement governance reforms so as to make public services work well for all its citizens.