

CHAPTER 3. APPLYING EMPOWERMENT PRINCIPLES

The four elements of empowerment—information, inclusion/participation, accountability, and local organizational capacity—can be combined to create more effective, responsive, inclusive, and accountable institutions. Such institutions enable poor people to develop their own capabilities, increase their assets, and move out of poverty.

The state has a central role to play in providing the right incentives to improve the performance of public and private providers. The state can change rules and the culture of exclusion and inequality, remove constraints, encourage choice, and enforce accountability, while ensuring access by the poor. This can only be achieved within an overall policy environment that focuses on improving governance and encourages innovation and experimentation by public and private actors to develop institutional mechanisms that reach the poor.

This chapter draws on the World Bank's operational experience, while also including some non-Bank experiences, to illustrate actions that the Bank can support directly or enable others to undertake. It applies the empowerment framework to five important areas for poverty reduction:

- Access to basic services
- Improved local governance
- Improved national governance
- Pro-poor market development
- Access to justice and legal aid.

The experiences are organized by the extent to which they depend primarily on one or another element of empowerment, although to some extent the elements are interdependent. Thus accountability is never possible without access to information. Strengthening local organizational capacity requires access to information, participation, and accountability of service providers to poor people.

Institutional demands are the simplest for access to information and the most complex for investing in local organizational capacity. The larger the number of empowerment elements needed to achieve desired outcomes, the higher the institutional demands. Hence, if effectiveness of a public action can be improved by focusing on increasing access to information or by instituting mechanisms for accountability to citizens, or by designing new products that will enable the inclusion of poor people, then this should be given preference, rather than focusing on participatory processes and co-management strategies that require strong capacity on the part of poor people's organizations and provider agencies.

Because the empowerment elements are so closely intertwined, most of the policies and projects described in the following sections incorporate more than one of the elements.

Each project has been placed in a matrix according to the element it most clearly exemplifies, but this should be seen as a helpful lens for understanding the importance of the empowerment principles, not as a hard-and-fast classification of the projects. Many of the projects are described in more detail in Chapter 5 on tools and practices.

1. Access to Basic Services

Recognizing the urgency of delivering sustainable basic services including health care, education, water, roads, and basic infrastructure to the majority of poor people, the World Bank's Strategic Framework Paper endorses the Millennium Development Goals as a frame of reference.³⁷ The Bank supports government efforts to get resources down to the community level through a variety of institutional models. Implementation can be carried out by private or public actors, by central agencies, sectoral agencies, or decentralized authorities of local government, through stand-alone sector projects, or through multisectoral community-driven development projects. A new emphasis on performance is changing mindsets, shifting the indicators of project success from inputs to outcomes on the ground.

Table 1. Access to Basic Services, Examples Classified by Major Empowerment Element

<i>Information</i>	<i>Inclusion/participation</i>	<i>Local organizational capacity</i>
Gyandoot information technology project, Madhya Pradesh, India	ID cards for women, Egypt	Irrigation Rehabilitation Project, Albania
Cellular telephones, India and Bangladesh	Female Secondary School Assistance Project, Bangladesh	Kecamatan Development Program, Indonesia
Program for Pollution Control, Evaluation, and Rating (PROPER), Indonesia	Education voucher program, Colombia	Social Development Fund, Romania
Water Districts Development Project, Manila, the Philippines	Privatization of utilities, Bolivia	
Public Expenditure Tracking Survey, Uganda		

³⁷ World Bank 2001f.

Sector policies and projects necessarily vary in the extent to which they adopt all four elements of empowerment. Although it is difficult to completely disentangle the four empowerment elements, this section highlights three different strategies for providing effective services to poor people, based on the nature of the good or service to be provided and the institutional strategies possible in particular contexts. The first focuses on improving access to information, primarily by putting information about government performance in the public domain. The second makes use mainly of mechanisms for inclusion and participation. It includes private sector strategies that depend on designing access to basic services that poor people can afford, as well as demand-side financing strategies, particularly in education and health. The third focuses on local organizational capacity and includes all four elements of empowerment acting in synergy. Examples include a variety of multisectoral community-driven development projects, as well as single-sector projects such as those in rural water supply and sanitation (table 1).

a. Access to Information

Relevant information enables people to access public or private services. With information about service schedules, for example, people can rely on buses for travel or time their visits to health clinics during the hours they are open. Information and communications technology can play a pivotal role. The placement of computer kiosks in public spaces in rural areas allows villagers to access their land records, such as through the Gyandoot program in Madhya Pradesh, India. This is not only convenient, but also cuts down on corruption and increases poor people's security over their land. In Bangladesh, poor landless women who are members of Grameen Bank take loans to buy cellular phones, which they then make available to other villagers for a fee. Analysis of use patterns there as well as among members of the Self-Employed Women's Association (SEWA) in India shows that women use telephones to access information about basic services, such as hours of clinics, opening of markets, and availability of drugs and doctors.³⁸ (See also Tools and Practices 1 on ICT.)

Analysis of Public Expenditure Tracking Surveys (PETS) in Uganda, Tanzania, Ghana, and Honduras found that asymmetric information had negative effects on the flow of funds to the local level and on service delivery.³⁹ When local officials or citizens do not know their monthly entitlement, it is impossible for them to demand accountability.⁴⁰

Putting information in the public domain to inform people about private sector or public sector performance is the first step in building pressure for change. The private sector is often easier to influence through release of such information because of risks to reputation and the impact on the "bottom line." In the case of a Nike subcontractor in Vietnam that remained immune even to pressure from government officials, an international information campaign became instrumental in improving local labor and environmental practices.

³⁸ Narayan and Shah 2000.

³⁹ The Uganda PETS is described in more detail in the section of this chapter on improving national governance, and all four PETS are described in Tools and Practices 18.

⁴⁰ Reinikka and Svensson 2002.

Indonesia's PROPER program, which rated the pollution performance of factories and ensured the strategic dissemination of pollution ratings through the media, is a good example of the use of information to improve private sector performance. Each factory was assigned a color rating of gold, green, blue, red, or black, with gold meaning world-class performance on environmental standards while black indicated factories causing serious environmental damage. Under threat of public disclosure, a number of factories improved their performance. Many others changed their practices once their color ratings, names, locations, managers, and parent companies were released to the media and public. Altogether, the proportion of plants not in compliance with environmental regulations fell from 65 percent when PROPER began in June 1995 to 47 percent by September 1996. The number of firms in compliance increased by 50 percent over this period. Information also empowered local communities to negotiate better environmental arrangements with factories

A public performance audit of the privatized Metro Manila Waterworks and Sewerage System provides citizens and service providers with easy-to-understand information on service quality, reliability, and satisfaction. Performance is measured using a system of established benchmarks, putting pressure on concessionaires to improve their performance (see Tools and Practices 7). Conversely, audits of public performance with no links to accountability mechanisms create only weak incentives to change.

Experimentation with using the power of information in the public domain to improve state performance in delivery of basic services is just beginning. Some of these experiences are discussed in the sections on improving local and national governance.

b. Inclusion and Participation

State policies and programs can be effective by focusing on information dissemination to help poor people make informed choices while at the same time designing institutional mechanisms and products that enable poor people to opt in. This is facilitated by changes in the policy and regulatory framework. Institutional design, product development, and needed policy changes can be informed by public consultations, as well as by a range of studies including institutional analysis, poverty and social analysis, beneficiary assessments, economic analysis, and willingness-to-pay studies. In all these cases community groups do not play management roles. Rather, the emphasis is on collecting information about beneficiaries in their broader cultural and institutional context so as to design institutional mechanisms for their inclusion.

In Egypt, issuing of identification cards and birth certificates to poor women enabled them to access services and resources from which they had been previously excluded. Within one year, 20 poverty-focused NGOs that had been trained in the procedures for obtaining ID cards and birth certificates helped to empower more than 80,000 poor women to draw pensions, claim inheritances, obtain passports, access microcredit, register for literacy classes, and find employment in the formal sector. A mass media campaign has resulted in publicity in the national media, and dialogue with government authorities has started to

simplify the civil registration process. More than 200 NGOs are now working on this issue.⁴¹

In Bangladesh, where enrollment of girls in secondary education is extremely limited, creatively designed scholarships appropriate to the local social, cultural, and economic context have tipped the cost-benefit calculations of parents in favor of the decision to send girls to secondary schools. Parent-teacher associations or other community-level organizations do not play a management role. Rather, there is heavy investment in disseminating information about the scholarships and motivating parents to send their girls to school through television commercials, radio spots, and discussions with opinion leaders, including religious leaders. Scholarships are given directly to girls through passbook accounts. This process greatly increases the social status of young girls, who then remit the fees to the schools (see Tools and Practices 10, on empowerment in education, for more information).

In Colombia, a carefully designed voucher program to increase poor children's choice in and access to secondary education is based on understanding poor people's aspirations as well as the broader institutional context of both public and private secondary schools. It invests in information dissemination to parents and students, but again, parent-teacher associations do not play a key management role.⁴²

The question of how privatized public utilities can achieve efficiency with equity is just beginning to be addressed. The strategies will vary for provision of water, sanitation, electricity, telephones, or transport. Provision of water supply and sewerage to low-income households can be made affordable through use of lower-cost technologies, options in levels of service desired, contribution of labor by households, and payment in installments. These changes in design and policies, combined with dissemination of information about the new rules, can enable poor households to be included.⁴³ However, the processes of managing equitable pricing and sustainable systems of private delivery of public services are proving to be difficult.

c. Local Organizational Capacity

All four elements of empowerment become important and local organizational capacity becomes critical when community groups are expected to take on long-term management roles to initiate, implement, operate, and maintain basic services in collaboration with state officials. To ensure that communities are willing to take on increasingly demanding roles, and to improve access and the functioning of services, an increasing number of sector agencies are handing over control and authority over investment resources and decisions to community groups. In many community-driven development (CDD) projects, innovation is initiated from within government ministries, championed by a small group that builds

⁴¹ Internal memo prepared by Carmen Niethammer, 2001. See also <http://www.developmentmarketplace.org/>

⁴² Angrist 2001; King, Orazem, and Wohlgemuth 1998; King and others 1997; Patrinos and Ariasingam 1997.

⁴³ Estache, Foster, and Wodon 2001.

strategic alliances across different levels of government and with outsiders. The approach is based on learning by doing, including learning from communities.⁴⁴

The results are impressive, particularly in management of natural resources, provision of local infrastructure, and primary education. In the Andhra Pradesh Joint Forest Management Program in India, over 5,000 village protection committees involving a million village women and men have rejuvenated 1.2 million hectares of degraded forests. In El Mezqital, Guatemala, a dormant municipal development project was redesigned to

Box 2. An Empowerment Approach to CDD Projects

- Understand local social structures and institutions
- Identify clear rules and mechanisms for community control and authority
- Invest in information, downward accountability, and local organizational capacity so poor people can make effective use of new opportunities
- Empower local agency staff to support poor people and their organizations
- Assess progress and track outcomes, including changes in social relations and community organizations

establish cooperatives to manage housing loans and community services in a squatter community. Housing loan repayments cost no more than households earlier spent on buying water from vendors.⁴⁵ In Albania, 408 water user associations have grouped into 21 federations covering 200,000 families, or one-third of the entire population. The associations are self-financing and manage entire irrigation schemes; they have improved delivery of water to those at the end of irrigation schemes and increased cost recovery from zero in 1994 to \$700,000 in 2000.⁴⁶ Educational outcomes such as enrollment rates have increased dramatically through reform based on management partnerships with parents, community groups, and village education committees in contexts as diverse as El Salvador, Madagascar, and Uttar Pradesh in India (see Tools and Practices 10).

Multisectoral CDD projects are extremely important in getting resources to the grassroots, particularly in contexts of geographic isolation, weak governance, high corruption, and post-conflict recovery. Over time, strong links need to be made with local government structures. The Kecamatan Development Project in Indonesia, despite a financial and political crisis and a highly centralized government structure, was able to reach 10 million people in 12,000 villages with subprojects. Evaluations establish that 60 percent of the

people reached are among the poorer groups and 40 percent are women. In the Romania Social Development Fund, the participatory process includes training and investing in local

⁴⁴ The Bank approved \$1.4 billion in CDD projects and components in fiscal 2001, and this is expected to increase to \$2 billion in fiscal 2002. Projects channel funds either directly to local communities, or through local government, NGOs, and private firms, or directly through central government, or they give community groups authority over investment decisions. All institutional models try to develop the optimal synergy between community groups and other actors.

⁴⁵ Venkatamaran and Falconer 1998; Kessides 1997.

⁴⁶ See Tools and Practices 13 on poor people's organizations. For more information on the Albania Irrigation Rehabilitation Project, see the website of the International Network on Participatory Irrigation Management at <http://www.inpim.org/Countries/Albania/albania.html>.

organizational capacity and tracking changes over time. A social capital survey recorded higher levels of trust among people in villages participating in the project than among those in villages without projects. In northeast Brazil, a gradual shift since 1985 from large integrated rural development projects to community-driven approaches has resulted in 93 percent of resources now reaching communities, compared to 20 percent earlier.⁴⁷

Many of the newer CDD projects invest more in information dissemination, accountability, and local capacity building; the latter is achieved through the assistance of trained facilitators, through learning by doing, and by giving community groups direct access to funds and the authority to hire and fire workers and contractors. Information disclosure strategies include putting information about local budgets on public blackboards or walls as well as funding journalists, NGOs, and other third-party actors to monitor and publicize projects. (See Tools and Practices 9 for case studies of CDD projects.)

There is also reason for caution. CDD projects, like all projects, are subject to capture by elites. Success varies with the social, economic, and political features in each community. Many CDD projects still do not systematically invest in the capacity of local organizations, and many lack clear indicators to track empowerment, as this has not been a clearly identified objective of projects. A recent OED evaluation of social funds concludes that while social funds are highly effective in delivering small-scale infrastructure, they do not expand community capacity or social capital.⁴⁸ Most projects have not led to the development of permanent and autonomous community organizations that can build networks across communities and eventually a regional or national presence. There are some exceptions. In Africa a few capacity-building projects support the evolution of national and regional farmers' associations as well as pastoralist networks. (See Tools and Practices 13 on poor people's organizations.)

2. Improved Local Governance

Improved local governance is critical to better service delivery and greater responsiveness to poor people's priority problems. To improve local governance, local governments with authority and resources need to empower local communities through mechanisms that increase citizen access to information, enable inclusion and participation, increase accountability of governments to citizens, and invest in local organizational capacity. Decentralization and local government reform have so far focused primarily on the supply side of formal systems and not on strengthening the demand side through actions that enable citizens to effectively utilize the space created by new rules and regulations. Experiences in Uganda, the Philippines, Bolivia, and India demonstrate that when space is created by new rules but there is a lack of investment in information dissemination and

⁴⁷ World Bank 2001b.

⁴⁸ As of May 2001, the Bank operated 98 social fund projects in 58 countries with a total investment of \$3.5 billion. Of closed projects, 96 percent were rated satisfactory—well above the Bank average. Thirty-two percent of social funds include community capacity building among their objectives; community empowerment was mentioned in 18 percent of projects, and social capital in 5 percent. The report concludes that since each community processes just one subproject, overall, social funds have operated as users rather than producers of social capital (World Bank 2001e; Rawlings, Sherburne-Benz, and Van-Domelen 2001).

local organizational capacity of civil society and poor people’s organizations, poor people cannot participate effectively in local governance.⁴⁹ There has been insufficient attention to the relationship between citizens and local governments.

Table 2. Improving the Demand Side of Local Governance, Examples Classified by Major Empowerment Element

<i>Information</i>	<i>Inclusion/participation</i>	<i>Accountability</i>
Rights to information laws, India	Participatory planning and budgeting, Porto Alegre, Brazil	People’s Voice Program, Ukraine
Citizen report cards in Bangalore, India	Citizen involvement in municipal tax decisions and rule making, Argentina and Venezuela	Law on popular participation and decentralization, Bolivia
Municipal websites with performance information, Argentina	Women’s inclusion in Panchayat Raj institutions, India	Citizen referendum to recall elected mayors, Madhya Pradesh, India

Focus on the demand side of improved local governance is just beginning. Although still few, there are some important examples of efforts to increase access to information, design mechanisms for inclusion and participation, and build in mechanisms of accountability to citizens. On the other hand, in the context of local government reform, there do not appear to be any strong cases of investment in strengthening poor people’s organizations or other local civil society intermediaries so they can effectively play the new roles assigned to them (table 2).⁵⁰

a. Access to Information

The right to information through independent sources is fundamental to improving local governance. When citizens cannot find out what local governments are doing and how they spend their funds, governments have little incentive to improve performance, monitor their

⁴⁹ A large study of decentralized governance institutions of the Panchayat Raj based on over 2,000 interviews in 53 villages in Rajasthan and Madhya Pradesh, India, establishes that the majority of villagers (65 percent) did not attend a single *gram sabha* (village council) meeting in the previous year and that barely 7 percent attended meetings regularly. Further analysis revealed that the *gram panchayat*’s development initiatives were the least valued of all development activities since villagers felt that they had no influence, and there was a lack of transparency and high levels of corruption. Using econometric analysis, the study concludes that the addition of one more source of information to a person’s repertoire increases participation by more than five percentage points (Alsop, Krishna, and Sjoblom 2001). For information on experiences with decentralization in Bolivia, Uganda, and the Philippines, see World Bank 2000a; Faguet 2000; Azfar, Kähkönen, and Meagher 2001.

⁵⁰ An analysis of 38 municipalities across Bolivia revealed that the Law of Popular Participation has had little impact where political parties, as opposed to local organizations and rural unions, have a strong presence. Where local organizational life is weak, narrow interests take precedence over the wider interests of the municipality and the community as a whole (Faguet 2000).

own performance, or publish the results. It is important that the right to information be guaranteed by law. In Rajasthan, India, the struggles of MKSS (Mazdoor Kisan Shakti Sangathan) to gain copies of bills, vouchers, and employment rolls of government development projects not only exposed local corruption and led to corrective action in some cases, but also prompted consideration of a national right to information law.

Fed up with unresponsive, poorly performing, and corrupt government agencies, citizens' groups in Bangalore, India, conducted surveys of government performance and made the information available to the public and the press to create pressure for reform. In 1993 the Public Affairs Centre in Bangalore initiated citywide citizen "report cards" for public services. Citizens were asked to rate the quality, adequacy, and efficiency of services such as water, transport, electricity, the municipal office, and police, and the findings were publicized in the media. This led to discussions with heads of agencies about needed reform, and in some cases services improved. The methodology has spread to other states and was recently administered countrywide in India⁵¹ (see Tools and Practices 16).

Bangalore is also becoming known for its Swabhimana initiative, in which volunteer engineers and architects, tired of shoddy public construction, monitor the city's public works directly at the site, providing public information on all aspects of the contract—thus increasing contractors' accountability.⁵²

Municipal governments are beginning to create websites that enable citizens to interact with government, access certificates, register property, and give governments feedback on their performance. In Latin America, the World Bank is interconnecting the municipal websites of 10 capital cities to encourage exchange of experiences as well as public engagement. In Argentina, the Cristal project uses the Internet to disseminate in an easily understood format all information concerning the use of public funds in different programs.⁵³ The site is audited externally by Foro Transparencia, a group of 15 nongovernmental organizations concerned with government transparency.

b. Inclusion and Participation: Planning, Budgeting, Rule Making, and Management

Citizen participation in planning, budget allocation, and rule making initiated by mayors can improve governance and the delivery of services, and can also help mayors get reelected. To be meaningful this must be in the context of hard budget constraints to avoid generation of "wish lists." Citywide strategies for poverty reduction can help bring different stakeholders together across sectors for more effective poverty reduction.⁵⁴ In Colombia, municipalities are using "co-participation" with local communities as the means to respond to community priority needs in construction and maintenance of public works.

⁵¹ Paul and Sekhar 2000.

⁵² For additional information about the Swabhimana, see <http://www.savebangalore.org/> and <http://www.pacindia.org/>.

⁵³ See <http://www.ayudaurbana.com> and <http://www.cristal.gov.ar>.

⁵⁴ Citywide strategies for poverty reduction are being undertaken in approximately 80 cities around the world, including Cali, Colombia; Kampala, Uganda; Haiphong, Vietnam; and Johannesburg, South Africa.

Opinion surveys show improved sectoral allocation as well as greater citizen trust of local officials. Similar findings are emerging from Bulgaria, Romania, Ukraine, Serbia, and Croatia.

Participatory planning and budgeting involves citizens through group meetings. Information collected is aggregated into neighborhood priorities for government budgetary allocations. The approach was pioneered by the city of Porto Alegre, Brazil, in 1988, and has been institutionalized there through the support of successive mayors. In a typical year only 200 of the 1,500 requests for public projects received can be financed. Between 1996 and 1998 more than \$260 million was spent on projects selected by participants, the vast majority of them carried out in underserved and poorer districts. As of June 2000, it was estimated that nearly 100 municipalities and five states in Brazil are implementing some aspects of citizen engagement in budgetary allocations.⁵⁵ (See Tools and Practices 6 for more information on participatory budgeting.)

In order to improve city governance, curtail corruption, and build social consensus around unpopular decisions such as raising taxes, some cities are institutionalizing citizen referendums. In the city of Mar del Plata, Argentina, a newly elected mayor called for a referendum on 26 public works to be constructed during his term. The plan was to improve infrastructure to attract tourists, with the costs to be covered by a tax to be paid over four years. The vote was positive, the work was completed on schedule, and the mayor was reelected.⁵⁶ In Campos Elias, Venezuela, municipal performance on public access to information, productivity, cost effectiveness, and corruption improved by more than 50 percent in one year. The results were attributed to participatory budgeting, public and computerized tracking of information on municipal performance, setting up of a Tripartite Auditing Commission that included citizens, and creation of a functioning Office for Development and Citizen Participation.⁵⁷

Citizen involvement in setting new rules can break deeply entrenched practices of state capture. In the municipality of Moron in the province of Buenos Aires, Argentina, the government together with the city council called for public hearings to design criteria for the award of the city government's largest tender, for waste collection. The public hearings led to changes in tender specifications that allowed new companies to bid, kept on workers already under contract, and were based on outputs rather than inputs. As a result, the contract cost decreased by 30 percent.⁵⁸

In the presence of deep social inequities, it is difficult to initiate change without rules and laws that require inclusion and participation of excluded or marginalized groups in local governance. In India's cultural context, it took a constitutional amendment—requiring that one-third of the councilors in *panchayats* (village-level councils) be women—to create opportunities for women's voices, priorities, and leadership in local governance. While in

⁵⁵ World Bank 2001d.

⁵⁶ Ocampo 2001.

⁵⁷ de Asis 2000.

⁵⁸ Ocampo 2001.

many *panchayats* women have emerged as effective leaders, in others cultural norms and lack of a support system and training still limit women's roles.⁵⁹

c. Accountability

Access to information is a prerequisite for accountability. As noted above, citizen monitoring of government performance through citizen "report cards" or "scorecards," followed by workshops in which citizens discuss findings with government officials, attended by wide media coverage, is an effective tool to build citizen demand for better local government performance. And when governments put in place citizen accountability mechanisms, the impact of information can be even more powerful.

In Ternopil and Ivano-Frankivsk, Ukraine, the People's Voice Program created citizen scorecards on public services after getting the two mayors involved as champions of the process.⁶⁰ The surveys revealed widespread dissatisfaction with service quality, and widespread bribe-taking was reported. Fifty percent of respondents claimed that government services were not provided according to rules and regulations. In Ternopil, the municipality responded by opening one-stop service centers where people can pay for all municipal services. In Ivano-Frankivsk, education reform is encouraging greater citizen involvement through newly created education advisory groups and parent councils, and citizens' groups and the municipality are working together to address other identified problems.⁶¹ In summer 2001, the scorecard method was expanded to two other municipalities in Ukraine. Similar work has been undertaken in Serbia, Croatia, and Bulgaria, creating new partnerships of trust between citizens and city governments.

Bolivia's Law on Popular Participation incorporates indigenous people's organizations into municipal decision making, and empowers "community vigilance committees" to investigate municipal decisions and activities and stop central government transfers to local government if the annual plan does not respond to community demands. Without institutional mechanisms it is difficult to sustain citizen engagement to improve local governance for poverty reduction. While these laws create the possibility of change both in Bolivia and in India, results have been uneven, reflecting uneven local capacity to access information, mobilize, organize, assert leadership, and demand accountability.⁶²

In India, the Madhya Pradesh state assembly has passed a law empowering dissatisfied citizens to recall an elected mayor mid-term through a citizen referendum—the first law of its kind in India. The new law, inspired by similar referendum laws in Switzerland, states that if three-quarters of local legislators pass a resolution against a directly elected mayor who has completed two years in office, a referendum will be held to decide the mayor's fate. In the coal mining town of Anoopur, 5,519 of the 8,799 eligible voters voted to oust

⁵⁹ Jain 1996; Vyasulu and Vyasulu 1999; Chattopadhyay and Duflo 2001.

⁶⁰ Ternopil Urban Development Agency 2000.

⁶¹ ICPS 1999.

⁶² Faguet 2000; Grootaert and Narayan 2001; Jain 1996; Vyasulu and Vyasulu 1999; Alsop, Krishna, and Sjoblom 2001.

the corrupt mayor.⁶³ It should be noted, however, that without strong citizens' groups and poor people's organizations, such laws can become political tools, leading to changes in mayors almost every year as happened in some municipalities in Bolivia.⁶⁴

3. Improved National Governance

Macroeconomic policy and choices are areas that are just beginning to open to societal engagement. While the ultimate decisions, like all development decisions, involve technical expertise, discussion with those who are affected offers multiple advantages. It helps clarify the causal links and assumptions underlying policy tradeoffs and choices; it leads to discussions about the institutional capacity needed to implement reforms, and alliances that will have to be built with different parts of society; it builds social consensus on the importance of the reform; it gives the reformers room to maneuver against narrower political interests; it educates all involved in the process; and it helps identify and develop needed compensatory mechanisms for the poorest and most adversely affected citizens.

Some progress has been made in demonstrating the value of information tools in the public domain as well as consultative processes. Progress on linking information collected to mechanisms of accountability to poor people and citizens' groups is just beginning. Sector reform loans and credits, as well as budget support loans and credits, *assume* that local capacity exists at all levels of civil society to collect and analyze information and engage effectively with governments to keep them accountable. None of the budget support loans/credits are directly supported by capacity-building operations (table 3). Except in Uganda, the capacity to conduct participatory poverty diagnostics so far has not been institutionalized at the national level, either in government or in local universities or other civil society organizations. Local and national capacity of civil society organizations to participate effectively in these new roles deserves urgent attention.

Public sector reform processes that focus on rationalizing and tracking public expenditures as well as modernizing financial management systems are critical first steps toward internal and public accountability. Public participation and public access to key information in forms that can be understood can further increase government accountability for improved performance.

Participatory processes in the development of national poverty reduction strategies, particularly in connection with the preparation of PRSPs in low-income countries, have become a central part of efforts to reach societal consensus on priorities for government expenditure as well as for policy reform. These processes can lay the foundation for public accountability to citizens. Since national processes and policies determine poor people's

⁶³ Abdi 2001.

⁶⁴ The 38 municipalities included in a survey in Bolivia had an extraordinary total of 92 mayors in the first 3.5 years of the 1996–2000 term. More than a quarter of these municipalities had a new mayor every year of the four-year term (Faguet 2000).

access to resources and opportunities, it is critical that these processes incorporate the four empowerment elements.⁶⁵

Table 3. Improving National Governance, Examples Classified by Major Empowerment Element

<i>Information</i>	<i>Inclusion/participation</i>	<i>Accountability</i>
National government websites, Argentina	Poverty Reduction Strategy Paper processes in several countries	Poverty Reduction Support Credit, Uganda
Freedom of Information Act, Romania	Participatory Poverty Assessments, Uganda and Vietnam	Citizen report card on pro-poor services, the Philippines
Programmatic Structural Adjustment Loan, Latvia	Social Partnership Agreement, Ireland Coal Sector Adjustment Loan, Russia	Programmatic Social Reform Loan, Peru

a. Access to Information

New levels of transparency and accountability are made possible by the use of information technology in what is becoming known as e-governance. As mentioned earlier, in Argentina, for example, the national government is putting on the Internet in easy to understand formats all information regarding use of public funds, not only the amount devoted to different programs but also how these funds are administered.⁶⁶ The goal is to inform citizens so that they can exercise more effective control over their elected representatives and government officials (see also Tools and Practices 1).

An increasing number of countries are also enacting new laws to support free access to information about government performance in an effort to curb corruption and increase responsiveness and efficiency. In Romania, for example, a public opinion survey revealed high levels of corruption, but neither the media nor citizens had any access to information. In response, the Romanian Academic Society built a domestic coalition of Romanian NGOs, media, and political organizations that put forward a Freedom of Information Act which has recently become law.

⁶⁵ Several reviews of participatory processes highlight both the weaknesses and strengths of experiences to date. All agree that the PRSP has opened up new opportunities for citizen engagement in identifying priorities and influencing poverty strategies. Most reviews also highlight the need to deepen, broaden, and institutionalize the participatory processes. See <http://www.worldbank.org/poverty/strategies/review/index.htm>.

⁶⁶ www.cristal.gov.ar.

The Latvia Programmatic Structural Adjustment Loan I (PSAL I) includes some measures to ensure public access to information, including information about anticorruption efforts and about court decisions and rulings (see Tools and Practices 5).

b. Inclusion and Participation

Inclusion of poor people in national processes can be indirect, through gathering information about what poor people want, and about their priorities and experiences in gaining access to resources and public services. When decision-making processes are opened up, even indirectly, to a range of new stakeholders who have different perspectives, there is potential for conflict. Management of participatory processes for complex reform, for national budgeting, or even just for information gathering—as through Participatory Poverty Assessments—*requires significant investment in trust and relationship building*. This has both cost and time implications. Whether in Bulgaria, Ukraine, Uganda, Vietnam, Guinea, the Philippines, or Bolivia, new relations and functioning pro-poor partnerships would not have emerged without the time and finances to allow the parties to meet, get to know each other, change processes, and eventually work together as partners.⁶⁷

Box 3. Improving Governance

- Invest in convening poor people, other citizens, private sector interests, and other stakeholders with governments
- Invest in building new alliances, trust, and common interests among stakeholders
- Expect ups and downs; invest time, patience, and goodwill
- Support a culture of debate, dialogue, and action, with public monitoring of government performance
- Invest in citizen report cards on government expenditures, follow-the-money surveys, and measurement of service delivery outcomes

The more complex and controversial the reform process, the more critical the investment in consultative processes, consensus building, and setting up of joint steering committees that include civil society and the private sector. These conclusions are confirmed by the PRSP experiences, for example in Bolivia, Kenya, and Uganda. The consultative process used to develop the Morocco Gender Action Plan, which has been controversial in the country, has also had to deal with conflicting perspectives and tensions.⁶⁸

In South Africa, a recent study concludes that the lack of alliances between the government and labor unions undermined implementation of needed macroeconomic reform.⁶⁹ In Latin America, heads of state from Paraguay, Bolivia, Ecuador, Nicaragua, Colombia, and Honduras have requested help in managing multi-stakeholder involvement in the design and implementation of anti-corruption strategies. Without this kind of investment, reforms

flounder, as is evident in the recent cancellation of the \$300 million second tranche of the Safety Net Sectoral Adjustment Loan in Indonesia—an outcome that reflected both the

⁶⁷ See also Tikare and others 2001.

⁶⁸ See <http://www.femmesdumaroc.ma/plan.asp>.

⁶⁹ de Silva 2001.

breakdown of trust between citizens' groups and the government and the lack of progress in public accountability mechanisms.

Participatory Poverty Assessments (PPA) as well as nationwide surveys are important tools to inform national policies and budgetary allocations. In both Vietnam and Uganda, PPAs provided critical new insights missed by survey data. Government ownership of the PPA process ensured that findings were used. In Uganda, the government substantially increased its investments in water supply and increased the flexibility of use of district budgetary allocations to enable districts to respond to local needs. In Vietnam, the PPA findings have led to projects targeting urban poverty as well as issues of ethnicity and gender. In one province, revenue raising at the commune level was found too burdensome, regressive, nontransparent, and poorly accounted for. This issue is being investigated in a national public expenditure review. The study also found poor implementation of the Grassroots Democracy Decree. As a result, mechanisms are being considered to stimulate two-way flows of information, including piloting by the government of a citizen report card on delivery of basic services. (See Tools and Practices 3 on empowerment in the Vietnam country program, and Tools and Practices 20 on participatory poverty diagnostics).

The process of "social partnership agreements" in Ireland is a good example of the high payoffs in economic and social stability that can be achieved through broad stakeholder involvement in macroeconomic decision making. The Irish discussions are based on government economic forecasts. Over the last ten years, an institutional framework has emerged in which the government, the private sector, and civil society representatives including labor unions come together to participate in major socioeconomic decisions. Popular support for reform is one of the factors credited with restoring competitiveness, maintaining industrial peace, and providing an environment for investment and growth, making Ireland a "Celtic Tiger"⁷⁰ (see also Tools and Practices 6 on participatory budgeting).

The Russia Coal Sector Adjustment Loan provides a different kind of example. The reform was undertaken to address an array of problems: declining productivity despite \$2.7 billion in subsidies, wages not paid on time, mine closures, and increasing militancy among miners. The backdrop was one of instability, with five changes in prime minister and four different leaders of the coal agency between 1996 and 2000. Institutional redesign was based on consultations with those affected, mapping the blockages in flows of policies, information, and funds, and adopting measures to overcome these identified blockages. While problems remain, subsidies to the industry decreased in 2000 to \$0.28 billion, one-third of which was reoriented to social protection and community development. The productivity of mines improved by 77 percent, and 98 percent of laid-off and disabled

⁷⁰ Achievements include a budget surplus in 1999 of more than 1.1 billion Irish pounds compared to a deficit of 1.4 billion pounds in 1986. This has allowed the government to increase expenditures on health by 150 percent, on education by 84 percent, and on welfare by 70 percent since 1987, while unemployment has been reduced from 17.5 percent to under 5 percent. Society-wide policy and wage agreements have helped maintain social stability.

workers received their benefits directly and on time. (See Tools and Practices 5 for a more detailed discussion of the Russian coal sector reforms.)

c. Accountability: Citizen Monitoring

For citizen feedback to affect decision making, information has to be in the public domain; it has to be collected quickly on a key set of core performance indicators, using quantitative, qualitative, and/or participatory methods; and it has to be available to decision makers who have to be held accountable to respond to feedback. This is particularly relevant in the context of budget support loans with yearly decision points for release of the next year's tranche.

Three kinds of monitoring activities are particularly important: public expenditure tracking or follow-the-money studies; monitoring the delivery of basic services to the poor; and citizen surveillance to track the impact of macroeconomic adjustment policies. There is growing experience in these areas through the use of a variety of data gathering techniques. These include national citizen scorecards and household surveys on key basic services, "social weather surveys," beneficiary assessment surveys, Core Welfare Indicators Questionnaire surveys, budget tracking surveys, PPAs, and participatory monitoring and evaluation.⁷¹

Social accountability procedures that provide civil society and local communities with access to information they need to effectively monitor government performance are beginning to be a feature of some recent budget support loans.

The Uganda Poverty Reduction Support Credit (PRSC) includes independent and multi-stakeholder monitoring of government performance, including tracking flow of funds, corruption, and service delivery. It is expected that results of civil society monitoring will eventually be incorporated as part of decision triggers. The monitoring approach builds on the success of the Uganda Public Expenditure Tracking Survey, essentially a follow-the-money survey. Prompted by shortfalls in school enrollments despite substantial increase in budget expenditure for schools, surveys revealed that in 1995 only 22 percent of nonwage spending reached schools. As a result, the central government began publicizing information on budget transfers to districts in local newspapers and radio broadcasts, and also required that the information be posted at schools. A follow-up school survey showed that by the year 2000 schools received about 80–90 percent of the nonwage allocated financing⁷² (see also Tools and Practices 5).

⁷¹ In India, the Millennial Public Service Survey, which applied the citizen scorecard methodology to a sample of over 36,000 households across 24 Indian states, has just been completed. The survey rates performance of five basic public services of special concern to poor people: drinking water, health and sanitation, education and child care, the public distribution system, and road transport (Paul 2002). In Guyana, the World Bank is supporting efforts by the government to strengthen monitoring and evaluation capacities in the key line agencies with those responsibilities, and to pilot a community-based participatory monitoring and evaluation system designed to engage poor communities directly in PRSP monitoring.

⁷² Reinikka 2001.

The citizen report card methodology has recently been applied at the national level in the Philippines as a follow-up to the poverty assessment. The survey was undertaken by the World Bank in collaboration with an independent and credible local survey research organization, Social Weather Station. The questionnaire focused on awareness, access, use, and satisfaction related to pro-poor public services in five areas: health care, primary education, housing, water, and subsidized rice distribution. The National Department of Budget and Management has agreed to institutionalize the report card on services. A government oversight agency will conduct studies and results will inform national budgeting processes.

Over the long term governments can only be responsive to citizen priorities if there are institutional mechanisms for citizen engagement and feedback from the community, district, and state levels to the national level. These mechanisms need to support poor people's and citizens' access to information, foster inclusion and participation, ensure accountability, and invest in local organizational capacity.

The Peru Programmatic Social Reform Loan (PSRL), designed to support the government's medium-term social reform program, includes many features to enable poor people and other citizens to hold governments accountable for their performance. These elements include public access to information, institutional mechanisms for public debate and monitoring, widely known performance benchmarks, and a well-publicized ombud's office to establish a complaint redress mechanism. Citizen involvement mechanisms build on the follow-up to the 1997 poverty assessment, when the government of Peru created *mesas de concertación*, inclusive forums for deliberately plural public debate and action. These roundtables were created at all levels of society from the community to the district level to inform national decision making. Participants include local communities, civil society, local and national government, as well as the donor community. They have recently been institutionalized through a presidential decree and are now expected to monitor all public expenditures as well. The PSRL will be monitored by more than 100 of these multi-stakeholder *mesas*. However, funds for these major capacity-building efforts are raised through a variety of ad hoc grant mechanisms (see Tools and Practices 5).

d. Local Organizational Capacity

As yet there are no systematic efforts to invest in capacity building of research institutes and citizens' groups to monitor government performance. On the other hand, where such capacity already exists, it has been used. Examples include the Social Weather Station in the Philippines, the Open Society Institute in Hungary, the Institute of Public Finance in Croatia, the Institute for a Democratic Alternative South Africa (IDASA), and the Public Affairs Centre in India. Long-term investments are needed in such institutes and in field-based NGOs and poor people's organizations to empower citizens to engage meaningfully with their governments and be sources of independent monitoring information. The value of such efforts can be seen from the role played by SMERU (Social Monitoring and Early Response Unit) in Indonesia, which was created at the height of the financial crisis. The institute now functions as an independent public policy monitoring agency whose data are trusted and used by national policy makers.

4. Pro-poor Market Development

Economic empowerment is critical for poor people's wellbeing. Freedom from hunger, adequate income, and security of material assets are central issues in poor people's lives. Even in natural disasters such as floods and earthquakes, poor people often refuse at peril of their lives to leave their meager assets, knowing that lost assets mean a slow but just as certain death. In Gujarat, India, work by the Self-Employed Women's Association is demonstrating that post-earthquake rehabilitation efforts that focus on physical reconstruction without simultaneously focusing on livelihoods do not address poor people's central concerns, and result in long-term destitution.

Poverty and vulnerability will not be reduced without broad-based growth fueled by private sector activity. Economic growth cannot be sustained if poor women and men, who may be 50 percent or more of a country's population, are excluded from optimal engagement in productive activities. Involvement of such large numbers of poor people in more productive livelihoods can only happen when a country's overall domestic investment climate fosters entrepreneurship, job creation, competition, and security of property or benefit rights. This is not enough, however. While the overall business climate for investment is important, micro and small enterprises face constraints and exclusion that are not automatically corrected by improvements in the macro investment climate. Hence the need for "liberalization from below." Poor people are often excluded from equal access to economic opportunity because of regulations, because they lack information, connections, skills, credit, and organization, and because of discrimination. Empowerment strategies can help overcome many of these barriers that prevent poor people's entry into new markets and limit their productivity despite their unremitting hard labor.

Understanding the business investment climate for farmers, microentrepreneurs, and small and medium businesses—as well as for large firms—is critical to inform policy change that supports economic development and increases productivity, security, and empowerment. Governments can accelerate the development of markets for financial and nonfinancial services appropriate for poor women and men by promoting innovation in products and delivery mechanisms, and by building institutional capacity. A *market-oriented approach* to these services is critical to avoid unsustainable and ineffective public programs. A key component is carefully structured and time-bound subsidies within an overall approach incorporating market features, product innovation, and wide dissemination of institutional innovations.

This section highlights the application of the four empowerment elements to support poor women's and men's entrepreneurship through (a) business development services for micro, small, and medium enterprises, (b) financial services, and (c) microinsurance and housing loans. The use of different empowerment elements across these three activities is highlighted in table 4. Tools and Practices 11 highlights innovations that support microentrepreneurs, while Tools and Practices 12 highlights innovations in provision of financial services to the poor. Local and international NGOs and international agencies have played important roles in supporting innovations by subsidizing research and

development, experimentation, and investment in organizational development. However, in almost all cases, achieving financial viability was central in the experimentation.

Table 4. Pro-Poor Market Development, Examples Classified by Major Empowerment Element

<i>Information</i>	<i>Inclusion/participation</i>	<i>Local organizational capacity</i>
GrameenPhone, Bangladesh	One-stop shops, Bali, Indonesia	Metalworkers' and hammock makers' networks, Honduras
E-commerce: Novica.com, PeopLink.org	Urban Property Rights Project, Peru	Rice millers' association, Cambodia
Self-help groups, credit ratings, Andhra Pradesh, India	Banefe, Chile	SEWA microinsurance, India
Smart cards, Swaziland and India	New MFIs, Bolivia and Kosovo	SPARC guarantee loan, India
ATM banking, South Africa		

a. Business Development Support Services for Micro/SMEs

In many developing countries, poor people work primarily in the informal sector, surviving through a patchwork of economic activities or employed by small and medium enterprises (SMEs). The informal sector is responsible for 83 percent of new jobs in Latin America and the Caribbean and 93 percent of new jobs in Africa.⁷³

Large numbers of poor people, particularly poor women, make a living through informal activities, although not everyone in the informal sector is poor. In India 90 percent of the nonagricultural workforce is in the informal sector with little access to financial services or social protection. In Peru, micro and small enterprises account for 95 percent of all firms in the country and provide 50 percent of national employment and 60 percent of employment in urban areas.⁷⁴ In Bangladesh, microenterprises account for 90 percent of all firms in the manufacturing sector, and 40 percent of total employment.⁷⁵ In Macedonia, small enterprises of less than 20 employees account for 39 percent of the GDP and 25 percent of employment.⁷⁶ Despite these statistics, development of micro, small, and medium enterprises does not feature prominently in development plans of most developing countries.

⁷³ WIEGO 2000a, 2000b.

⁷⁴ Cisneros 1997.

⁷⁵ Hallberg 1999.

⁷⁶ IFC 2001b. IFC data are from 1998.

The World Bank Group already makes substantial investments in microenterprises and SMEs, 7 percent of overall lending in 2001.⁷⁷ As yet, however, there is virtually no economic and sector work on the investment climate, constraints, and innovations needed specifically to support the microentrepreneurial activity of poor people and SMEs.⁷⁸ However, the recently issued private sector development strategy provides the basis for sector-specific strategies and further analytical work through firm surveys that include microenterprises.

Access to information and information technology

Micro, small, and medium enterprises face information asymmetries in two ways: in their own access to market- and business-related information, and as providers of services to poor people. Informational costs of isolation and low volume can be reduced through formation of groups, associations, business clusters, and franchising, discussed later in the context of investing in local organizational capacity. Innovative use of information technology and telecenters can cut down transaction costs, and enable microentrepreneurs and SMEs to connect to information about markets more effectively.

The experience of the “telephone ladies” of Grameen Bank demonstrates that it is possible to increase economic returns to poor people by changing nothing more than their access to information about market prices. Grameen Telecom (financed in part by IFC) provides commercial phone service in rural areas of Bangladesh through local entrepreneurs. Grameen members, mostly women, many of them illiterate, take loans to buy and operate cellular telephones, charging villagers by the minute for calls. Fifty percent of the calls are made by poor people, mainly for economic reasons; these include checking out the current price of goods before a meeting with a purchaser, finding prices in various markets before deciding where to go to sell goods, and consulting with doctors and medicine providers. It is estimated that the phones generate real savings of between \$2.70 and \$10.00 for calls that substitute for travel between villages and Dhaka, the capital.⁷⁹ The telephone women are able to repay loans in a year, and they call the telephones a more reliable investment than cows. As of March 2002, about 10,000 village phones were in operation. However,

⁷⁷ The World Bank Group’s investment in SMEs between 1997 and 2001 reached \$8.31 billion (World Bank 70 percent, IFC 25 percent, and MIGA 5 percent). Fifty percent of this support goes to small enterprises, 31 percent to medium-size enterprises, and 19 percent to microenterprises. No IFC investments are targeted to microenterprises. Most of the support is direct firm-level assistance, through financial markets in general and assistance with regulations and policies. In fiscal 2001, 7 percent of the World Bank Group’s overall investment was in SMEs. Fourteen percent or \$1.82 billion of IFC’s current portfolio is invested in SMEs either directly or through financial markets, primarily in ECA, Latin America, and Africa. The World Bank’s current SME portfolio of \$5.96 billion is predominantly in the LAC region, followed by Africa and East Asia. Investments are spread across sectors, with the largest shares in agriculture (41 percent), finance (15 percent), and social protection (11 percent), and smaller percentages in environment, education, power, transport, and urban development (Webster, Kochar, and Raissian 2001).

⁷⁸ Some country studies, such as the one by Kapoor, Mugwara, and Chidavaenzi (1997) on Zimbabwe and the IFC’s work on country mapping (2000b), touch on the issue of assessing investment climate and constraints of SMEs.

⁷⁹ Richardson, Ramirez, and Haq 2000.

the model has worked in part because it is based on an already established revenue collection system through the networks of existing groups managed by Grameen Bank.⁸⁰

Poor people's associations and networks in many parts of the world are wiring up to connect to each other and to markets. In Mexico, the Information Network for Indigenous Organizations includes 19 organizations that use the Internet to exchange information, access market and technological information, and market products.⁸¹ In Guatemala, a MicroNet project that scaled up from an InfoDev project will establish by 2004 10 MicroNet centers that are technology-based, integrated information business development centers. The centers will assist 25,000 micro businesses run primarily by indigenous Mayan women and those associated with more formal organizations.⁸²

Micro producers and intermediaries have also turned to e-commerce, both retail and business-to-business, to improve sales and profits. In Kenya, the Naushad Trading Company, which sells local wood carvings, pottery, and baskets, went online two years ago and has seen its revenues grow from \$10,000 to over \$2 million. African Crafts Online receives between 5,000 and 25,000 hits per month. Novica.com, which has been rated by Media Metrix as one of 500 most visited sites in the world, charges no listing fees for artisans and experienced a fivefold increase in sales in 2000. It offers more than 8,500 craft items from 13 countries. Other innovations include Viatru.com and PeopLink.org.⁸³

SMEs can also benefit from information and communications technology applications. In the Philippines 99 percent of firms are microenterprises and SMEs, employing 55 percent of the country's labor force. An IFC equity investment in E-Planters aims to create a joint venture company to offer web-hosting services for SMEs to grow their businesses via the Internet at an affordable cost. The company is being formed through a partnership of Planters Development Bank, the largest SME bank in the Philippines, with the Asian Institute of Management, the chamber of commerce, and VICOR, a California-based technology company.⁸⁴

Finally, governments are simplifying registration procedures through use of information technology in many countries. In Andhra Pradesh, India, land registration offices throughout the state now help citizens register land within one hour; it used to take days, accompanied by bribes. Within six months of the change, 80 percent of all land transactions were being electronically processed. This has increased government revenue, decreased corruption and uncertainty, and increased public demand for similar improvement in other government services.⁸⁵

⁸⁰ Narayan and Shah 2000; Bayes, von Braun, and Akhter 1999. Also see the Grameen Phone website at <http://www.grameenphone.com/village.htm>.

⁸¹ See the Information Network for Indigenous Organizations website at <http://www.laneta.apc.org/rci/>.

⁸² See the Guatemala MicroNet Project website at <http://www.worldbank.org/pics/pid/gt55084.txt>.

⁸³ See the following websites: Naushad Trading Company (<http://www.ntclimited.com/>); African Crafts (<http://www.africancrafts.com/>); Novica (<http://www.novica.com/>); Eziba (<http://www.eziba.com/>); PeopLink (<http://www.PeopLink.org/>).

⁸⁴ World Bank 2002a.

⁸⁵ Bhatnagar 2000b.

Changing regulation for inclusion and participation

Regulations, corruption, and complicated business licensing and property registration procedures limit and add costs to poor people's entrepreneurial activity. Poor women and men with limited information, contacts, and cash are the least able to pursue property or business registration, or buy protection. They therefore remain excluded or vulnerable to high levels of exploitation and harassment. Stories about how many steps it takes to register property or obtain a license, and about locked up "dead capital," have been made legendary by Peruvian economist Hernando de Soto's work. In Peru, 70 percent of urban properties are unregistered, with 14 different agencies involved in conferring each title. In Lima, it takes six hours a day for 289 days to register a small garment workshop operated by one worker; the cost is \$1,231, or 31 times the monthly minimum wage. In Egypt a person who wants to register a lot on state-owned desert land must complete 77 bureaucratic procedures at 31 public and private agencies, a process that takes between five and 14 years.⁸⁶

In Indonesia, red tape is a particular deterrent to small businesses, which are subject to innumerable inspections, levies, and high licensing fees. While official license fees are approximately \$400—very high for a small entrepreneur faced with other start-up costs—the actual costs are often three times as much, as papers are pushed from one office to another. In Zimbabwe, registration of companies takes over a year; the average official cost of registering a tourist company after obtaining various certificates and paying various guarantees is \$14,000, which makes it difficult for community groups to initiate community-based cultural and wildlife tourism.⁸⁷

Urban vendors probably face more restrictive municipal laws and police harassment than any other entrepreneurs. In Durban, South Africa, 60 percent of the estimated 20,000 street vendors are women. There are an estimated 200,000 street vendors in Mumbai, India.⁸⁸ Street vendors' associations have successfully

Box 4. Improving Market Access of the Poor

- Diagnose and discuss overall domestic investment climate through firm surveys, which include poor people's microentrepreneurial activities
- Understand the constraints felt by poor entrepreneurs and their associations and networks
- Understand the constraints felt by private providers in targeting the poor
- Identify strategies for overcoming disadvantages of small size and distance from formal institutions
- Promote dialogue between poor people's organizations, government officials and policy makers, and the private sector to initiate pro-poor regulatory change and encourage innovation in the private sector
- Provide graduated subsidies to broker new linkages between poor people and their organizations, on one hand, and markets and formal financial systems, on the other hand, with provision primarily by private sector actors
- Consider ways of increasing poor people's access to information technology

⁸⁶ de Soto 2000, 2001.

⁸⁷ See Kapoor, Mugwara, and Chidavaenzi 1997; Bell, Peters, and Ndiweni 1995; Carlton and Hancock 2000.

⁸⁸ See WIEGO 2000a, 2000b.

worked with municipal officials to create marketplaces, lower license fees, and set expectations of new behavior from policemen.⁸⁹

“One-stop shops” for business licenses and permits introduced by the regent of Gianyar in Bali, Indonesia, show how more efficient licensing procedures not only support small entrepreneurs but can also increase tax revenues—by 75 percent in this case.⁹⁰ In Durban, South Africa, citywide development planning strategies have included consultations with street vendors’ associations and programs of support to address their needs. In India, the government of Gujarat has removed regulations that required gum collectors, almost all of them poor women, to sell at low prices only to a handful of government-licensed gum buyers.

The Peru Urban Property Rights Project, based on thorough research conducted by a Peruvian research institute, supported regulatory reform and procedural streamlining that helped almost 7 million Peruvians secure land titles collectively worth more than \$4 billion by August 2000.⁹¹ The technical and institutional procedures are based on learning from pilots and detailed diagnostic studies that illuminated how processes work in reality. Pilot projects established that the value of 300,000 new titles doubled within four years and led to the emergence of private mortgage and consumer credit markets.

Accountability

Simple and transparent business and licensing procedures increase the accountability of service providers. Use of information technology rather than judgments made by officials or buyers increases transparency of information and hence accountability to users. The National Dairy Development Cooperative in India collects milk daily from 75,000 villages through 60,000 milk collection societies involving 10 million members. Dairy farmers deliver their milk to the cooperative’s collection centers every morning and evening. Building on the existing organization, the Indian Institute of Management introduced a computerized system with integrated electronic weights, electronic fat-testing machines, and plastic readers at 3,000 collection centers. This has led to greater transparency, faster processing, shorter queues, and immediate payment to farmers. A dairy information portal is currently being piloted in two cooperative villages in the Kheda District of Gujarat, enabling farmers to access business-related information.⁹²

Market-based approaches instill accountability by imposing market discipline and hard budget constraints. All business enterprise development should comply with national environmental and labor standards. Deregulation and privatization of utilities, water, electricity, and telecommunications raise important policy issues about achieving efficiency with equity. This work is just beginning. Innovative solutions are being sought

⁸⁹ WIEGO 2000a, 2000b.

⁹⁰ Tesoro 2000.

⁹¹ Panaritis 2001.

⁹² Bhatnagar 2000a.

through analyses and stakeholder discussions that involve providers, regulators, and users, particularly trade associations and poor people.⁹³

Finally, enforcement depends on the extent to which a country's judicial and court system functions effectively. What is important for poor people is access to legal aid and conflict resolution mechanisms that are within their reach.

Local organizational capacity

The key challenge in providing market-oriented business support services to micro and small entrepreneurs is helping them to overcome the disadvantages of being small, scattered, and unorganized. Various linking strategies have emerged to provide services to support microenterprises and SMEs, including formation of networks and associations; business clusters; franchising, leasing, and subcontracting; and business incubators. For illustrative purposes two of these strategies are discussed here: formation of networks/associations and business clusters. Both demonstrate how carefully structured public subsidies can overcome market failures in collective action to benefit the poor.

Formation of networks and associations. Just as community facilitators bolster local organizational capacity for management of local public services, formation of networks and producers' associations is a key strategy to overcome the drawbacks of being small and powerless in the enterprise world. Networks are groups of firms that cooperate on joint development projects to solve common problems. In Honduras, the United Nations Industrial Development Organization (UNIDO) piloted the idea of "network brokers" to work with small businesses that have similar characteristics and growth constraints by bringing them together. Network brokers provide some analysis of common problems and encourage members to take collective action to solve their problems. This could mean, for example, pooling their resources to purchase raw materials in bulk, applying for a loan together, sharing equipment, and eventually diversifying production and seeking new markets. The only subsidy to the network is the services of the network broker; these are initially free and over a period of time move to fee for service.

A metalworkers' network in Tegucigalpa, Honduras started with 11 enterprises of four workers each. Within five years, the network had purchased large equipment and established a separate independent enterprise to manage the new equipment and provide services to network members. Sales have increased by 200 percent, employment by 15 percent, and fixed assets by 98 percent. An independent training foundation of network brokers financed by public and private sources has emerged to support the development of new networks.⁹⁴

⁹³ See Estache, Foster, and Wodon 2001. Also see World Bank's Smart Business Smart Development website at <http://www.worldbank.org/business>.

⁹⁴ Ceglie and Dini 1999.

Similarly, in Nicaragua, 11 hammock producers who compete in the local market have formed a horizontal network and collectively broken into the export market in Europe. Pooling their resources, they have been able to incorporate environmentally friendly features and improve the quality and standardization of their hammocks. As a result, by 1999 they were exporting 3,000 hammocks per month. As a consequence of the involvement of Nicaraguan government officials in this UNIDO-financed project, networking promotion has become a keystone of the government's policy in private sector development.⁹⁵

In Cambodia, a capacity-building grant from the IFC-managed Mekong Project Development Facility is helping to revive one of the country's key industries, rice production, by supporting the emergence of rice millers' associations in eight provinces. Three-quarters of Cambodia's population work in agriculture, with the majority producing rice. Rice millers' associations include hundreds of small producers and a couple of large firms. The initial task was to overcome lack of information, communication, and technology, and a history of social distrust. The eight networks, which have been successful in improving productivity and access to markets, have now created a national Federation of Rice Millers Associations so as to negotiate better prices for their members, handle higher-volume orders, dialogue with government, and learn about global markets. The group is currently piloting an Internet-based RICENET, managed by a student-run firm, to connect all members to each other and to regional and global suppliers and buyers.⁹⁶

Formation of business clusters. When a large concentration of small businesses all compete with each other, unable to break into new markets or improve product design, competition drives down prices and can lead to self-exploitation strategies. In this environment, a cluster approach to development of business services can be a viable option to achieve collective efficiency. The best-known examples of these small business clusters are found in northern Italy.

In Jaipur, India, famous for its ethnic hand-block print fabric, a UNIDO-supported intervention helped 500 small firms employing 10,000 workers to increase their

Box 5. Key Steps to Overcome Barriers of Small Size and Isolation of Micro Producers

- Clarify property rights
- Strengthen membership-based groups, organizations, and networks of poor people
- Educate and link groups with formal financial systems and service providers
- Support the creation of business clusters
- Use information technology to connect people to each other and to markets
- Support changes in regulatory framework to encourage the private sector to provide services to the poor
- Create incentives for the private sector to develop new products and organizations to “downscale” services; upgrade semiformal institutions and create new microfinance institutions; franchise services and innovate to reach large producer organizations

⁹⁵ Ceglie and Dini 1999.

⁹⁶ IFC 2000a. See also www.mpdf.org.

profitability, improve their product quality, and access new export markets by pursuing a cluster strategy. The first steps were to increase communication, build trust, analyze problems, and develop a common vision of problems and needed collective action. Over time, this led to revitalization of a dormant artisan association, the Calico Printers Co-operative Society; this in turn led to the creation of a common showrooms and an independent Consortium of Textile Exporters. Private service providers such as the National Institute of Fashion Technology have stepped in to provide fashion design advice, a credit scheme has been extended through the Small Industries Development Bank of India, and a market is gradually developing for consulting on export strategies, Internet technology, bulk purchasing, and product marketing for small enterprises.⁹⁷

Other successful examples of small businesses clusters penetrating national and global markets include shoe exporters in Brazil's Sinos Valley and stainless steel surgical instrument manufacturers in Sialkot, Pakistan.

b. Access to Financial Services

It is estimated that more than 500 million poor people worldwide operate profitable micro and small enterprises, yet less than 2 percent receive financial services from sources other than moneylenders or friends and family.⁹⁸ In order to expand outreach and serve the large majority of microentrepreneurs in poor households and those managing small and medium enterprises, the lessons learned through a quarter-century of NGO intermediation have been applied to attract private sector involvement in provision of financial services to the poor. The institutional models vary, building upon existing strengths and innovative use of technology, and adapting outreach strategies and products to meet the demands of poor rural and urban clients.⁹⁹

The recent entry of the private sector is reflected in statistics. By 1995, in a survey of 200 microfinance institutions, NGOs made up more than half the sample but accounted for only 9 percent of total outstanding loans and 4 percent of outstanding loan balances. This is in part because of the growth of commercial and savings banks and credit unions. These figures also reflect the fact that NGOs offer the smallest loans and work with the poorest borrowers. NGOs generally offer more social services than banks, invest much more in the capability of poor people, educate poor people about financial systems, and prepare them for participation in formal financial institutions.¹⁰⁰

⁹⁷ Clara, Russo, and Gulati 2000.

⁹⁸ Women's World Banking 1995; Microcredit Summit 2000. The Microcredit Summit brings together practitioners, advocates, educational institutions, donors, international financial institutions, and NGOs with the goal of reaching 100 million of the world's poorest families with credit by the year 2005.

⁹⁹ Recent analyses of successful microfinance institutions emphasize three elements of support by international agencies: capacity building of MFIs; steps to foster formal market linkages; and promotion of policy reform. Two additional factors are focus on financial viability and innovation based on the needs of poor customers (Ledgerwood 1999; Rhyne 2001).

¹⁰⁰ Ledgerwood 1999.

Technological innovations to reduce information and transaction costs

Two types of technological innovation are improving information access and reducing transaction costs in connecting poor people to financial markets. The first is credit scoring. While it is a standard statistical method used to calculate the risk of lending based on a customer's profile, credit history, and other relevant factors, credit scoring is only now being applied in developing countries to connect micro producers to formal financial systems. Microfinance institutions trying out this system include FUNDES in Panama, Financiera Familiar in Paraguay, and Orion in Peru.¹⁰¹

In India, a performance scoring system to enable poor people's self-help groups to access formal financial systems is being piloted in a World Bank–financed district poverty project in the state of Andhra Pradesh. There are over 30,000 poor women's self-help groups with different credit histories, savings, and skills in self-management. The project is piloting a performance rating system that classifies these groups into three categories corresponding to indigenous equivalents of AAA, AA, or A credit risk ratings. The rating system has been developed in collaboration with financial institutions, the self-help groups, and the National Bank for Agriculture and Rural Development.

Increased competition and computer technologies are stimulating commercial banks to move their services down-market and NGOs to move up-market to retain their competitive edge and market share. Computerization, ATMs, and smart cards are all tools whose potential is now being explored to reduce costs, establish reliable credit histories, and reach poorer clients more efficiently. These examples do not require local organizational capacity but represent innovations in new products that fit poor people's profiles and contribute to their asset accumulation.

Financial institutions in Swaziland and India are using a smart card with an embedded microchip containing information on a client's credit history to reduce transaction costs and establish credit history. In Swaziland, the Growth Trust Corporation, a business affiliate of Swazi Business Growth Trust (SBGT), issues a smart card to its small business clients. Clients use the cards to access funds and make payments at participating commercial banks around the country. The system enables SBGT to become a virtual bank running the country's largest banking network for low-income clients.¹⁰² In a poor, arid district of Andhra Pradesh, India, where many villagers are in permanent debt to moneylenders, Swayam Krishi Sangam (SKS) provides general, seasonal, emergency, and consumption loans at different rates to the poorest women. SKS combines group solidarity with issuing smart cards to members and handheld computers to workers to reduce the transaction costs of financial information recording. The organization plans to add a read-only computer in the village so that villagers can check their accounts.¹⁰³

In South Africa, First National Bank and ABSA, a large banking group, have rapidly increased the number of ATMs in black townships and rural areas. ATMs are used to

¹⁰¹ IDB 1998; Schreiner 2000. Good financial management systems are a prerequisite for credit scoring systems and other such innovations.

¹⁰² Nelson 1999.

¹⁰³ Microfinance Gateway 1999.

deliver pension checks to villages too small to be serviced by bank branches. ATMs have reduced theft of checks and fraudulent claims by 15–20 percent.¹⁰⁴

Standard Bank of South Africa has developed “E Plan” to reach small depositors while keeping costs low. E Plan outlets are colorful nontraditional kiosks, conveniently located and open to sidewalks, with video displays for entertainment and information. ATM screens are graphics-driven because of high levels of illiteracy. Customers are helped by three or four friendly assistants who speak several local languages. E Plan offers a single savings account for deposits and cash withdrawals, and all money in accounts of more than \$56 earns interest. The accounts have proven to be very popular because poor clients in these high-crime areas need to protect their money from being stolen right out of their hands.¹⁰⁵

In 1997 Standard Bank converted close to half a million low-balance customers to E Plan and attracted 600,000 new customers within a period of 10 months. By 1998 there were approximately 1.4 million E Plan account holders. Forecasts for 2002 were for 50 million E Plan transactions—42.5 percent of all Standard Bank of South Africa transactions (for more information, see Tools and Practices 1).¹⁰⁶

Inclusion and Participation

The search for new markets by the private sector, combined with regulatory change and the desire for poverty reduction, is bringing about changes in the way financial services are provided to poor people. Institutional innovations to promote poor people’s use of formal financial services include “downscaling” of products offered by commercial banks; “upgrading” of existing semiformal financial institutions or creation of new microfinance institutions; and regulatory change.

Downscaling. This refers to provision of financial services to poorer clients than an institution has previously served, and can be undertaken by state-owned commercial and development banks, private microfinance institutions (MFIs), or consumer credit companies. The Bank Rakyat Indonesia is a good example of downscaling, reaching poorer clients through its autonomous Unit Desas.¹⁰⁷

In Chile, where financial liberalization is fairly advanced, commercial banks have moved into the microfinance sector in a big way, outperforming NGOs in their outreach and cost of delivery within five years of market entry. The entry of commercial banks was facilitated by time-bound government subsidies. Banefe, a commercial bank with 22,000 clients, Bandesarrollo, a socially conscious private bank with 16,600 clients, and Banco del Estado, a state-owned bank with 8,290 clients, have all gained additional clients and offered a wider range of products, while the market share of NGOs has rapidly declined.¹⁰⁸

¹⁰⁴ Nelson 1999.

¹⁰⁵ Paulson and McAndrews 1998.

¹⁰⁶ Paulson and McAndrews 1998.

¹⁰⁷ Mukherjee 1997.

¹⁰⁸ Baydas, Graham, and Valenzuela 1997; Christen 2000.

Upgrading and new MFIs. BancoSol in Bolivia grew directly out of the success of an NGO, PRODEM, that could not mobilize savings because of legal restrictions. By 1991 PRODEM had provided \$27.6 million in loans with an average loan size of \$273. To overcome the restrictions on savings mobilization, BancoSol was created in 1992, the first private commercial bank to cater specifically to microenterprises. By 1999 BancoSol had a loan portfolio of \$63.8 million with 76,200 clients primarily in the informal sector, an average loan size of \$828, and a 30 percent return on equity. Increased competition has forced BancoSol to diversify and simplify its products, including granting individual loans to better-off and repeat clients who dislike the solidarity group requirements.¹⁰⁹

IFC and other agencies are providing equity capital and capacity-building grants to enable large, credible microfinance NGOs to spin off new financially profitable MFIs. Between 1991 and 2001, ACCION International's network of MFIs in Latin America and the Caribbean disbursed over \$3 billion in loans averaging \$600 to more than 2 million microentrepreneurs, with 98 percent loan repayment rates. The network serves home-based workers as well as street vendors, carpenters, and other self-employed micro producers, many of them women. In Mexico, ACCION International recently provided technical assistance and direct investment to enable affiliate Compartamos to spin off its microfinance activities into a separate for-profit entity, Financiera Compartamos SA, that is expected to help Compartamos triple its number of borrowers in the coming years. In 2001, with support from the World Bank's SME Capacity Building Facility, ACCION began expansion of its model to Africa.¹¹⁰

New microenterprise banks are proving to be commercially viable even under very difficult conflict circumstances, as in Kosovo. IFC formed a successful partnership with a German firm, Internationale Projekt Consult GmbH, to start Micro Enterprise Bank of Kosovo. The bank turned a profit in the first six months, and the partnership has now been extended through an \$85 million package of grants and equity investment to start up commercially viable microcredit banks in several other countries, including Romania, Bulgaria, Moldova, Georgia, Kazakhstan, Macedonia, the Philippines, and Ghana. Start-up costs include training, fundraising, and management support services.¹¹¹

Regulatory change. Financial market liberalization will not automatically result in the emergence of microcredit institutions unless regulations that prevent their entry into financial markets change. These include tax laws and the civil code as well as banking laws. For example, regulations about large capital requirements can discourage the establishment of microfinance banks. In the Philippines, new banking regulations permit the establishment of more microfinance banks. They have exempted MFIs from requiring applicants to provide the usual amount of collateral, income and expenditure statements, and tax forms. The new regulations also set much lower capital requirements—\$100,000 as opposed to a minimum of \$50 million for commercial banks.¹¹²

¹⁰⁹ Glosser 1994; Otero and Rhyne 1994.

¹¹⁰ IFC 2001a.

¹¹¹ IFC 2000c.

¹¹² Lucas 2001; Vogel, Gomez, and Fitzgerald 1999.

In Bolivia and Peru, new regulations have allowed the creation of specialized nonbank financial intermediaries for micro and small businesses: Private Financial Funds (PFF) and Caja de Los Andes in Bolivia, and Small and Microenterprise Development Entities (EDPYME) in Peru. These are regulated financial intermediaries that have advantages over commercial banks in terms of lower capital, reserve, and provision requirements, leaner cost structures, and greater flexibility and responsiveness. Many commercially oriented NGOs and new commercial companies in Bolivia are becoming PFFs. As a result, outreach has increased dramatically although some of these funds are experiencing serious repayment problems. Increased competition is bringing about further changes in the MFIs. It is now estimated that one-third of Bolivia's 600,000 microenterprises are reached by one of the MFIs.¹¹³

Local organizational capacity

Building local organizational capacity through poor people's groups and federations is a fundamental part of the microfinance revolution on which other elements depend. The two principles that have been established in the last few decades of microfinance lending are that poor people can borrow and repay on commercial terms and that poor people have high demand for convenient saving instruments. Many of the institutional innovations depend on the capability of poor people, particularly the poorest, to form groups. Group-based methodologies that allow the poor to use their social capital as a collateralizable asset reduce both risks and transaction costs to the microfinance institution and enable poor people to overcome their lack of material collateral and engage in shared learning.

Many of the other innovations that lead to financial viability take advantage of this group presence. These include frequent repayment in small amounts; incentive-based innovations to overcome information asymmetries that include starting with small, short-term loans and building up the size over time for those with a good track record of repayment; and requiring a certain amount of up-front savings to establish the client's commitment and ability to service a loan. Finally, insistence on high discipline in repayment has meant a shift from treating poor people as beneficiaries to treating them as clients and customers capable of managing their own business affairs.

Groups are such an important part of reaching poor people, and particularly the poorest, that they form the base on which other institutional mechanisms mentioned earlier rely. These include using information technology to track credit history, or to educate and raise awareness on other social issues.

Group-based lending, however, is not always appropriate. Individual lending is more appropriate and less cumbersome to individuals with a credit history, greater education and skills, higher income, and need for larger loans. It is also appropriate where conflict or deep social divisions exist, and in certain urban contexts.

¹¹³ IDB 1998.

c. Managing Vulnerability: Insurance and Housing

Poor people need access to finance not only for direct income generation but also to overcome shocks and to safeguard personal and household wellbeing. Ownership of homes with secure tenure and some sort of insurance against shocks, including health shocks, are important in reducing poor people's vulnerability. However, high start-up capitalization requirements regulating insurance companies currently prevent the entry of smaller companies that cater to a poorer segment of the population. Two areas of innovation are microinsurance and housing loans. Microinsurance schemes provide poor people with some protection against costs associated with illness, death, theft, or damage to property. Housing loans provide much needed asset security and support poor people's home-based income generation activities.

All promising examples are based on poor people's groups or their capacity to organize. The Self-Employed Women's Association (SEWA) in India provides an integrated social security scheme to its members, who are primarily poor women in the informal sector, especially home-based workers and street vendors. The scheme involves subsidies from the Life Insurance Corporation of India and the United India Insurance Company and covers all basic lifetime risks: death, widowhood, personal accident, sickness, maternity, and loss of assets, working equipment, and housing. Insurance can be purchased either by paying a yearly premium or by making a one-time fixed deposit into SEWA's bank, with interest on the deposit used to pay the annual premium. As of December 2000, the scheme covered almost 30,000 members.¹¹⁴ In 2002, SEWA is exploring ways to strengthen the financial base of the social security scheme and to achieve long-term financial and administrative sustainability at levels of premiums that its members can support. Ultimately, SEWA hopes to expand coverage to all members and their families.

Other efforts to provide insurance to poor women and men include Delta Life Insurance Company Ltd in Bangladesh, which provides microinsurance through Grameen Bima and Gono Bima.¹¹⁵ In Cambodia, the Research and Technology Exchange Group (GRET), a French NGO, is running an experimental program to provide health insurance and access to primary health care facilities to poor families in two communes close to Phnom Penh.¹¹⁶

In several countries, poor people's associations and cooperatives are working with local authorities and banks to address their need for secure tenure and housing, particularly in urban slum areas. In Mumbai, India, Mahila Milan, a member of the National Slumdweller's Federation, has been able to acquire land, housing, and basic infrastructure services for its members. It first mobilized members' own savings, then negotiated land with local authorities and accessed additional finance through the Housing and Finance Development Corporation of India.

Large poor people's organizations also need access to larger bridge or guarantee loans to help them expand outreach. It has been difficult even for large poor people's organizations

¹¹⁴ McCord, Isern, and Hashemi 2001.

¹¹⁵ Ahmed 2001.

¹¹⁶ CGAP 2001.

engaged in productive activities to obtain loans from commercial banks. Recently, however, the National Society for the Promotion of Area Resource Centers (SPARC), an NGO, with an equity of \$530 and thus no balance sheet or collateral, received a \$9.5 million guarantee loan from a private commercial bank based on its track record of community service. This enabled SPARC to win a construction contract for 320 community toilets in Mumbai to expand services to the poor through the Slumdwellers Federation.¹¹⁷

In Quezon City, the Philippines, the legally registered Payatas Scavengers Association addresses the needs of 300,000 scavengers living on a 15-hectare municipal dumping ground. Formation of the group has led to savings mobilization and legal land acquisition for its members, aided by loans for housing repairs and land purchase. By mid-1999, the association's members had saved \$283,000 and were negotiating with the government for provision of basic services and pro-poor regulatory changes.¹¹⁸ In Guatemala, 50,000 squatters have formed cooperatives and acquired land through legal means and are repaying 15-year loans without default.¹¹⁹ In Peru, MiBanco, a microfinance institution with over 70,000 microenterprise borrowers, has developed a successful program of housing loans that resemble microfinance loans more than mortgages, to help poor people upgrade and rehabilitate their homes in progressive stages. The system relies on both well-trained loan officers and good management information systems to track loans and repayment histories.¹²⁰

5. Access to Justice and Legal Aid

A new generation of judicial and legal reform projects is creating the legal environment for accountable governance and empowering poor people by increasing their access to justice through a mix of strategies (table 5). How these projects incorporate empowerment elements is described in detail in Tools and Practices 14.

Table 5. Increasing Poor People's Access to Justice, Examples Classified by Major Empowerment Element

<i>Information</i>	<i>Inclusion/participation</i>	<i>Accountability</i>	<i>Local organizational capacity</i>
All four projects include mechanisms to ensure public access to information	Judicial Reform Project, Guatemala Judicial Reform Project, Ecuador	Supreme Court modernization, Venezuela	Urban Property Rights Project, Peru

¹¹⁷ Balaram 2001a, 2001b.

¹¹⁸ Microenterprise Best Practices 2000.

¹¹⁹ Kessides 1997.

¹²⁰ Malhotra, Brown, and García forthcoming.

The goal of legal and judicial reform is to build legal systems based on the rule of law, with laws that are publicly known and are enforced in a predictable way and through transparent mechanisms. The rules must apply equally to all citizens, and the state must also be subject to the rules. The quality of legal norms in a society and the manner in which they are administered have direct impacts on the extent to which citizens have a voice in the decision-making process. How state institutions comply with the law greatly affects the daily lives of citizens, particularly poor people who are least able to protect themselves from abuse of their rights. The extent to which a society is law-bound affects its national income as well as its levels of literacy and infant mortality.¹²¹

Clearly defined property and benefit rights, and confidence that these rights can be fairly and efficiently defended against encroachment if needed, are critical to induce hundreds of thousands of individuals and groups to make investment decisions that contribute to economic growth and poverty reduction.

The World Bank's approach to and support for legal reform have evolved from an initial narrow focus on commercial law and matters most closely related to economic development and foreign investment, to a much broader understanding of legal reform from the perspective of all stakeholders, particularly the poor. From this perspective, reform is not just a technical challenge of building courts, increasing the number of judges, and providing computers, but entails more fundamental changes in governance and social norms, aimed at ensuring justice for all. It is also recognized that laws without foundation in social values and the cultural context will remain void of meaning and hence will not be implemented. This has led to two important changes. First is use of participatory processes and consultation to create ownership of needed change and to ensure that new laws are informed by those most affected.¹²² Second is recognition of the importance of traditional conflict resolution institutions and support for these as appropriate.

Currently, more than 480 Bank-financed projects have legal and judicial reform components. In addition, there are 35 freestanding projects in four regions that undertake such reform through knowledge dissemination, capacity building, and reform of laws. Judicial and legal reform projects focus on: (a) improving administrative justice, making administrative decisions accountable and affordable to ordinary citizens; (b) promoting judicial independence and accountability; (c) improving legal education; (d) improving poor people's cultural, physical, and financial access to justice; and (e) public outreach and education.

To ensure that legal reform processes incorporate the perspectives of all those affected, most projects start with broad stakeholder participation involving those within the legal system such as judges and public administration officials, as well as businesses, NGOs,

¹²¹ Kaufmann, Kraay, and Zoido-Lobaton 1999; Dollar 2000; Hellman and others 2000.

¹²² The Guatemala Judicial Reform project involved stakeholder consultations with over 1,000 individuals and organizations, including judges, law schools, private sector interests, and civil society groups. Similarly, a recently completed study that gathers the voices of 200 judges, lawyers, legislators, business people, journalists, academics, and development assistance officials from five countries in Eastern Europe and Central Asia forms the basis of dialogue for reform and raises awareness of the potential for reform in that region (Dietrich 2000).

and citizens. Judicial sector assessments are becoming standard practice to guide the reform process.

Recent projects have established creative long-term relationships with civil society groups. Their roles extend from working in partnership with judges to ensure accountability and transparency, as in Venezuela, to social communication, outreach, and citizen education, as in Ecuador, to institutional assessment, monitoring, and evaluation, as in the Peru Urban Property Rights project.

Inclusion and participation of poor people is ensured through a range of mechanisms. The Guatemala project is training judges and other court personnel in local languages and cultures. Projects in Colombia, Guatemala, and Peru are experimenting with decentralized court services as well as services offered by traveling judges and public defenders. NGOs are providing low-cost services in Ecuador even though costs of transportation may still be too high for poor people in remote areas. To reduce costs as well as provide speedy hearings, some countries including El Salvador use alternative dispute resolution mechanisms. In El Salvador, the Procuraduría General offers counseling, mediation, and other services to women with family problems that can often be resolved without resorting to courts.

Rules and laws are reflections of culture and society. Gender-based discrimination is embedded in the laws of many countries. A World Bank–sponsored review of laws in Nepal identified 54 laws that discriminate against women. These include laws that prohibit transfer of the mother’s citizenship to children, that make married daughters ineligible to inherit property, and that require a husband’s consent for women’s admission to certain educational institutions.¹²³

¹²³ Ofosu-Amaah 2001.