

## **Chapter 3 Making State Institutions Pro-Poor**

3.1 Poverty is not an outcome of economic processes alone. Rather, it is an outcome of economic, social, and political processes that interact with each other. These interactions, mediated through a range of institutions, are the key to understanding poverty and to formulating actions to eradicate it. By making state institutions work in the interests of poor people—making them “pro-poor”—removing social barriers that impede poverty reduction, the state can help to empower the poor to improve their lives. The quality of governance and democracy, the rule of law and the extent of decentralization determine the success of state institutions in being “pro-poor.” While these are important “environmental” factors, their impact on poverty depends on how effectively they are translated into empowerment at the micro-level. Programs to address poverty conditions in a democratic country with competent managers can still allow little in the way of true participation by those affected by the program. Narrowly understood in terms of rights to vote in periodic elections, democracy is an indirect and often incomplete predictor of good outcomes. The poor need a direct voice in the interventions that affect them on a day to day level, as well as the ability to organize and vote in a general sense. Actions are needed both to bring down barriers—legal, political and social—that work against particular groups and to build up the assets of the poor to prevent exclusion from the market.

3.2 Our understanding of the institutional bases of development has broadened considerably in the past decade, and some progress has also been made in the difficult task of measuring the quality of governance and its relationship to development outcomes. We have come to realize that vibrant communities and high-quality public institutions are as crucial to development outcomes as are the more orthodox assets—human capital (education, health, and training), physical capital (tools and technology), and financial capital (savings, credit, and investment).<sup>1</sup> In economics, Douglass North argued that formal and informal institutions are crucial to understanding economic performance.<sup>2</sup> In political science, Robert Putnam showed that the density and scope of civic associations are the foundations for the widespread dissemination of information and social trust that create the conditions underpinning effective governance and economic development.<sup>3</sup> In sociology, Peter Evans demonstrated that the capacity of public institutions and the nature of state-society relations<sup>4</sup> strongly influence whether a state is “developmental” or “predatory.”

3.3 In the words of Douglass North, institutions are “the humanly devised constraints that structure human interactions.”<sup>5</sup> They consist of informal constraints

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<sup>1</sup> Bates 1992.

<sup>2</sup> Douglas North 1989. The pioneering work of Mancur Olson on market failures, incomplete information, and institutions was also influential.

<sup>3</sup> Robert Putnam 1993. Elinor Ostrom and Norman Uphoff also made influential contributions through their work on the importance of social relations to the maintenance of common property resources (especially the management of water in developing countries).

<sup>4</sup> Peter Evans 1992, 1995. For comparable innovative work in anthropology, see Singerman 1995 and Ensminger 1996.

<sup>5</sup> Douglas North 1991.

(sanctions, taboos, customs, traditions, codes of conduct) and formal regulations (constitutions, laws, property rights). Institutions in this sense encompass a wide range of observed phenomena—social networks governed by reciprocity norms, customary gender roles, the legal system, or the state more generally—that interact with each other. While recognizing the interrelationships, we start our discussion of empowerment by focusing on state institutions. The next chapter takes up a range of other phenomena more closely linked to non-state institutions.

### **Bureaucratic performance and poverty reduction**

3.4 Central to any poverty reduction strategy are well-functioning state institutions that work in the interests of the poor. The state provision of basic health and education services is an implicit recognition of this role. Underlying this, however, is the prior question of why the state should take on these functions and how well it can perform them.<sup>6</sup> These questions have generated much debate in recent years on the relationship between governance and development outcomes (box 3.1). A key aspect of good governance is democracy, and its relationship to development outcomes is explored in the next section.

3.5 The quality of state institutions affects the pace of economic growth and poverty reduction. Investment is attracted to environments where there is low risk of expropriation and repudiation of contracts and where contracts can be easily enforced. Studies find that higher-quality governance is associated with a higher pace of economic growth.<sup>7</sup> Equally importantly for the poor, it is also associated with higher levels of health and education, which are crucial in helping the poor become upwardly mobile (see figures in box 3.1). In turn, it is easier to improve the quality of governance when citizens are better educated.

3.6 Jurisdictions with better government institutions not only consistently outperform others, but they are also able to respond more effectively to shocks, reducing their impact. Because shocks have particularly devastating and lasting consequences for the poor, this ability to respond is particularly important for poverty reduction. The global recession of the early 1980s resulted in a growth collapse in many developing economies, but studies indicate that the extent of the collapse was less in settings with better institutions of governance (figure 3.1).<sup>8</sup>

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<sup>6</sup> Harris and Lewis 1995.

<sup>7</sup> See for example Rodrik 1998.

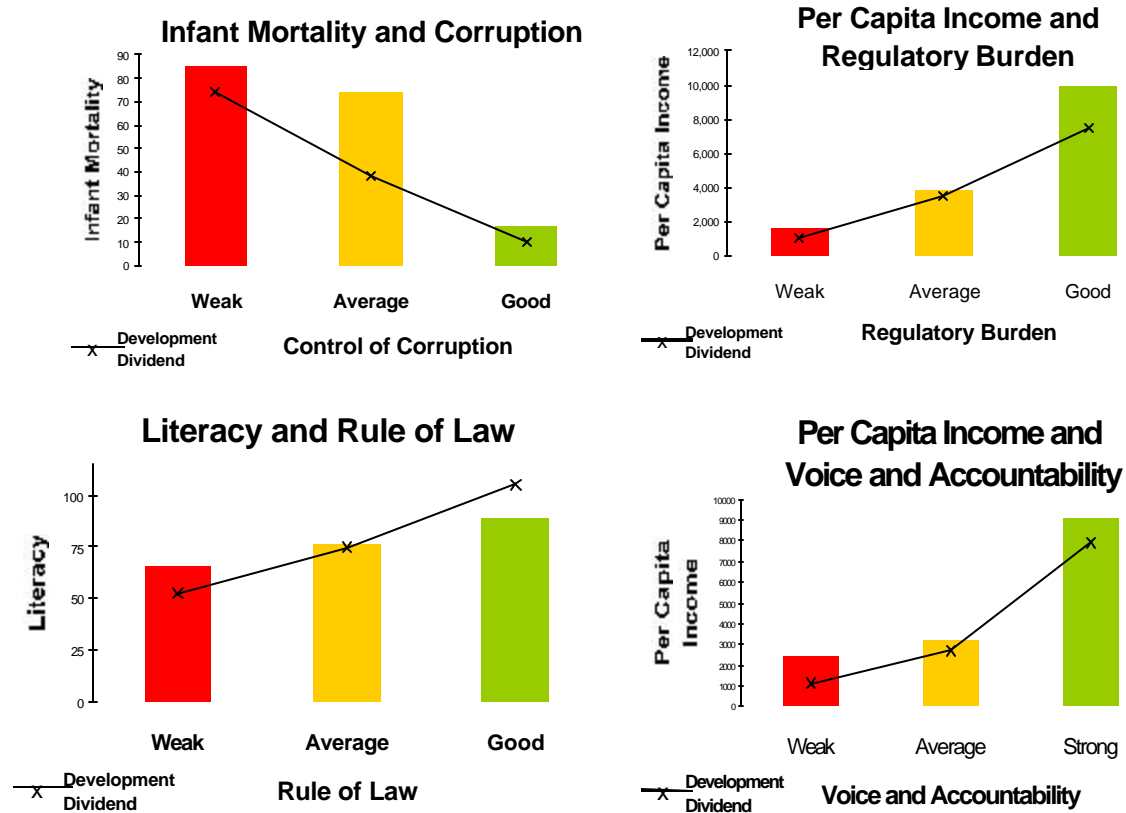
<sup>8</sup> Rodrik 1999b.

**Box 3.1 Governance and development**

Governance may be defined as the norms, traditions, and institutions through which a country exercises authority for the common good. It includes the processes for selecting, monitoring, and replacing those in authority; the capacity of government to manage its resources and to implement sound policies; and the respect that citizens and the state have for the institutions that govern economic and social interactions among them (box 1.7).

Governance matters for economic and social outcomes. A recent study estimates that the development dividend from improved governance is substantial (see figures below). An improvement in governance—such as an improvement in the rule of law from the low level in Russia to the higher level in the Czech Republic, or a reduction in corruption from the high level in Indonesia to that in the Republic of Korea—leads to a two- to four-fold improvement in per capita incomes and in infant mortality rates, and about a 20 percent improvement in adult literacy. These results are not just simple correlations between better governance and better development outcomes. Rather, the causality is from governance to these selected measures of development outcomes. This type of evidence, along with other findings from the large and growing body of research on the benefits of good governance, gives governance a central place in the development agenda.

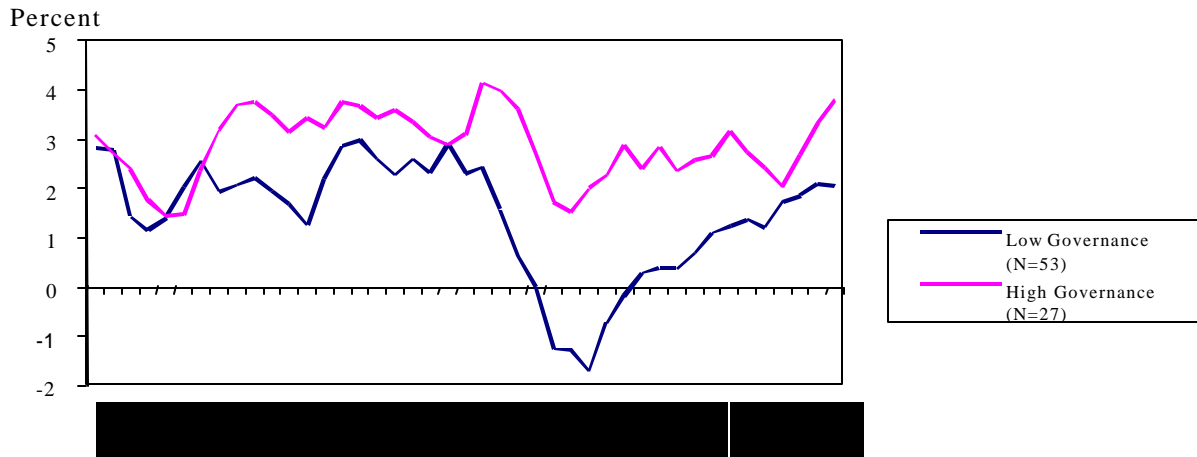
**Good governance leads to better development outcomes**



Note: The bars depict the simple correlation between good governance and development outcomes. The line depicts the predicted value when taking into account the causality effects (“Development Dividend”) from improved governance to better development outcomes.

Source: Kaufmann, Kraay, and Zoido-Lobaton 1999.

**Figure 3.1 Countries with better governance are better able to weather shocks**



Note: Data cover 80 developing economies. The procedure used for the high and low governance classification is as follows:

1. Data from the ICRG (International Country Risk Guide) was obtained for 'Bureaucratic Quality' and 'Rule of Law'. Decade averages were calculated for the 1970s and 1980s, and then a composite average was obtained.
  2. An average of the scores for Bureaucratic Quality and Rule of Law was combined into a "Governance" Score .
  3. Countries were then ranked according to their Governance Score. The sample was then split by thirds, with the top third (N=27) of the list ranked as "High Governance" and the bottom two-thirds (N=53) ranked as "Low Governance."
  4. The median annual growth rates for these two samples were then plotted over time, producing the graph.
- Source: Woolcock 1999.

3.7 Administrative capacity is an important component of good governance.<sup>9</sup> This is highlighted in studies in several countries of Latin America, Africa and Asia.<sup>10</sup> Administrative capacity, by affecting the quality of public service delivery, directly affects the well-being of the poor. Several factors are known to influence the effectiveness of administrative organizations in facilitating development. Meritocratic recruitment and promotion linked to performance are the most important structural features for improving bureaucratic performance, including through reducing corruption and bureaucratic delays (figure 3.2). Low salary levels also contribute to poor performance and encourage corruption.<sup>11</sup> Also critical is some autonomy from the political process. India's competent bureaucracy is severely hampered in its work by political pressures, and staff become demoralized when they are transferred or otherwise penalized for trying to resist such pressures.<sup>12</sup>

3.8 Effective regulation of economic and social actions is another aspect of good governance. Achieving appropriate regulatory balance is crucial for growth and for increasing income-earning opportunities for the poor. Regulation that is too complex,

<sup>9</sup> See Leonard 1987 and essays in Grindle 1997.

<sup>10</sup> Grindle 1996, Haggard 1998, Wade 1992.

<sup>11</sup> van Rijckeghem and Weder 1997, Adams 1998.

<sup>12</sup> Wade 1985.

time-consuming, and intrusive impedes the development of a healthy private sector and gives the authorities the opportunity to extract bribes.<sup>13</sup> Under-regulation also creates problems. Under Communism, the Russian economy was subject to excessive regulation that severely reduced productivity and growth. Since the demise of Communism, the economy has been severely under-regulated, resulting in rampant corruption and poor growth outcomes. Transaction costs and the scope for corruption are greater under conditions of under-regulation or over-regulation.

3.9 Corruption is a key aspect of governance that directly affects poor people's lives. It takes a heavy toll on the poor through many channels: lower growth,<sup>14</sup> regressive taxes, lower effectiveness of social program targeting, unequal access to education, policy biases favoring inequality in asset ownership, and higher investment risks for the poor. High and rising corruption increases income inequality and poverty (figure 3.3).

3.10 Corruption also biases public spending away from the poor in many settings, slowing the pace of improvements in the health and education of the poor and reducing their prospects for emerging from poverty.<sup>15</sup> It can skew the composition of public expenditure away from operation and maintenance and from infrastructure investments that benefit the poor. It reduces the quality of infrastructure services, resulting in poorer roads and more frequent power outages, telecommunication faults, and water losses.<sup>16</sup> And because corruption can lower tax and customs revenues below levels needed to provide basic services,<sup>17</sup> the poor also receive fewer social services. Corruption makes it harder for the poor to escape poverty through small-scale entrepreneurial activities. It generates policy biases that tend to worsen income distribution and divert resources from the countryside to the cities (for example, by preferring defense contracts over rural health clinics).<sup>18</sup>

3.11 On a daily basis, the burden of petty corruption falls disproportionately on the poor (figure 3.4). A survey on experience with corruption in four Indian cities clearly showed corruption's greater impact on the poor: in Bangalore, 33 percent of the poor paid bribes for government services while just 14 percent of the nonpoor did; in Calcutta the shares were 12 percent and 5 percent.<sup>19</sup> For those without money and connections, petty corruption in public health or police services may have debilitating consequences (box 3.2). When administrative procedures are complex, illiterate people have to rely on the bureaucrat's honesty to receive even basic services.

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<sup>13</sup> Rose-Ackerman 1997; Johnson et al. 1998.

<sup>14</sup> Wei 1999b.

<sup>15</sup> Mauro 1998.

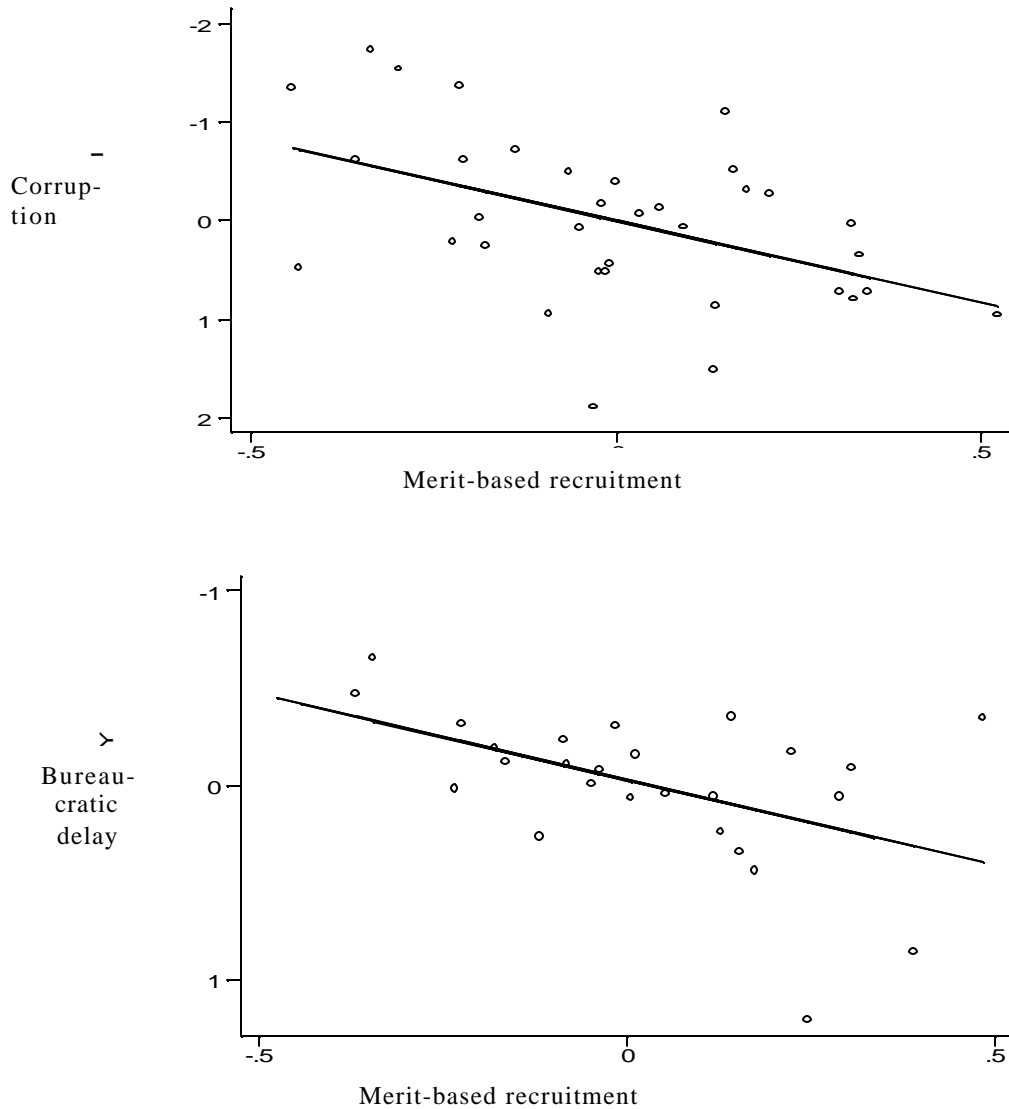
<sup>16</sup> Tanzi and Davoodi 1997.

<sup>17</sup> Rose-Ackerman 1997.

<sup>18</sup> Gray and Kaufmann 1998.

<sup>19</sup> Paul and Shan 1997.

Figure 3.2 Merit-based recruitment is associated with less corruption and bureaucratic delay



Source: Rauch and Evans 1999.

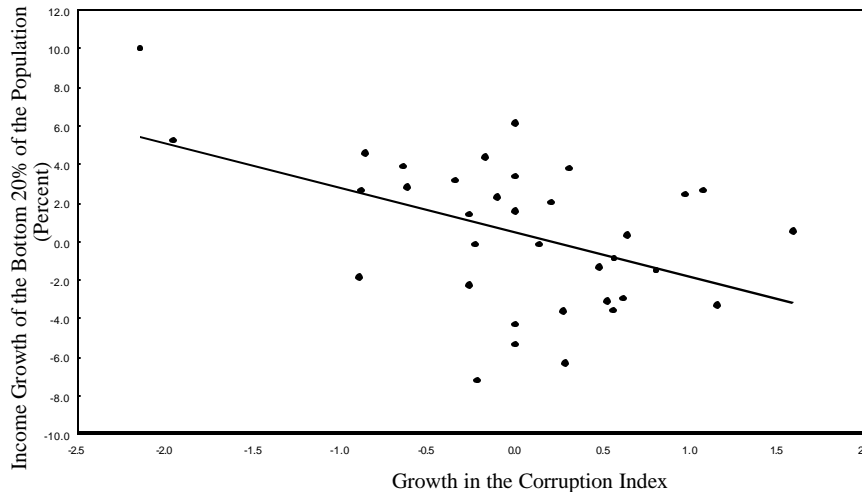
Based on the responses to a survey sent to experts in developing countries, with a total of 126 complete responses from 35 countries.

The “Merit-based recruitment” variable captures the issues of internal promotion and career stability; high scores indicate that “high appointees come from within the agency” and “high appointees tend to have spent their entire career within the agency.”

“Corruption”: a low score indicates a low likelihood that high government officials will demand special payments and low expectations of illegal payments throughout low levels of government.

“Bureaucratic delay”: a low score indicates higher “speed and efficiency of the civil service”.

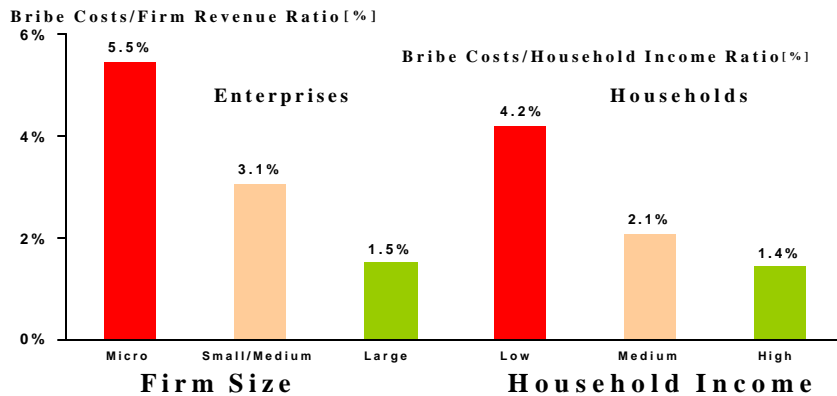
**Figure 3.3 Correlation between level of corruption and income growth of the bottom 20 percent of the population**



Source: Gupta, Davoodi, and Alonso-Terme 1998.

Note: The corruption index is obtained combining 6 different indexes, from *International Country Risk Guide (ICRG)*, *Business International* and *Transparency International*. They are based, generally, on the perception of corruption of foreign investors as related with the relationship with public offices and civil servants.

**Figure 3.4 Corruption is a regressive tax: The case of Ecuador**



Source: Kaufmann, Zoido and Lee 2000. The data are from a survey of 1,164 enterprises and another of 1,800 households. Note: (Preliminary evidence) Bribe costs / firm revenue ratio [%] reflects the average bribe payments divided by the enterprises' reported monthly income. Enterprises in the sample are divided by number of employees: Micro = <10, Small/Medium = 11-99, Large = above 100. Bribe Costs/Household Income Ratio [%] represents bribes paid for access to public services divided by reported household income level. Household income per month (in US\$) is grouped as follows: Low = <110, Medium households = 110 - 329 and High = above 329.

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**Box 3.2 The poor voice their perceptions about the impact of corruption**

Discussion on government failure in the “Consultations with the Poor” exercise were often interwoven with reference to state corruption. Corruption, by reducing the efficiency and effectiveness of service delivery, has especially important implications for the poor, whose ability to move out of poverty is linked to services provided by the government.

*Education.* “My oldest son graduated as a locksmith from a technical college but could not find a job. He had very good grades and decided to re-educate himself in the Academy of Economic Studies. I was asked to give a bribe of 2,000 lei, but I had no money. As a result, my son failed the entrance examination.” (Moldova 1997)

*Health.* Doctors openly told one man from Debar, Macedonia, whose wife needed an ulcer operation, “If you have a thick envelope it is alright, if not scam.” (Macedonia 1998)

*Shelter.* “If we make a hut, the men from the Forest Department will start harassing us for money, asking from where we got the wood and saying it belongs to the Forest Department and so on.” (Ghutori village, India 1997)

*Breakdown of formal institutions.* When formal institutions break down, people employ a variety of strategies to secure their needs, including working around a system that is perceived to be unjust or exploitative through active sabotage or passive resistance. Study participants expressed tremendous inner turmoil over having to abandon social norms and laws in order to survive, but stressed that they often had no choice but to do so.

Source: Narayan et al. 1999.

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## Democracy and poverty

3.12 Voicelessness and powerlessness are key dimensions of poverty. An important aspect of voice relates to the selection of national governments and to formal democracy.<sup>20</sup> A democratic system of government meets three essential conditions:<sup>21</sup>

- Meaningful, extensive, regular, and peaceful competition among individuals and organized groups (especially political parties) for most positions of political power.
- Highly inclusive participation in the selection of leaders and policies, at least through regular and fair elections, with no major social group excluded.
- Civil and political liberties—freedom of expression, freedom of the press, freedom to form and join organizations—sufficient to ensure the integrity of political competition and participation.

3.13 Democracy is valuable for human well-being, in that political rights and civil liberties have an intrinsic, instrumental, and constructive value for human well-being.<sup>22</sup> However, the links between democracy and poverty reduction are complex. Democracy is not a panacea for all the ills of poverty, as evidenced by the important pockets of poverty in developed countries with long history of democratic government. Nor is it even always a prerequisite for poverty reduction. Undemocratic but development-oriented regimes in East Asia, for example, have achieved both strong

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<sup>20</sup> Sen 1997.

<sup>21</sup> Diamond et al. 1999.

<sup>22</sup> Sen 1999.

economic growth and substantial equity. Empirically, undemocratic regimes are associated with both the best and the worst performers when countries are classified by poverty reduction performance and degree of democracy.<sup>23</sup> Such varied patterns emerge from a large number of studies.<sup>24</sup>

3.14 Some analysts have used the evidence of good developmental performance by undemocratic regimes and slow development in some democratic regimes to argue that democracy does not necessarily lead to good development outcomes. Others have used it to argue that democracy is not an impediment to growth and development.<sup>25</sup> A more balanced conclusion would be that the mechanisms of accountability and consensus formation in democratic regimes are both a strength and a weakness for rapid development. These checks and balances put a limit to rent-seeking and predation by rulers,<sup>26</sup> thereby averting the worst outcomes of predatory rule. At the same time, the procedures for consensus formation are complex and can be cumbersome, slowing the pace of development. Undemocratic regimes do not face these problems, which can be an advantage if they are strongly developmentally-oriented as in East Asia, but all undemocratic regimes face serious dangers of abuse of state power.

3.15 There is however considerable evidence that democracies are, on aggregate, better for such key dimensions of poverty as income, health, and education. Competitive politics generates obvious incentives for governments to be responsive to their electorate.<sup>27</sup> Related institutions such as a free press are highly effective at drawing public attention to current events. Civil liberties and press freedom help to increase transparency and accountability in governance, reducing corruption (figure 3.5) and increasing the potential for meeting the needs of the poor (box 3.3). Political rights, civil liberties, and press freedom are associated with higher rates of growth,<sup>28</sup> as well as greater protection for the poor from arbitrary use of authority by political leaders.

3.16 Political freedoms are associated with higher levels of growth. Studies have found a strong causal relationship from better governance, including the existence of voice and rule of law, to better development outcomes, such as per capita income, infant mortality, and adult literacy.<sup>29</sup> Evidence from Sub-Saharan Africa and cross-country regressions show that authoritarianism and the absence of civil liberties are associated with increased distortions in trade and labor markets that especially harm the poor.<sup>30</sup> Democratic regimes are also associated with more predictable and stable rates of growth. Greater civil liberties, and in particular, the extent of access by nonelites to

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<sup>23</sup> Varshney 1999; Niles 1999; Moore and Putzel 1999.

<sup>24</sup> For example see Harris 1999; Varshney 1999; Niles 1999; Bardhan 1997; Sah 1991 .

<sup>25</sup> Putnam 1993.

<sup>26</sup> Dethier 1999.

<sup>27</sup> Bardhan 1999; Przeworski and Limongi 1993; Sen 1999.

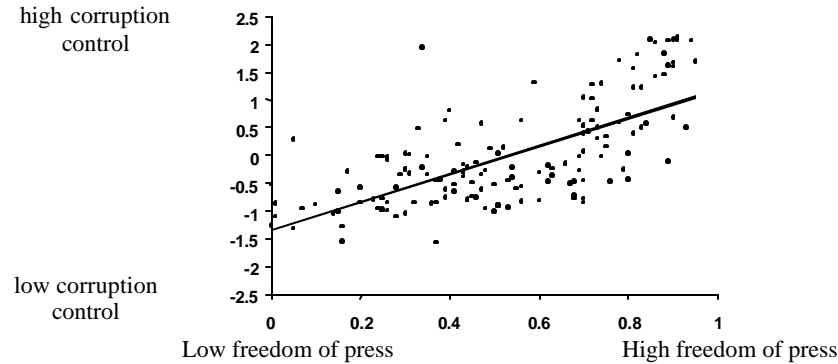
<sup>28</sup> Dethier 1999.

<sup>29</sup> Kaufman, Kraay and Zoido-Lobaton 1999, Heliwell 1994, 1996, Knack and Keefer 1995, Olson 1996, Clague et al. 1996, Clague 1997.

<sup>30</sup> Bates 1987, 1997; Banerji and Ghanem 1997.

political institutions are associated with lower vulnerability to shocks, a major source of vulnerability for the poor.<sup>31</sup>

**Figure 3.5 Press freedom helps reduce corruption**



Source: Vishwanath and Kaufmann, 1999.

“freedom of press” comes from the Press Freedom Survey 1998 compiled by Freedom House. It includes information on the laws and administrative decisions and their influence on the content of the news media, the degree of political and/or economic influence or control over the content of the media, the violations against the media, including murder, physical attack, harassment, and censorship.

“Corruption control” refers to the aggregate index of a number of surveys and indexes on corruption, relating both to perception of corruption among civil servants and to corruption as an obstacle to private business. The aggregation and weighting of the indexes follows Kaufman, Kraay and Zoitto-Lobaton 1999 (box 3.1).

**Box 3.3 Civil liberties improve public sector service delivery**

*Uganda.* When officially reported primary enrollments did not improve in Uganda, despite substantial increases in budgetary allocations for education, a field survey was conducted to examine the use of public spending in primary education.

An important finding of the study is that budget allocations may not matter when institutions or their popular control are weak. In 1991-95 at best less than 30 percent of the intended nonsalary public spending on primary education reached the schools.

Following the dissemination of the findings of the study, the government has taken steps to improve its performance by increasing the flow of information within the system. A major breakthrough has been the regular publication in local newspapers and radio of the transfer of public funds to districts, which allows the monitoring of these expenditures by public users.

*India.* In the state of Rajasthan, a people’s organization held a public hearing to expose misappropriation by local governments of development funds intended for local workers. This generated village demand for further insight into government functioning. Local governments, being under public and press scrutiny, were compelled to oblige. The results were striking. Some government officials who had diverted funds for construction of a water channel promised to return the funds. More significantly, this incident contributed to the state government’s formally recognizing the people’s right to official documents and to enactment of landmark legislation to this effect in June 1997.

In Bangalore, citizens groups use a scorecard method to periodically evaluate local municipalities on public service delivery and corruption. Results are disseminated and discussed and influence governance reform at the municipal level. Similar initiatives are now adopted in other cities in India.

Source: Ablo and Reinikka 1998; Bhatia and Dreze 1998; Vishwanath and Kaufmann 1999.

<sup>31</sup> Rodrik 1999b.

3.17 Political participation directly improves the lives of the poor by increasing distributional equity and reducing the potential for civil conflict. Case studies of the Indian state of Kerala and elsewhere have shown that participation and public debate on values may contribute to improved social outcomes in education and health.<sup>32</sup> Democratic institutions can also help avert potential crises such as famines and are thus instrumental in averting such disasters for the poor (see box 3.4). Better enforcement of political rights has also been shown to reduce the potential for conflict in ethnically diverse settings, thereby averting major sources of social and economic vulnerability for the poor.<sup>33</sup> Political participation does benefit the poor. Nelson Mandela stated this unequivocally: "Above all, we want equal political rights, because without them our disabilities will be permanent".<sup>34</sup>

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#### **Box 3.4 Famines and democracies**

Amartya Sen has famously remarked that famines do not occur in countries with democratic political institutions:

"The diverse political freedoms that are available in a democratic state, including regular elections, free newspapers and freedom of speech, must be seen as the real force behind the elimination of famines. Here again, it seems that one set of freedoms—to criticize, publish and vote—are usually linked with other types of freedoms, such as the freedom to escape starvation and famine mortality."

The "democracy prevents famine" argument seems to assume that because liberal institutions can be used to protect famine vulnerable people, they automatically will be democratic political institutions and processes can play a lead role in the struggle against famine, but whether they do depends on the development of political coalitions and on the strategies they use.

Timely response to the threat of famine has several interlinked requirements:

- An early warning system and a political trigger to action. A coalition of the affected people plus professional groups can help to provide that trigger.
- Technical expertise to help create effective antifamine mechanisms.
- An educated public aware of the tradeoffs involved in famine prevention mechanisms.
- Protection of all citizens against famine, including disenfranchised minorities in majoritarian systems.

Source: de Waal 1999.

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3.18 Why it is then that democracies do not necessarily deliver more effectively for the poor? While mechanisms exist in democratic regimes to constrain leaders from directing public spending as they wish, the mechanisms are subject to political manipulation. Middle-class capture is one type of political manipulation that can prevent democratic regimes from adequately responding to the needs of the poor.<sup>35</sup> It is common for key decisions to disproportionately represent middle-class interests, even when the poor are very active in exercising their ballot. The middle classes are better able to engage in the subtle and continuous lobbying required to corner resources for themselves. This outcome is less inequitable, in higher-income countries, where the middle classes constitute the largest proportion of the population, than in lower-income countries, where the poor constitute the largest proportion. Despite middle-class capture, the vote remains very valuable for the poor, as a means of making their voices felt in national political processes and policies.<sup>36</sup>

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<sup>32</sup> Dreze and Sen 1996.

<sup>33</sup> Collier 1999b; Collier and Gunning 1999.

<sup>34</sup> Cited in Turok 1999.

<sup>35</sup> Bardhan 1997; Bardhan and Mookherjee 1999. See also Easterly 1999.

<sup>36</sup> Rodrik 1999b.

3.19 A second reason that democratic regimes are not always responsive to the needs of the poor is that the democratic political process is necessarily cumbersome, especially where many different viewpoints have to be balanced. The need to reconcile opposing positions slows decision making and policy implementation. A third reason is that politicians often succumb to the temptation to keep the electorate happy with populist measures that are not necessarily the best policies for achieving long-term growth or poverty reduction. As a result, it is often easier to use votes to obtain direct subsidies and grants, than to obtain the structural economic and institutional changes that bring about longer-term benefits for the poor.<sup>37</sup>

3.20 Together these factors put the poor at greater risk of manipulation by the political process—“Inequality may be the key barrier to collective action....Many latent interest groups have been bought off or co-opted by the clientelistic distribution of ad hoc favors on the part of politicians, particularly at the local level.”<sup>38</sup> As a result of these constraints, the poor are unable to organize themselves as an effective interest group despite sharing a common interest.<sup>39</sup>

3.21 Several other factors also constrain the ability of the poor to use their democratic rights to further their interests. They lack information on the details and consequences of policy measures, and the time to follow up on issues. They are less able than the non-poor to hold the elected officials accountable for their electoral promises or their own demands. They also lack the necessary personal contacts, money, and time to pursue broader political goals. Other characteristics of the poor also make collective action difficult.<sup>40</sup> They are often geographically dispersed and socially heterogeneous in terms of religion, tribe, and language. In cities, these problems are compounded by the presence of temporary migrants, who often have less interest in collective action, because of their short-time horizon. In rural areas, the poor are constrained by poor communication infrastructure, making it difficult to link up with groups representing the interests of the poor.

3.22 Sometimes the poor take little part in politics because participation seems futile or irrelevant to their primary concerns (Will the seed germinate? Will the moneylender call in the loan principal this month?). On other matters, the poor have low expectations about their ability to exert influence on the government<sup>41</sup> (box 3.5). The poor may also fear that if they organize themselves they may invite reprisals from people they depend on, such as landowners, landlords, and employers in a tight job market.

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<sup>37</sup> Varshney 1999.

<sup>38</sup> Burky and Perry 1998.

<sup>39</sup> Olson, quoted in Burky and Perry 1998.

<sup>40</sup> Varshney 1999.

<sup>41</sup> Huntington 1976.

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**Box 3.5 Government action and participation in politics appear irrelevant for many poor people**

*“People place their hopes in God, since the government is no longer involved in such matters.”* Armenia 1995.

*“Politicians don’t care about the suffering population.”* Moldova 1997.

*“The community has no voice; here there are no leaders.”* Panama 1998.

*“Our leaders announced transition to new market relations and then left us to the mercy of fate, not asking whether we were prepared to accept the transition.”* Georgia 1997.

*“There is no hope of someone to help us. I wanted a loan, but they are requiring the land title, but I can’t.”* Isla Trinitaria, Ecuador.

*“What kind of government do we have? One hand gives and the other takes away!—22-year-old female respondent.”* Ukraine 1996.

*“If anybody complains or protests against this corruption, they are struck off the lists of all support services, because it is the same Local Zakat Committee that recommends names for the assistance programs run by different Government departments.”* Pakistan 1993.

*“We keep hearing about monies that the government allocates for projects, and nothing happens on the ground.”* South Africa 1998.

*“L’Etat est absent—the state is simply absent from peoples’ lives and strategies for securing their needs.”* Madagascar 1996.

Source: Narayan et al. 1999.

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3.23 How well the organizations of political and civil society mediate the voice of the poor to the state is critical to how well the state serves the interests of the poor.<sup>42</sup> The central issue is political empowerment of the poor. Governments and other external agencies can help to increase the effectiveness of antipoverty programs by creating an enabling institutional environment for such programs and by encouraging the poor to engage in collective action on their own behalf.<sup>43</sup> This would require:

- A political environment that is not hostile to such action.
- Accountable public officials.
- Programs that are stable in content, form, and procedural requirements.
- Program benefits that are recognized as moral or, better, legal entitlements, and recognized (preferably legal) mechanisms that beneficiaries can access to ensure that these entitlements are actually released.

### **The rule of law and the poor**

3.24 The rule of law entails that the formal rules of a country are made known, and that they are enforced in a predictable way through transparent mechanisms such that they are applied equally to all citizens. It is upheld through many channels. The most formal of these is the legal system, which has a role in constraining and channeling government action, maintaining clear rules and procedures for upholding people’s Constitutional rights, and ensuring that amendments to the Constitution do not alter its essential safeguards. This is essential for guarding against abuse of power by the state or

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<sup>42</sup> De Waal 1999.

<sup>43</sup> Joshi and Moore 1999.

other actors, which can otherwise undermine any legal-judicial system. For citizens, this protects life, personal security, and guards against human rights abuses by the state or other actors. Thus defined, rule of law is of tremendous importance for all citizens, but especially for the poor who have few private means of protecting their rights.

3.25 The rule of law is closely associated with higher levels of economic growth and also with more stable growth because it creates predictable conditions of production, exchange, and contract.<sup>44</sup> Rule-of-law, especially the definition of property rights, guarantees long-term security, boosts investment, and lowers transaction costs. By stimulating growth, it increases the prospects of poverty reduction. Thus although property rights disproportionately benefit the propertied, studies have shown that strong property rights help reduce poverty, while weak property rights tend to amplify it.<sup>45</sup>

3.26 The daily lives of poor people are deeply affected by how well the legal system works.<sup>46</sup> Box 3.6 gives some examples from across the world. Police harassment, lawlessness, and violence are a constant part of the reality of poor people.<sup>47</sup> A crucial aspect of rule of law for the poor is that they should be able to access entitlements without complication and be able to live without fear of lawlessness and harassment.

3.27 The legal system can also affect the poor through laws that are inequitably designed or inequitably applied. Inequity in design is seen most clearly in the treatment of women's property rights in some countries, an issue taken up in the next chapter, or in the legal discrimination of minorities or ethnic groups. But even laws that are equitable in principle may not be equitable in practice because the laws are not equitably applied and enforced and because the poor have limited access to the justice system.

3.28 Ignorance of the law is an important cause of lack of access to the law and its protection. The poor typically have little knowledge of their rights and may be deliberately misinformed. Contemporary legal systems are *written* systems, which makes access inherently difficult for the poor, who typically have a low level of literacy. Language, ethnic, caste and gender barriers and other exclusionary practices exacerbate the knowledge problem. The financial costs of legal procedures also put much of the legal system out of the reach of the poor, while their greater vulnerability often makes them distrust the justice system as a whole. Lacking the information, time, money, and networks to complete lengthy administrative processes, poor people are often forced to forgo the protection of the law even while engaged in such legal activities as building, trade, industry or transport.<sup>48</sup>

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<sup>44</sup> Rodrik 1999, Berkovitz and Richard 1999.

<sup>45</sup> Norton 1998.

<sup>46</sup> Das Gupta and Grandvoinet 2000.

<sup>47</sup> Narayan et al. 1999.

<sup>48</sup> De Soto 1989.

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**Box 3.6 Lawlessness contributes to poverty**

At a hospital in Babati district in Tanzania, essential medical supplies purchased with foreign currency disappear from the public dispensary within hours of their delivery but are available for purchase at a doctor's home that evening. The poor do not receive the free medical care promised by the government, while those with money and the right connections secure pharmaceuticals in abundance.

In Muzaffarpur, Bihar, a man found innocent at a criminal trial is imprisoned without explanation. He is held in Bihar's notoriously harsh prison system for nine years before the government inquires into his condition, though it does not release him. When he is finally freed after 14 years of wrongful imprisonment, the Bihar government is unable to explain his detention, although his innocence is in no doubt. During his time in jail he has not only suffered irreparable injury to his physical and mental health, he has also lost wages from 14 of the most productive years of his life.

In Johannesburg, South Africa, rates of theft and violent crime are some of the highest in the world. Wealthy residents are able to employ sophisticated alarms, security guards, and other forms of private policing to protect their property and persons, while the poor are stuck in poorly built homes sometimes without even simple locks and are left vulnerable to theft, assault, murder, and other violent crimes.

A man who is too old to work is left without assets or income after his son is murdered. To gain access to his son's estate, he requires a "succession certificate" from the civil court of first instance in Lahore, Pakistan, over 160 kilometers away. The train ticket and the bribe demanded by the clerk of the court send him deeper into debt, but after five separate trips to the court over as many months, he has still not received the stamped piece of paper to which he is legally entitled. The clerk refuses to produce the certificate while the authorities in his home village refuse to give him access to his son's assets until the certificate is produced.

Source: Anderson 1999.

In the "Consultations with the Poor" exercise, interviewees stressed how much their lives were affected by the absence of rule of law:

- "We feel absolutely insecure. The police are corrupt: if they catch a villain, they let him walk; only those who can't give them anything are sent to prison" (Kalajdhzi, Bulgaria)
- "It's the kind of police you have no hope of ever reaching. The police are for those "at the top" (Yekaterinberg, Russia).
- "I do not know who to trust, the police or the criminals. Our public safety is ourselves. We work and hide indoors." Sacadura, Brazil.
- "There is complete insecurity; there is no law and no police." Isla Trinitaria, an urban slum of Ecuador.
- "Crime is increasing because the thieves know that even when they are apprehended, the police will do nothing." Malawi
- "If a poor man is beaten by a rich man and goes to file a case against the rich man, the officer concerned does not even register the case." Bangladesh

Source: Narayan et al. 1999.

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3.29 Even a well-designed and well-run judicial system is likely to be little used by the poor, whose access to such systems is constrained in many ways including problems of cost and lack of information. Nevertheless, some institutional reforms can help make the judicial system more pro-poor (box 3.7). Such measures must be backed by a strong political support and adequate financial resources to be successful. They may require modification of the law and changes in court procedures.<sup>49</sup> Simplifying and clarifying laws help broaden access to the justice system, especially in the areas of greatest concern to the poor, such as labor disputes, land titling, human rights abuses and police violence. Measures to curb corruption will also be needed where access to the justice system depends on connections and bribes, and when the level of corruption brings fears of arbitrary arrests and legal decisions.

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<sup>49</sup> Garro 1999.

3.30 General measures to improve the operation of the judicial system will address some of the problems faced by the poor in the courts. Key to this is reforming court procedures to reduce legal costs and delays. Simplification of rules (while respecting due process) and reduction in the length of proceedings are a case in point for this purpose. Broader reforms, such as changes in the structure of the courts, also help increase poor people's access to justice. Small claims courts and other informal proceedings can help reduce the backlog and widen access. Such procedures need to be streamlined, and parties need to be allowed to represent themselves.

3.31 Because many of the problems affecting the poor involve large numbers of people suffering from similar injuries, civil society organizations can help the poor by taking legal action on behalf of an entire group of individuals. Seeking redress for issues which affect many people provides the poor with otherwise inaccessible judicial protection. Legal advocacy organizations in Bangladesh helped avert the eviction of urban slum dwellers through these means.<sup>50</sup> Public interest litigation can similarly be used to benefit the poor. In India, for instance, public interest litigation has been successful in obtaining the delivery of some public services and reduce some sources of environmental contamination.<sup>51</sup>

3.32 Alternative dispute resolution (ADR) mechanisms of mediation and arbitration hold considerable potential for reducing the delays and corruption that characterize much dispute settlement, while also helping the parties understand the laws pertaining to their case. ADR may provide more predictable outcomes than the formal system where judges may not be as familiar with the subject matter.<sup>52</sup> Where there is little experience with ADR mechanisms, they can be introduced gradually, for example through pilot programs sponsored and supervised by the ordinary courts. The legal profession can also be sensitized to the needs of the poor by introducing public interest lawyering to the teaching and practice of law.

3.33 Civil society organizations such as legal service organizations often play a key role in helping the poor access the benefits and protection of the legal system (box 3.8). They protect individuals against unlawful discrimination at work and eviction from their homes and help people collect their entitlements, obtain basic services, and get court orders to protect women from domestic violence. Such organizations can also work with groups to protect communities from being dispossessed. They help change the rules that affect the poor, whether embodied in constitutions, statutes, regulations, municipal ordinances, leases, or myriad other codes. More abstractly, they create a culture of rights that enables people to think differently about themselves in relation to their spouses, landlords, employers, and government agencies that have power over their lives. They change the way the rules are applied by judges, bureaucrats, and the police.

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<sup>50</sup> Manning 1999.

<sup>51</sup> Anderson 1999, Manning 1999.

<sup>52</sup> Dakolias 1996.

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**Box 3.7 Pro-poor judicial reform : three examples**

*Ecuador.* To complement the judicial reforms being implemented by Ecuador's Supreme Court, and to improve access to justice for all sectors of society, a demand-driven Program for Law and Justice was established. The program provides small grants to civil society groups to improve access to justice, legal education and information, law reform and research, and court reform (including modernization and decentralization). The objective of the fund is to create a self-sustaining body.

Over half the amount disbursed to date has financed activities to improve access. Most of the activities serve women, including four pilot women's legal services centers. The centers provide legal services for poor women, who have routinely been undeserved. The majority of cases involve domestic violence, children or family issues. The centers assist women in hearings before the judiciary and in mediation sessions. Child support cases, which previously took 16 years in the court system are now resolved in most cases within 20 days to two months.

In the Cuenca Province, mediators are being trained under a fund grant for marginal communities. The nearest venue for formal justice is seven hours away. Most of the issues the mediators deal with are concerned with land disputes, child support, inheritance, and intra-institutional issues within the community.

*Guatemala.* In December 1996, Guatemala concluded a series of historic peace accords, thus beginning its efforts to heal the wounds of 36 years of civil war. As part of its support for the country's peace and reconstruction process, the World Bank approved a \$33 million loan in October 1998 to help the government reform its judiciary, a key pillar of social and economic recovery.

With the participation of the country's civil society, the project aims to increase the access of over 5 million indigenous citizens to the justice system, strengthen the system of justices of the peace in rural areas by incorporating local languages and promoting observance of customary laws. For the first time many communities have local access to public defenders, pre-trial hearings, and judges who speak their language. They also now have the possibility of instituting proceedings against police officials.

Case backlogs, delay, and corruption have also hampered an overburdened court system. Some 500 judges are expected to handle 130,000 new cases a year, and many cases linger unresolved. Through rigorous introspection and consultations with groups of judges and lawyers, bureaucrats and businesspeople, indigenous groups, and NGOs the government has devised priorities for tackling these problems, from reorganizing the judiciary to work more efficiently to decentralizing decisionmaking to cut down on bureaucracy. New laws are being introduced to combat corruption, including measures for disciplining errant judges and for strengthening judicial independence.

*Sri Lanka.* Since 1990, the Asia Foundation has collaborated with Sri Lanka's Ministry of Justice to establish mediation boards composed of community volunteers. The boards have resolved more than 65 percent of their cases. Active in Sinhalese, Tamil, and Muslim communities, the mediation boards provide a legitimate, state-sanctioned way to solve problems through negotiation and compromise. Such alternative dispute resolution mechanisms reduce costs to the poor and reduce the volume of work in the courts, thereby helping to reduce court delays. The foundation is also working with the judiciary to improve case management and reduce court delays—delays that most often deny justice to the most vulnerable litigants, including victims of human rights abuses and those detained under the state's emergency legislation.

Source: Dakolias; World Bank Web site; Asia Foundation Web site.

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3.34 The most effective legal service organizations go far beyond the conventional idea of offering free legal representation to poor individuals. In some cases, they turn to the courts to assist individuals or communities assert their rights, but their activities outside the judicial system are even more important, as they seek to protect rights without resorting to lawsuits. This is important, as the costs of lawsuits can outweigh any resulting gains. A study in the Dominican Republic found that the legal fees associated with lawsuits for collecting back wages exceeded the value of the claim by severalfold.

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**Box 3.8 Pro-poor legal services organizations: Three examples**

*South Africa.* The Legal Resources Center is a national organization committed to serving the interests of the poor. It was founded in 1979 and used legal advocacy to exploit contradictions in the apartheid legal system. Since the end of apartheid, the center has used legal advocacy for land and housing issues, among others. It successfully represented the Makuleke community in its land restitution claim on part of the Kruger National Park. Other activities have included cases to restore water service terminated because residents were too poor to pay and to protect the land rights of an aboriginal community during privatization of a diamond mine.

*Bangladesh.* The legal community in Bangladesh has established a number of legal advocacy organizations. The Ain O Salish Kendra (ASK), established in 1986, seeks to reform the law through its representation of poor women and children, organized groups of workers, the rural poor, and slum dwellers. It provides legal aid primarily on family matters, including violence against women. Litigation on behalf of victims is undertaken on criminal cases and when basic legal rights are violated. ASK investigates and monitors violations of law and human rights including police torture, murder after rape, and deaths in garment factories. It monitors police stations to collect information on violence against women and children and to track cases reported at the station.

*Cambodia.* Legal aid organizations in Cambodia are struggling under unstable conditions to create a justice system almost from nothing. The Cambodia Defenders Project, established in 1994, focuses on criminal defense and community legal education. It collaborates with NGOs to provide services and represent women in court, especially in domestic violence cases. The organization's lawyers run training programs, advocate for and comment on draft laws, and work with civil society groups to explore legal tools to influence government. The Legal Aid Society of Cambodia also works on public understanding of and respect for the law, while providing free legal services in criminal and civil cases. It is especially active in defending farmers who are being dislodged from their land by powerful business interests.

The experience of pro-poor legal services organizations indicates that they make a difference. While almost any form of legal assistance is of value, comprehensive services from independent organizations are best. The demand for these services is high. Standards for the provision of legal services should be developed. Financial support is necessary, but it must be provided in a way that allows organizations to operate independently, take direction from the poor themselves, and provide high quality services. The way forward is to share and build on the wealth of experience that exists.

Extracted from: Manning 1999.

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### **Is decentralization pro-poor?**

3.35 State institutions are often accused of being too remote from the daily realities of poor people's lives. One recommendation for making them more pro-poor is to bring them closer to these realities through decentralization. Decentralization does indeed have enormous potential to benefit the poor. Development programs can be more effective in meeting local needs if they can draw on the advantages of local information, local accountability, and local monitoring.<sup>53</sup> Decentralization also has a strong potential for increasing, and sometimes formalizing, popular participation in civic processes, including by the poor. Yet there are important caveats to decentralization. Most important is the likelihood that, in settings with highly unequal local power structures, decentralization will only bolster the power of local elites.<sup>54</sup> Also critical is the extent to which local government agencies are able to work with communities in implementing decentralized programs. Decentralization therefore has to be approached cautiously to ensure that it benefits the poor. Effectively implemented, decentralization has the potential not only to improve immediate development outcomes, but also to be the driver for broader institutional changes which benefit and empower the poor.

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<sup>53</sup> Besley and Coate 1999.

<sup>54</sup> Bardhan 1997, Adams 1986.

3.36 The term decentralization has been used to refer to quite distinct phenomena. We use the term *decentralization* in the strict sense of the ceding of power from the central government to a local government or agency with the central government keeping some measure of oversight over the decisions of the decentralized body. *Devolution* is a more complete and permanent form of decentralization, in which the power of central government is more limited. These are quite distinct from *deconcentration*, which only involves the moving of central government staff to the local areas while maintaining their hierarchical links with the central government.

3.37 Greater local control can help funds to be used more effectively for meeting local needs (box 7.8). Fiscal devolution gives communities the flexibility to design and implement projects without the cumbersome procurement procedures of central government. In Indonesia, greater local control over funds resulted in greater expenditure on health and education (and within them on priority areas for the poor), and on small-scale infrastructure projects that boost nonfarm employment and incomes.<sup>55</sup>

3.38 A better use of local information through decentralization can be advantageous in several ways:

- Local information can help in identifying more effective and efficient ways of building infrastructure or providing public services and subsequently of organizing their operation and maintenance.
- It can increase the efficiency of regulatory functions that are more easily performed at the local level with the help of local information and peer monitoring.
- The increased flow of information from the local area to government officials increases government awareness of local needs and early warning of emergencies (see chapter 6).

3.39 Decentralization can increase accountability and transparency:

- Local monitoring can be very effective for ensuring that officials perform diligently. Sanctions can also be imposed on defaulting or free-riding community members. Community sanctions are hard to ignore because of the longstanding relationships involved. The close interactions and relations of trust within communities can help make development projects more sustainable. The combination of local information and ability to impose sanctions makes local monitoring and supervision more effective and cheaper for many types of projects and programs than national-level monitoring.
- Decentralization makes it easier for people to obtain information on budgets and on the use of funds, thus increasing the transparency of public actions and reducing corruption. In addition to increasing

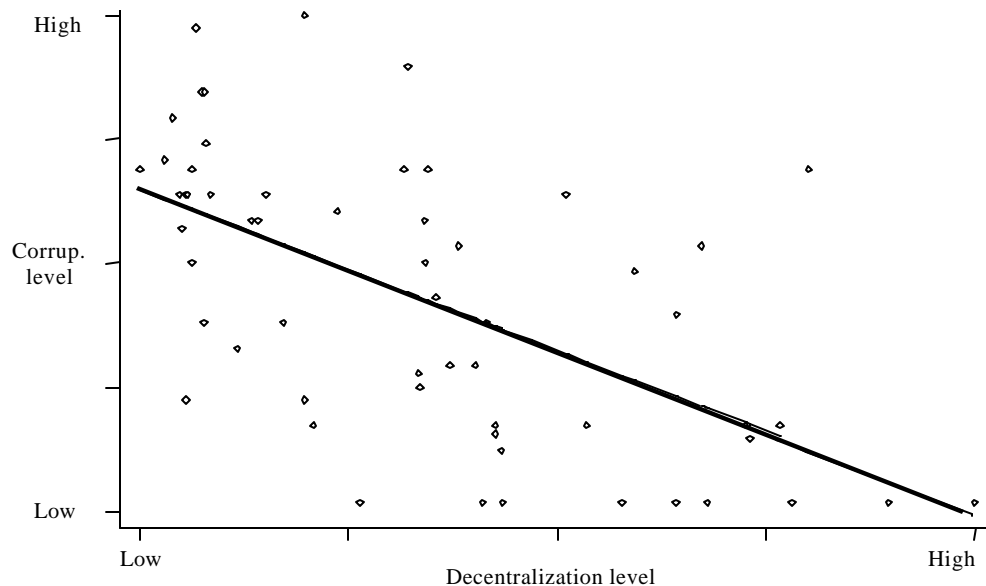
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<sup>55</sup> Ranis and Stewart 1994.

awareness of budget constraints and the need to shape political demands accordingly, this kind of decentralization helps communities hold local leaders accountable for performance.

- Fiscal decentralization has been shown as having positive outcomes for governance.<sup>56</sup> Recent research on fiscal decentralization highlights a very strong and consistent negative association between decentralization and corruption (figure 3.6)

**Figure 3.6 Decentralization and corruption are negatively related**



Source: Gatti and Fisman 1999.

Note: The corruption level is the International Country Risk Guide's corruption index, the most commonly used corruption index. It captures the likelihood that high government officials will demand special payments and expectations of illegal payments throughout low levels of government.

The decentralization level is the subnational share of total government spending. The numerator is total expenditure of subnational (state and local) governments; the denominator is total spending by all levels. The data come from the IMF *Government Finance Statistics* for the years 1980-95.

3.40 Greater accountability and community participation help improve programs and service delivery in many contexts, from the operation of irrigation systems in the Republic of Korea to curbing absenteeism among school teachers in El Salvador and India.<sup>57</sup> Similar results emerge with environmental protection projects (box 3.9).

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<sup>56</sup> Shah 1999.

<sup>57</sup> Wade 1985, King and Orazem 1999, PROBE team 1999.

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**Box 3.9 Community monitoring can help reduce environmental pollution**

Poor communities benefit directly from reducing pollution, but where enforcement agencies are weak—as they are in many developing countries—companies run little risk of being caught and punished. Polluting firms thus have little incentive to clean up their activities, and firms that do respect legal limits have even less incentive to cut their pollution.

A new approach combines public information disclosure with market-based incentives to encourage factory managers to improve their environmental performance. In some countries, local community representatives join government regulators and factory managers at the negotiating table to decide on acceptable pollution levels and set pollution charges accordingly. Elsewhere, public information enables consumers, bankers, and stockholders to evaluate a company's environmental record before deciding whether to buy a product, lend money, or trade the company's shares.

Since the poor are less able to protect themselves from industrial pollution, their communities particularly value public information on which companies pollute and on the impact of their discharges on health. Where governments have provided local communities with reliable pollution data, poor people living in the vicinity of offending plants have negotiated better arrangements for compensation and clean-up.

The results are promising. In Indonesia, the government has cut industrial water pollution sharply by monitoring factories' discharges and bringing public pressure to bear on factories by publicizing their findings in the news media. Colombia and the Philippines have recently cleaned up their rivers and lakes by imposing charges on factories that pollute.

Source: World Bank 1999b.

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### 3.41 Greater local autonomy may also engender political benefits

- It can defuse some of the conflicts that arise in multiethnic societies, or other settings where different social groups mistrust each other.
- By making government institutions more responsive to people, it can increase the credibility of the national government and lay the foundations for greater state-society integration.
- It can increase participatory decision-making, which helps ensure that majority needs and goals are heard.
- The very process of participating in local government can help build civil society and increase the participation and voice of the poor.

3.42 Devolution helps to create local capacity and engage communities more actively in their own development (box 3.10). Greater participation can increase the level of trust within a community. Outside agencies can tap into these networks of information and trust to provide community services they could not otherwise provide. For example, credit programs require local knowledge of the creditworthiness of community members. This facilitating role of the community in this regard has been noted in South Asia and elsewhere.<sup>58</sup>

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<sup>58</sup> Kohli 1987.

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**Box 3.10 How to make bottom-up development work**

In 1991, the Guinean government created 303 Communities for Rural Development (CRD). Each CRD had 3000 to 5000 people, with leaders elected indirectly by directly elected leaders of the districts making up the CRD. Initially, CRDs had few resources and technical skills. Yet they demonstrated that, when they had resources, they could plan and manage the construction of local roads, schools, health clinics, and mosques. They could also collect resources for common purposes, with apparent consensus.

The government, with support from the World Bank, decided on a pilot project to enable CRDs to learn by doing. Each CRD received cash grants of \$25,000 and had to contribute another 20 percent in cash or kind. NGOs were invited to assist the CRDs in diagnosing problems, choosing new projects, managing finances, and preparing reports. Communities showed that they could organize construction and maintenance of new villages infrastructure, mobilize local resources, use grant funds equitably and efficiently, and target funds to help vulnerable women and children. One CRD built a school for 12- to 14-year-old girls, an age at which Muslims are reluctant to send girls to co-ed schools. Another created a second-chance school for female dropouts. In all, the pilots built four new clinics, four new schools, and a women's professional center and rehabilitated another school.

The success of the experiment emboldened the government to embark on a new, fully fledged Community-Based Rural Development Policy to make communities the main promoters and owners of rural development projects. The communities would initially need support and technical help from higher levels, but would gradually learn by doing.

The process requires an appropriate division of work between communities and the center. In particular, the center must lend support without encroaching on local level prerogatives.

Source: World Bank, Africa Region, Community Action Program Working Group 1999.

The success of bottom-up development depends on legislative backing and strong links between local government and communities. In Bolivia, the introduction of the Popular Participation and Decentralization Laws, which decentralized public resources, created annual municipal operating plans with local input and brought more local control over resources. However, weak links with local government can skew program outcomes even in a democratic, decentralized settings. In Chile, calls for community fund proposals are broadcast via newspapers, radio and TV, posters in public places, and formats for project presentation are distributed through municipalities. Yet a survey of beneficiaries found shortcomings in this strategy, namely weak communications with municipalities, insufficient outreach by municipalities, and a bias towards neighborhoods and social organizations which maintain contact with municipal and regional governments, these being not usually the poorest beneficiaries

Source: Owen and van Domelen 1998.

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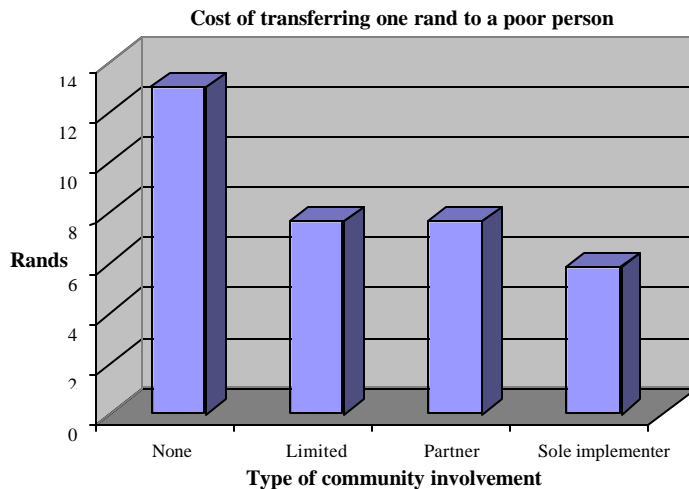
3.43 To maximize the developmental benefits of devolving power to the local level the appropriate mix of horizontal and vertical relationships needs to be established for meshing technical and other inputs from external agencies with the local information and organizational capacity of the community. For example, communities are often best placed for monitoring how schools or clinics are run, but the development of curricula, textbooks, health directives and drugs is best done at higher levels where technical skills are in greater supply and coordinated policy decisions are made around national standards.<sup>59</sup> A recent study in South Africa shows the impact of varying degrees of community involvement on three public works outcomes. Community involvement reduces the cost of job creation, and improves the cost-effectiveness of transferring resources to the poor (figure 3.7). When community involvement includes partnerships with local government or other external bodies, there is a sharp increase in the probability of long-term returns to the community beyond the initial wage transfers and the usefulness of the infrastructure created (figure 3.8).

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<sup>59</sup> Bardhan 1997. For empirical examples, see Wade 1985, King and Orazem 1999, PROBE team 1999.

3.44 A review of experiences with community development programs indicates that voice and participation as well as project outcomes are greatly enhanced when communities have direct responsibility for initiating and managing local projects.<sup>60</sup> In projects in Armenia, Chile, Malawi, Peru, and Zambia, in which beneficiary groups directly determined priorities and intervention strategies, formal participation was enhanced through community assemblies and other mechanisms. Sixty-seven percent of beneficiaries surveyed in Peru affirmed that they had participated in the assembly to choose the project and 98 percent affirmed that the selection was by majority vote. In Armenia, 56 percent of beneficiaries responded that the community had elected implementing agencies. In Zambia, such projects have encouraged democratic election of project committees and the holding of regular meetings, both of which have been linked to improved community organization and better project implementation.

**Figure 3.7 Decentralization reduces the cost of raising the income of the poor in South Africa**



Source: Adato, Besley, Haddad and Hoddinott 1999.

The following measures of participation are used:

“sole implementer” refers to cases when the Community Based Organisation (CBO) is solely responsible for all aspects of the project (design, management, monitoring).

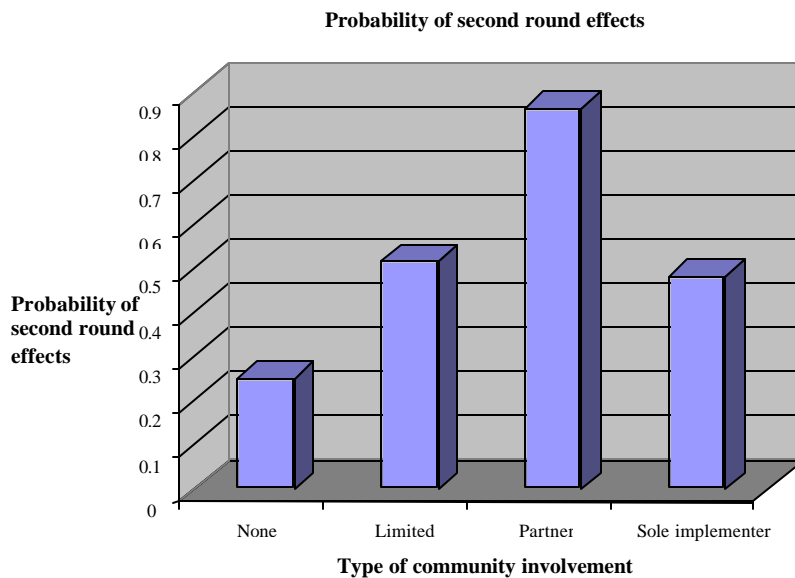
“partner” refers to cases when the CBO, together with another implementing actor, jointly participate in all or most aspects of the project, including some times advising on the project.

“limited” refers to cases when the CBO assists in the management of the project but is not a decisionmaker.

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<sup>60</sup> Owen and van Domelen 1998.

**Figure 3.8 Collaboration between communities and external agencies increases the long-term returns to decentralized development in South Africa**



Source: Adato, Besley, Haddad and Hoddinott 1999.

The results come from a probit model estimation based on qualitative data that were collected on a project by project basis. “Probability of second round effects” refers to the probability of the project to provide benefits to the community beyond the initial wage transfers and the usefulness of the infrastructure. Examples of such broader uses include future income generation from assets, community empowerment, and the development of small contractors in the area.

3.45 However, there are serious pitfalls of decentralization that need to be avoided. Most critical are issues of power imbalance:

- As Bardhan and others have pointed out, decentralization may be counterproductive for poverty reduction in settings with very unequal distributions of power, because the local elites will corner the benefits of the newly devolved power.<sup>61</sup> In such settings, the poor might be better served by distant officials uninvolved in local power equations. For example, the federal government in the United States has a long history of protecting minority civil rights better than state governments, which have greater representation of groups interested in subverting these rights.<sup>62</sup> In India, the potential for “capture” by local elites is far higher in regions still characterized by deep sociopolitical inequalities than in more egalitarian regions.<sup>63</sup> Similar problems are noted in studies on Latin America.<sup>64</sup>
- Decentralization and participation may not benefit the disenfranchised poor even where local decisionmaking is democratic. Solutions have to

<sup>61</sup> Bardhan 1997.

<sup>62</sup> Foner 1989.

<sup>63</sup> Bardhan 1997, Bardhan and Mookherjee 1999, Harriss 1999, Dreze and Sen 1996.

<sup>64</sup> Burki, Perry and Dillinger 1999.

be found so that the poor are not left out of the process. Women, in particular, tend to be disenfranchised and may not benefit from decentralization without special efforts to include them. A study in South Africa found little evidence that community participation helped create more jobs for women.<sup>65</sup>

3.46 Also critical are key jurisdictional and administrative issues.<sup>66</sup>

- Fiscal devolution needs to be accompanied by some form of redistribution from the central budget, to avoid exacerbating inequalities between regions. China's system of decentralization lacks such a redistributory mechanism, and social services are greatly underfunded in poorer provinces relative to richer provinces.<sup>67</sup> The central government must also retain responsibility for monitoring financial probity and accountability for the implementation of policies, particularly those for poverty alleviation.
- Decentralized bodies need to internalize the consequences of their actions. Otherwise, negative effects may spill over to others, as seen in the recent fiscal crisis in Brazil, when the actions of one subnational unit affected the macroeconomic stability of the whole country.<sup>68</sup> An absence of hard budget constraints can also erode local bodies' real power. If funds are made available from outside on an ad hoc basis to buy political support or meet budget shortfalls, attention is diverted to gaining these funds and the local body loses much of its ability to effect change.
- Locally raised revenues are often a small part of the budget of decentralized units, which can weaken ownership of locally designed policies and threaten their sustainability. Decentralization needs to be accompanied by enough fiscal devolution to enable local authorities to plan their activities effectively.
- Another potential problem is the lack of administrative capacity at the local level and a reluctance to give up opportunities for rent-seeking by devolving power to communities. Studies of successful decentralization emphasize the importance of creating administrative capacity through the training of local administrative staff to make them more willing to support community action programs. This was key, for example, in the Republic of Korea.<sup>69</sup>

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<sup>65</sup> Adato et al. 1999.

<sup>66</sup> Burki, Perry and Dillinger 1999.

<sup>67</sup> Hsiao 1995.

<sup>68</sup> Burki, Perry and Dillinger 1999.

<sup>69</sup> Wade 1985, Whang 1981, see also Ostrom et al. 1993.

3.47 Clearly, studies are required to see under what conditions decentralization can be pro-poor. In a review of a dozen cases of decentralization, the impact of decentralization was assessed along two dimensions: the impact on participation by the poor and the impact on social and economic facets of poverty (table 3.1). The results show a very mixed picture, with an unambiguously positive impact only in the state of West Bengal in India. The study suggests four possible determinants of success:

- The politics of the relations between the newly empowered local government and central government are important—central authorities will need to give support to local groups that challenge local elites.
- Accountability of local governments is needed, especially through fair and competitive elections.
- Central authorities will need to provide key inputs, including secure funding and adequate staffing.
- Long-term support for decentralization will be needed (most decentralization reforms take time to get established, and many are changed or abandoned after only a few years or one electoral cycle.)

**Table 3.1 Decentralization and poverty**

	Outcome						
Country	<i>Participation by and responsiveness to the poor</i>			<i>Impact on social and economic poverty</i>			
	<i>Participation</i>	<i>Represent-ation</i>	<i>Responsive-ness</i>	<i>Growth</i>	<i>Equity</i>	<i>Human Develop-ment</i>	<i>Spatial Equity</i>
<i>India, West Bengal</i>	Improved	Improved	Improved	Improved	Improved	Improved	No evidence
<i>India, Karnataka</i>	Fair	Improved	Low	Low	Low	Fair	Fair
<i>Colombia</i>	Ambiguous	Ambiguous	Improved	Inadequate evidence		Improved	Improved
<i>Philippines</i>	Improved	Improved	Ambiguous	Inadequate evidence			
<i>Brazil</i>	Low but limited evidence			Little evidence	Mixed*	Mixed*	Low
<i>Chile</i>	Inadequate evidence			Improved	Improved	Ambiguous to low	
<i>Côte d'Ivoire</i>	Low	Low	Very Low	No evidence		Improved	
<i>Bangladesh</i>	Fair	Very Low	Low	Very low			
<i>Ghana</i>	Improved	Fair	Low	Low but little evidence			Fair
<i>Kenya</i>	Very Low			Low			Fair
<i>Nigeria</i>	Low	Low	Very Low	Low	Very low		Low
<i>Mexico</i>	No evidence			n.a.	Low	Low	Low

\* = Improved only in exceptional states

Extracted from: Crook and Sverisson 1999.

3.48 Thus decentralization by itself will not make state institutions more pro-poor. It can be a useful instrument when state institutions want to become more pro-poor, but it needs to be accompanied by adequate support and safeguards from the center.<sup>70</sup> As Herring observes, we should be cautious about “a premature celebration of

<sup>70</sup> Burki, Perry and Dillinger 1999, Haggard, Willis and Garman 1999.

the local.”<sup>71</sup> As Tendler points out, proponents of decentralization need to consider the extent to which civil society can counteract the rent-seeking tendencies of government and to recognize that local associations can contribute as much to reinforcing rent-seeking in government as to counteracting it.<sup>72</sup> Improving government performance at the local level requires that central governments have a clear idea of what needs to be done in order for good civic and state institutions to emerge at the local level.

### **Pro-poor alliances**

3.49 Previous sections have discussed some of the formal institutional obstacles to attempts by the poor to organize themselves to improve their situation, and the next chapter discusses the social cleavages that can also impede such efforts. Poor people still strive to organize themselves, despite the obstacles, but their actions are often limited in scope and depth and rarely reach the national political arena. A study of Latin America found that some organizations are effective at specific tasks, but their sustainability is constrained by difficulties in linking up with external agencies.<sup>73</sup> Other movements are naively radical, with simplistic answers to complicated issues. Although they are sometimes successful at capturing national attention, such movements tend to lack the organizational structure for long-term sustainability.<sup>74</sup>

3.50 It is clear that the poor have much to gain from pro-poor alliances that can attract the support of those who are better off. The risk is that those who are better off are often highly motivated to use their position to further their own group interests (box 3.11). This is baldly manifested, for example, in patterns of public expenditure which are highly skewed towards the interests of the non-poor (table 7.1). The better-off need to be made aware that they have much to gain by forming pro-poor alliances.<sup>75</sup> There is considerable evidence that this can be done and that elites and the middle-class from developing countries can successfully form pro-poor alliances, at a national, local, or sectoral level.

3.51 There are several reasons for elites to join with the poor to fight poverty. One set of reasons pertains to self-interest:

- A powerful argument for elites to seek to reduce poverty and inequality is the growth-inducing effects of bringing the poor into the mainstream. Investment in mass education and human capital formation is a significant determinant of national rates of economic growth (see chapter 2). It is well-recognized, for example, that the creation of a skilled and healthy work force was crucial to the success of the industrializing economies of East Asia.

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<sup>71</sup> Herring 1999.

<sup>72</sup> Tendler 1997.

<sup>73</sup> Paerregaard 1998.

<sup>74</sup> Paerregaard 1998.

<sup>75</sup> Moore and Puzel 1999.

- Elites also have much to gain from improving the living conditions of the poor.<sup>76</sup> Especially in the context of communicable diseases, it is virtually impossible for any group to isolate themselves from disease as long as sources of contagion are present. The poor are especially vulnerable to disease because they are undernourished and live in environments in which exposure to infection is higher. They are also less likely to receive adequate preventive and curative health services. Therefore the poor tend to constitute pockets of contagion from which diseases can spread to others, a process intensified by the vastly increased volume of travel today. If health services are of poor quality or unaffordable for groups of people, drug-resistant strains of diseases such as malaria and tuberculosis can spread around the globe. Global efforts are needed to address some of the health problems of the poor (box 3.12).
- Alliances cutting across class interests are also important for preventing crime and social unrest from escalating and making life difficult for people and discouraging potential investors. In several countries in Sub-Saharan Africa, political, social, or ethnic violence has discouraged investment. Box 3.13 illustrates how businesspeople in Karachi were galvanized to act to reduce the chaos caused by crime and violence.
- Another motivation is the specter of mass migration to urban areas, with the attendant problems of growing slums and increased demand on already overburdened urban services. China and India have reduced incentives for urban migration by providing infrastructure and other services in rural areas. This includes not only schools, health services, electricity, and other basic amenities of life, but also efforts to ensure that employment creation is geographically dispersed and that transport networks enable people to commute to work from their villages.

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**Box 3.11 In Hungary, as elsewhere, the key to equitable health services is political commitment**

One of the factors influencing health policy is the values and interests of the political elite and the bureaucracy. In several post-socialist countries the emergence of a new group of wealthy people has gone on in parallel with declining economic performance. The political elite in these countries is much more sensitive to the inequalities between countries (from which aspect they represent the disadvantaged party) than to the inequalities within the country (the benefits of which they enjoy). The principal challenge for the political and economic elite is to line up with the West. This is a much stronger challenge than reducing the social inequities within the country.

In Hungary, the situation is further aggravated by the fact that the prestige of public health experts had already deteriorated in the 1980s, a trend that has continued. The Ministry of Finance gained a much bigger role in the shaping of the health policy than the public health experts; the key words in health policy were cost-containment, improved efficiency, competition, and facilitation of market conditions. Although improvement of the health conditions of the population was placed among the general objectives set "for sake of propriety," there is little real effort to reduce inequalities in access to health care. Reduction of inequalities was not even mentioned.

Of course, neither the political elite nor the physicians form a homogenous group. There are people who are committed to reducing inequalities, but for a positive change to occur more people in the political elite and in the bureaucracy must recognize the social costs entailed by the increasing inequalities. This recognition can be spurred by experts, academics and civil organizations, as well as by international organizations through analyses of the inequities, and their causes and consequences.

Source: Orosz 1999.

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<sup>76</sup> Prasad, Belli and Das Gupta 1999.

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**Box 3.12 Global spread of drug-resistant tuberculosis spurs action by international organizations**

The increased movement of people is helping to spread tuberculosis. Global trade has increased sixfold and the number of people traveling by planes has increased 17-fold since 1960. In many industrialized countries, half of tuberculosis cases are among foreign-born people. The number of refugees and displaced people in the world has increased ninefold in the past 20 years. Untreated tuberculosis spreads quickly in crowded refugee camps and shelters. To compound the problem, widespread misuse of drugs has introduced multiple-drug resistant forms of tuberculosis.

It is estimated that between now and 2020, nearly 1 billion more people will be newly infected, 200 million people will get sick, and 70 million will die from tuberculosis—if control is not strengthened.

Tuberculosis accounts for more than a quarter of all preventable adult deaths in developing countries. It is a bigger killer than malaria and AIDS combined, and kills more women than all the combined causes of maternal mortality. It kills 100,000 children each year.

In 1993, the World Health Organization (WHO) took the unprecedented step of declaring tuberculosis a global emergency. WHO urged that close attention be paid to hot zones of increasing emigration, such as Eastern Europe and Russia. “Tuberculosis was one of the greatest health challenges of the early 20<sup>th</sup> century. We cannot allow it to become the biggest health threat of the 21<sup>st</sup> century.”

WHO's Global Tuberculosis Program has launched a highly cost-effective strategy against tuberculosis, which has been shown to cure infectious tuberculosis more consistently and at lower cost per cure than any strategy yet attempted. A six-month supply of drugs costs \$11 per patient in some parts of the world. More than 1.7 million infectious patients have received effective treatment under the new strategy.

Source: WHO, <http://www.who.int>.

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**Box 3.13 The action of the Citizen Police Liaison Committee in Pakistan**

In 1989, a group of businessmen in Karachi, Pakistan, launched the Citizen Police Liaison Committee (CPLC) to support the police in their efforts to stop the spread of kidnapping of businessmen.

CPLC volunteers applied the model of the neighborwatch programs to gain police acceptance of their activities. They also made a point of never publicly criticizing the police. The founders of the CPLC theorized that corruption occurs because of an outdated police pay structure. As a start, the CPLC gave police stations in the area money to improve their equipment and working environment, as well as living conditions for themselves and their families. Cost-efficiency was also improved by computerizing the staffing system and thereby removing ghost employees from the payroll.

By providing money and skills to upgrade police work, the CPLC also contributed to the public interest. The CPLC functions mostly with its own funds, with small amounts of supplemental government funding and assistance. But it has been made part of the police administration. It helps the state to combat crime, improve law enforcement, and assist citizens in human right issues on a day to day basis. Any citizen can get help from the CPLC, which has hired female staff so that women can also benefit from its services.

The CPLC deals mainly with kidnappings, but it is also active in cases of extortion (reporting the cases and following up the results). The CPLC has also been authorized to help the police in registering and recording crime. Citizens whose complaints have been denied registration in a police station can get help from the CPLC, which refers claims back to the police station. If the complaint is once again denied, a letter by the CPLC's duty officer may serve as a court document. The CPLC's very existence has a deterrent effect and diminishes citizens' apprehensions about going to the police station. A massive public awareness campaign has been carried out, to make this initiative widely known in the neighbourhood.

Source: Grandvoinnet (forthcoming).

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- Some antipoverty programs also provide some benefits to the better-off, thereby broadening support for the programs.<sup>77</sup> Many public distribution programs and subsidy programs notably in education, health, and

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<sup>77</sup> Besley and Kanbur 1993.

agriculture benefit the better off as well as the poor—often without intending to.<sup>78</sup>

- The poor are an important political constituency in many democratic regimes.<sup>79</sup> This can motivate political parties to try to win their vote by being seen as pro-poor. It is difficult to keep true democracy functioning if the poor are marginalized. This can motivate effective alliances among various groups in civil society to help the poor (box 3.14).

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**Box 3.14 Brazil: coalition for poverty reduction and participation of civil society in antipoverty programs**

The Citizens' Action against Hunger and Poverty and for Life (CA) has successfully campaigned for effective government commitment to poverty reduction and has engaged in action programs for the poor. A basic CA principle is promotion of partnerships between social groups. The participation of the middle-class has been a powerful force in helping poor communities to organize themselves.

The CA emerged as the apex of a process of increasing social participation and citizenship building. A consensus had emerged in the public arena in Brazil that the biggest threat to democracy was poverty and social exclusion. In 1993, the Movement for Ethics in Politics (made up of about 900 civil society organizations), galvanized by its success in the impeachment of the president on corruption grounds, launched the CA movement. A massive public campaign ("Hunger Can't Wait") asked individuals, institutions, and organizations to create CA committees to take immediate action against poverty. Direct actions by civil society to fight poverty were matched by pressure on government at all levels to adopt policies to eradicate poverty and hunger, improve working conditions, and search for more inclusive patterns of development.

General principles were laid for the formation of CA committees (solidarity, autonomy of initiatives, development or partnership relationships, and accountability to community to which they belong). People all over the country formed committees in public and private enterprises, neighborhoods, schools, churches, clubs, and professional groups. By 1994, 5,000 committees had been created, some at the city level involving municipal administration and civil society in the management of antipoverty projects, and the population massively supported the movement (according to a 1993 survey, about 30 million people had already contributed to the campaign in some fashion, and 3 million belonged to a committee).

CA committees are involved in the collection and distribution of food, design and implementation of projects generating job and incomes, food production, training of rural workers in more advanced production techniques, and creation of cooperatives to produce commodities or sell services. They were particularly active in the public enterprises, where better schooling and an activist tradition contributed to the design of efficient and innovative ways to fight poverty. For instance, the Brazil state-owned oil extraction company, Petrobras, decided to allow local communities to use the water-wells found in its well-drilling process, instead of keeping them closed as it had in the past.

CA influence at the federal level was instrumental in the creation of national advisory councils on poverty that launched programs requiring the participation and monitoring of civil society and gave social policies an unprecedented degree of transparency. The Food Distribution Program for Emergency Food Distribution, created by the National Council for Food Security, requires the creation of a council in each town benefiting from the program. The council must include representatives of various sectors of civil society (including politicians opposing local government) to monitor the program and prevent corruption.

Despite several problems (lack of resources, weak government machinery, slow policy implementation, resistance by government economists and bureaucrats, opposition from clientelist politicians), the CA's actions have changed perception of poverty in Brazil and have been instrumental in putting the fight against poverty at the forefront of the national policy agenda.

Sources: Fernanda Lopes de Carvalho 1998; Schneider 1999.

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<sup>78</sup> Galasso and Ravallion 1999.

<sup>79</sup> Houtzager and Putzel 1999, Huntington 1976, Nelson 1979.

3.52 Ethical imperatives can also motivate elites to participate in pro-poor alliances:

- Certain dimensions of poverty—ill health or child prostitution, for example—may elicit more sympathetic support because they are considered to be inherently moral issues.
- Religious beliefs may be a driving force in initiatives to fight poverty.<sup>80</sup> Religious faiths have a long history of helping the poor, whether through direct redistribution such as the Muslim *zakat* or by providing services to the poor.
- Nonreligious ideologies can also motivate partnerships for poverty reduction, as is evidenced by the many agencies in developing countries that work to help the poor in various ways.

3.53 An understanding of the benefits of helping those who are less fortunate can be a very powerful stimulus to public action. In the absence of such understanding, the poor living conditions of the disadvantaged are sometimes used to justify their further exclusion. In Latin America, elites have sometimes viewed the poor as dangerous to the public wellbeing, and felt justified in using state authority to harass them. This makes it more difficult to eradicate poverty and its negative impact on society as a whole.

3.54 Governments can help to create an understanding of the need for ‘enlightened self-interest’ by the way they represent poverty to the country.<sup>81</sup> Political leaders and intellectuals can motivate people to help the poor by presenting the character, causes, and solutions to poverty in ways that maximize the perceived common interests between the poor and the non-poor. This is helped by changing attitudes toward poverty worldwide, bringing moral pressure to bear on dealing with poverty.

3.55 Some people argue that the best way to create pro-poor alliances is to “nationalize” the poverty reduction agenda so that it emerges from within the society itself rather than being driven from the outside.<sup>82</sup> National elites must come to their own understandings of poverty in their countries, and through these insights engage in better policymaking to reduce poverty. An example of how a range of forces and alliances has put land reform back on the agenda of many developing countries is given in box 3.15.

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<sup>80</sup> World Faiths Development Dialogue 1999.

<sup>81</sup> Hossain and Moore 1999.

<sup>82</sup> Toye 1999.

**Box 3.15 Agrarian reform and poverty reduction: new political possibilities**

In recent years there has been a revival of interest in redistributive agrarian reform programs in many developing countries due to both changes in agriculture and the possibilities for new coalitions in support of reform as one component of a fight against rural poverty. Agrarian reforms were central to poverty reduction in China, the Republic of Korea, Taiwan (China), Vietnam, and the Indian states of West Bengal and Kerala. In recent years reform has been on the agenda in Colombia, the Philippines, and South Africa. New demands for agrarian reform have animated politics in Brazil, Thailand, and other developing countries. Agrarian reform reappears on the public policy agenda in response to persistent rural poverty and landlessness in countries where a substantial number of people still depend on agriculture for a large proportion of their income. With overwhelming evidence of the positive economic potential of small farming across a wide range of agricultural and ecological environments, new possibilities have emerged to employ agrarian reform in the fight against poverty.

In a study of the political conditions for agrarian reform, Herring identified seven reasons why agrarian reform to fight poverty has become politically more possible:<sup>83</sup>

- Both the nature of agriculture and its place in most developing economies have changed, and land ownership is less central to accumulation than it once was, which has reduced its political salience.
- Land is more clearly understood as an anchor of natural systems, and redistributing ownership and stewardship rights has become important to those concerned with environmental sustainability.
- Increased recognition of the gender differences in patterns of poverty has opened up a new public policy debate about the distribution of rural assets and brought women more clearly into alliances backing redistributive agrarian reform.
- New forms of organization of indigenous peoples and claims for ancestral domain and worldwide interest in their cause form yet another potential political ally backing redistributive reforms.
- Democratic transitions have offered new possibilities for putting reform on the political agenda, and there is some grounds for understanding that redistributing rural assets is crucial to developing a sense of citizenship among the rural population.
- Technological changes in agriculture have made it increasingly possible to farm productively, whether on a part-time or full-time basis, on smaller areas of land in many agricultural systems.
- The proliferation of NGOs and the human rights movement has created a more conducive environment for the development of rural agrarian movements.

Redistributive reforms have proven results in reducing poverty, which makes the ethical case for supporting them much more clear-cut than many indirect approaches to poverty reduction. Where thoroughgoing reforms have been carried out, the political power of the minority who might oppose other poverty reduction measures has been significantly reduced. Even in sites of partial reform, like in Brazil and the Philippines, new possibilities for the mobilization and organization of rural poor people and their allies have been created.<sup>84</sup>

Source: Herring 1999, cited in Moore and Putzel 1999.

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<sup>83</sup> Herring 1999.

<sup>84</sup> Putzel 1999; Houtzager 1999.

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