

Reducing Poverty Sustaining Growth

Scaling Up Poverty Reduction

**A Global Learning Process and Conference
in Shanghai, May 25–27, 2004**

Case Study Summaries

Acknowledgments

The World Bank gratefully acknowledges the participation of, and contributions from, the Governments of Austria, Belgium, Canada, France, Germany, Italy, Spain, Sweden, and the United Kingdom, as well as the United Nations Development Programme.

Many hundreds of people cooperated to bring these cases to you—too many to be acknowledged individually in the summaries. For the full text of any of the cases summarized here, as well as contact information for the authors and sponsors of the case, check after the conference at <http://www.reducingpoverty.org>.

Except as otherwise noted in the summaries, the cases summarized here were commissioned by the World Bank Institute through the World Bank operational vice presidencies.

This unedited collection of case studies was prepared for use at the Scaling Up Poverty Reduction conference in Shanghai, China, held in May 2004. A thorough synthesis of the findings of the conference will be published as a book by the World Bank late in 2004.

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How to use this volume

This volume summarizes more than 100 case studies prepared especially for this groundbreaking conference. As you proceed through the agenda over the next two days, we invite you to consult the summaries as a quick way of gaining multiple perspectives on the cases under discussion in the conference sessions. Reviewing cases in the same sector, country, or region as the featured case may lead you to unexpected insights.

Section 1 offers summaries of 13 country case studies deemed especially noteworthy by the conference organizers because progress reducing poverty has been achieved at the country level. The succeeding sections present the rest of the cases by sector / program (as defined in the agenda). Within each sector / program, cases are presented alphabetically by country.

The Millennium Development Goals

The eight Millennium Development Goals, embraced by 189 countries in 2000, are now widely accepted as a framework for measuring development progress. The goals focus the efforts of the world community on achieving significant, measurable improvements in people's lives. They establish yardsticks for measuring actions, not just of developing countries but of the rich countries whose aid programs and trade policies affect the developing world. The MDGs also guide the World Bank and other multilateral institutions that help countries shape and implement development policies.

Goal 1. Eradicate extreme poverty and hunger

Goal 2. Achieve universal primary education

Goal 3. Promote gender equality and empower women

Goal 4. Reduce child mortality

Goal 5. Improve maternal health

Goal 6. Combat HIV / AIDS, malaria, and other diseases

Goal 7. Ensure environmental sustainability

Goal 8. Develop a Global Partnership for Development

*To meet the MDGs, a new consensus between developing and developed countries must be forged. **Developing countries** must improve their investment climate, quality of governance, and institutional capacity to provide public services and empower the poor. They also must undertake a sequenced opening up to foreign investment and trade. Countries willing to make necessary reforms should have the resources they need to tackle illiteracy, poverty, and disease. Working with the international financial institutions, **developed countries** must also lower trade barriers and improve the quantity and effectiveness of development aid.*

Welcome

We *can* reduce poverty

All over the world, in many different ways, countries have rolled back poverty and built the conditions for sustained, equitable growth. How can we find out about the implementation factors that triggered success and foster those approaches on a global scale to shrink poverty in the many parts of the world where it remains widespread? The purpose of this conference is to find out.

Aid alone is not the answer. In spite of improvements in aid allocation and its effective use, many developing countries have failed to reduce poverty, often because of gaps in knowledge and capacity that keep them from adapting to their own circumstances the successful practices discovered and applied elsewhere.

In a series of United Nations conferences during the 1990s the international community established a set of common goals, the Millennium Development Goals. These 25-year targets, to be achieved between 1990 and 2015, are the reason you and I have gathered here in Shanghai.

What makes us think that these ambitious goals can be met?

Hope and some lessons come from the experiences of Asian developing countries, with half the world's population, that already have met the millennium goal for poverty reduction in the 25 years ending in 2003. The developing countries of Asia collectively reduced extreme poverty by more than 50 percent from 1978 to 2003. Prime examples are China, Korea, Malaysia, and India. However, income disparities still remain at the national and regional levels, and threaten to jeopardize progress in the long run.

Pockets of progress exist in other regions as well: Chile in South America, for example, and Uganda in the 1990s in Africa. In addition, many policy lessons can be extracted from programs, projects, and initiatives all over the world, which have helped improve the living standards of the poor, either by providing a better investment climate conducive to economic growth or by promoting social inclusion and empowerment. What is important about all these experiences is that some shift in institutions, policies, and approaches to development took place that enabled poverty reduction on a scale.

Meanwhile, other main regions with large concentrations of poor people—Sub-Saharan Africa and Central Asia—have made less progress in reducing poverty over the past one to two decades. Despite isolated projects that have improved people's lives in these regions, prospects for them to meet the MDGs are not very encouraging.

Gaps in knowledge, capacity, and policies have limited the number of these successes and kept them isolated, meaning that the good work and experience, which could be making a positive difference in the lives of millions of people, are not being widely shared and implemented. How can countries and communities learn from mistakes and scale up successful approaches?

Today the possibilities for creating global networks abound. Never before has the developing world had such ample access to cutting-edge information and knowledge as it now has through the Internet and other communication technologies. Dialogues among experts, formerly so costly, are coming well within the reach of most countries. Sharing experience can yield robust solutions for development.

This conference represents an unprecedented opportunity to promote knowledge exchange on how developing countries can implement reforms that will accelerate progress towards the MDGs, and how foreign aid can be energized by a renewed international consensus to facilitate and harmonize the process.

The conference objective: scaling up success

The convergence of the political will to invest in development—as expressed since 2002 at major international meetings in Monterrey, Doha, and Johannesburg—has presented us with a unique opportunity to roll back poverty on the planet. The objectives of this conference and the learning process that preceded it are clear.

As countries attempt to extend successful approaches to new places, or sustain them over time, they must be able to learn from past experience, to adapt an approach that worked in one area to local circumstances, to maintain programs through changes in political administration, and to communicate lessons of experience effectively.

Creating an adequate investment climate and promoting social inclusion both appear necessary to sustain growth and reduce poverty. *Creating an investment climate* requires creating the conditions for markets to exist and regulate their functions effectively in order to correct market failures. Improving governance, promoting openness to trade and investment, and creating the appropriate infrastructure are among the main factors that contribute to facilitating investments. *Social inclusion* refers to the conditions which enable poor people to participate in a well-functioning socioeconomic system and which promote equity to prevent jeopardizing the growth process in the long run. Facilitating access of the poor to assets, services, and markets is necessary to ensure inclusive and sustainable development.

We have seen many examples in which access to credit and other assets, such as land or the political representation in a local community, have enabled entire communities to lift themselves out of abject poverty. What has helped countries, villages, and local groups harness their internal capacity to develop a homegrown change process? To what extent are their approaches transferable?

Over the last nine months, using a dynamic interactive learning process, we shared and debated successful, and not so successful, experiences with scaling up poverty reduction from around the world. Participating in the discussion were hundreds of developing country practitioners, policymakers, politicians, donor agencies, academics, civil society groups, and development institutions.

More than one hundred commissioned case studies from around the world formed the backbone for the global exchange culminating in the conference. The case studies offer vast and varied insights into what governments in developing countries, with the support of their development partners, have done to reduce poverty. The case studies were prepared by development practitioners, academics, and thinkers in developing countries, with the support of the donor community. Most were commissioned by the World Bank through its operational vice presidencies. Others were contributed by the Bank's donor partners or by other units of the Bank.

The cases were selected to reflect the multidimensional aspects of poverty and cover different stages of the development process. Priority was given to examples that offer rich lessons in terms of implementation and allow for a fruitful dissemination of development practices around the world. A quality control process was put in place to provide comments on the substance of the cases, as they attempt to identify results on the ground that can be measured both qualitatively and quantitatively.

Multicountry videoconferences and interactive discussions from December 2003 through May 2004 discussed drafts of the case studies prepared for the conference. In parallel with the videoconferences, online discussions are broadening the dialogue and giving access to thousands of practitioners who may not be able to attend the videoconferences or the conference in Shanghai. Connecting this number and range of development actors from around the globe, including practitioners and policymakers, has never before been attempted.

A sample of about 45 case studies was discussed during the global dialogues. In addition, 12 field visits bolstered the case studies, adding a human dimension through interviews and dialogues among authors and stakeholders. It is envisaged that global discussions on all the cases will continue by videoconference and online, after June 2004, since thematic communities of practice have already emerged.

As you will see, the conference agenda is built around discussions of many of the case studies prepared for the pre-conference learning process. Summaries of those cases make up the bulk of this volume. Presented in Section 1 are studies of 13 countries that have achieved exemplary results in reducing poverty; these will be discussed in the plenary sessions. The succeeding sections group summaries relating to various sectoral themes—these will be discussed in the parallel thematic sessions listed in your agenda.

Many of the case studies, with critical commentary, will be available at www.reducingpoverty.org after the conference. Complete versions of the case studies will also be published on the World Bank's Web site and on partner sites. A thorough synthesis of the conference findings will be published by the World Bank late in 2004.

The Shanghai learning process

Preliminary findings suggest that cases of successful poverty reduction are associated with several implementation factors.

Many successes have benefited from strong and sustained political leadership and commitment. They have used innovative institutional models, adapting to changing circumstances. They have experimented and learned from experience and remained open to different approaches, and they have responded successfully to external catalysts: financial, intellectual, and political.

The first characteristic refers to the *political economy of change*, and reflects the importance of decision makers' commitment to poverty reduction. In the clearest case of national level reform—the case of China—a visible change in the national strategy for poverty reduction occurred in 1977–78, with the emergence of a group of leaders firmly committed to ensuring that the mass of people benefited from economic reform. Strong and visionary leadership can come from various sources, such as enlightened political and technocratic leaders, as in Uganda, or social entrepreneurs as in Bangladesh, where it is unquestionable that the vision and persistence of the key leaders of the nongovernmental microfinance movement are a key factor behind the successes of the microfinance industry in BRAC and Grameen Bank.

The second characteristic relates to building the *institutional capacity* to find innovative solutions to emerging problems, to eliminate institutional obstacles to implementation, and to adapt to changing economic and political circumstances.

As shown in the case summaries presented here, there is no single blueprint for institutional reform. But many successful reformers have shown flexibility, allowing institutions to emerge in a bottom-up fashion. In China, for example, the household responsibility system and the township and village enterprises both emerged from grass-roots experimentation. Both were important steps toward better-defined property rights, but neither followed any recognizable institutional model from more developed economies. We need to understand better how successful institutions develop in a bottom-up fashion.

Long-term growth depends to a large extent on the strength of property rights and on the ability of the government to regulate markets with a light touch and in a fair way—with a minimum of corruption and “interest-group capture.” The key issue is whether people investing for the future—be it starting a small firm or sending their children to school—have confidence that they will reap the benefits of what they sow.

Learning and experimentation take place when new solutions are tested and evaluated, information is disseminated, and evaluation results are used for program design. Successful approaches can be replicated widely and can trigger knowledge spillovers usable in new locations. Learning can include scanning international and local policies, programs and projects; selectively adopting new approaches; and adapting them to local conditions. Vietnam, for example, borrowed from China in developing its agricultural reforms. Mexico’s “Oportunidades” system of cash transfers for education was inspired by “Bolsa Familia” in Brazil, which in turn has been borrowed and adapted by nearby Central American countries. Cost-sharing health schemes have also spread across West Africa.

External catalysts are factors and agents that trigger change in support for the reforms led by the country’s decision makers. Donors clearly have been catalytic in a number of cases, such as eradication of river blindness in Africa. But in general, imposing conditions from the outside has not been an effective vehicle for lasting change. These experiences have led to a growing awareness of the importance of “ownership” on the part of reformers at both the national level and the local level. It is interesting that in all of the big, successful reform episodes development agencies and foreign donors played virtually no role in the early stages of reform. The Chinese, Indian, Vietnamese, Ugandan, and Chilean reforms were homegrown affairs, in which political groups determined to improve their countries’ performance, then turned to various outside agencies for advice and funding.

While looking ahead to the Shanghai conference for detailed answers, the broad answers to solving the poverty puzzle are becoming clearer. They center on creating an environment in which people at all levels are encouraged to invest in the future—and in which the benefits of growth are widely shared.

To enable poor men and women to play their roles effectively requires an empowering approach to development. An empowerment approach to development sees poor people as key resources and partners; it taps into their knowledge, skills, vigilance, and deep motivation to move out of poverty. Nobody has more at stake in poverty reduction than poor people themselves. The challenge is to remove obstacles from their way, invest in their assets and capability, and increase their access to opportunity.

The millions of people who have participated in, and benefited from, fundamental shifts in development policy have a wealth of information to share. The World Bank and the government of China expect great things to emerge from the Shanghai conference.

Frannie A. Léautier
Vice President, World Bank Institute

1

Thirteen Countries That Have Rolled Back Poverty

Chile: Successes and Failures in Poverty Eradication

Poverty eradication was at the core of development strategies in Chile during the Aylwin, Frei, and Lagos administrations of the 1990s. The social policies of all three governments were formed by a particularly difficult beginning. The Chilean economy went through a deep financial crisis in 1982, similar in severity to Argentina's crisis of 2001. In 1982 and 1983, Chile's GDP fell by 16 percent. The collapse of the financial sector cost Chilean taxpayers between 30 and 40 percent of GDP. Unemployment shot up to 30 percent. Around 50 percent of the population fell below the poverty line. Extreme poverty affected 30 percent of the population.

Starting in 1985, the focus of economic policies shifted toward financial solvency and economic growth. Exports grew rapidly and unemployment went down. On the poverty front, however, results were less successful. People living below the poverty line still represented 45 percent of the population in 1987. Additionally, a key decision by the Pinochet government to reduce taxes and government expenditures in 1988 had a further negative impact in social policies. The decrease in social expenditures was equivalent to 3 percent of GDP, resulting in severe deterioration in the coverage and quality of public health services, lower wages for teachers, and lower pensions for the elderly.

Growth with equity

It was against this background that the newly elected government of Patricio Aylwin came into office in 1990. The new government immediately put the fight against poverty at the top of the agenda. Chile's new "growth with equity" development strategy was based on an explicit pro-growth strategy balanced by aggressive social policies; the strategy continued through the decade. Between 1990 and 2000, poverty was reduced from 40 percent of the population to 20 percent. The pro-growth strategy included:

- Opening the economy to world trade
- Conservative fiscal policy pursuing simultaneously a budget surplus and reduction of public debt
- Expanding of the domestic capital market
- Reform of labor and tax policies, including a tax increase that allowed the government to expand social expenditures by more than 200 percent through the 1990s

The strategy enabled the Chilean economy to grow by 6 percent per year during the decade. The combination of high growth and active redistributive policies reduced by nearly one-half the extreme income disparity between the top 20 percent and the lowest 20 percent of the population.

An empirical study comparing social policies in the 1980s and 1990s shows that about 60 percent of Chile's poverty eradication in the 1990s can be attributed to economic growth and 40 percent to social policies. The "easy" first phase represents a combination of high growth, increased wages and minimum wage, expansion in income-support schemes for low-income families, and improved minimum pensions with an immediate impact on poverty reduction.

The shift from income-support schemes towards social investment aimed at upgrading education, skills, and access to health services produced a much more gradual effect on the incidence of poverty. The initial expansion in funding for public health and education did have an impact, as schools and new hospitals were built. Teachers, doctors, and health care workers received better pay, and coverage slowly expanded. But after a few years, pouring more money into inefficient public health services or unaccountable school systems did not result in the expected rate of poverty reduction.

The slowdown in the second half of the 1990s had to do with decreasing returns to large expenditures in public health and education, after basic coverage problems were solved. Rigid, highly centralized, bureaucratic institutional arrangements in public hospitals, combined with active resistance from doctors and public health workers, resulted in great inefficiency. Though government expenditures in public health increased by 250 percent, output of healthcare services grew only by 22 percent.

A similar outcome was observed in education. Following a tripling of public resources, learning scores initially surged, but did not continue to improve. A significant part of this disappointing result has to do with the poor quality of teaching in the classroom. The National Teachers Unions succeeded in preventing performance evaluations of teachers or school administrators for 12 years. The lessons are that money does not guarantee effectiveness and that more attention should be paid to the political economy of institutional changes required to ensure cost-effective provision of basic health and education services.

Institutional innovation

As a complement to the poverty-eradication effort, an experimental program allowed community-based organizations to apply for public funds to develop projects to improve neighborhood infrastructure or start micro-enterprises. The program focused on the indigent population. To carry it forward a new institution was created: the Solidarity and Social Investment Fund (FOSIS). FOSIS has been successful in reaching the target group, but the coverage has been limited.

As programs for the extremely poor were scaled up, intersectoral coordination emerged as a serious problem. But a more serious problem is that the percentage of the very poor reached by the programs has been small. In fact, eradicating extreme poverty has proved to be much more difficult than improving the lot of people near the poverty line. The public, meanwhile, sees a very unequal society unable to deal with hard-core poverty, engendering feelings of frustration and futility.

Two approaches were developed to solve the scale-up problem. The first was the National Program of Poverty Eradication. In 1994, 80 municipal districts were selected on the basis of their high poverty ratios. Municipalities were asked to coordinate an effort to reach the poorest families. The program had some limited success, although sectoral coordination among ministries proved

difficult. Municipalities complained about lack of resources, and those municipal districts left out of the program complained about discrimination.

A new approach was started in 2002. The Chile Solidario program targets the extremely poor in the country. It implements a decentralized approach where families are closely monitored by local public officials to make sure that they get effective access to income-support subsidies and public services, plus help in finding jobs or training for the head of household. It is too early to reach any conclusions about the success of the program, although preliminary evaluations do identify strong and weak aspects of the new approach.

Internal and external catalysts

It is remarkable that Chile's poverty ratio continued to decline after 1998, in spite of the fact that the economy was in recession. The countercyclical social expenditure policy was possible because of the budget surplus achieved throughout the decade. Public savings in good years could be used to protect the poor in bad years. This is where conservative fiscal policies and progressive social policies meet.

The transition from a traditional approach of extending coverage in public services toward an integrated, family and community-centered poverty eradication effort was heavily influenced by holistic approaches developed by the World Bank.

These were the result of theoretical contributions and hands-on experience by World Bank staff. In the case of Chile these contributions have proved to be a key factor in a learning process, still underway, to make antipoverty strategies more effective, particularly after the first easy phase has been completed.

China's 8-7 National Poverty Reduction Program

During the post-1978 reform period, China dramatically reduced large-scale poverty through specific government reform policies and rapid economic growth. Using the official poverty line, the number of poor people is estimated to have fallen from about 200 million in 1981 to 28 million in 2002. Alternatively, using the World Bank's \$1/day income measure, the number of poor is estimated to have dropped from about 490 million to 88 million over the same period, a decline in poverty incidence from 49 percent in 1981 to 6.9 percent in 2002.

China's large-scale poverty reduction has been achieved mainly through rapid economic growth. Real GDP grew at an average of 9.4 percent per year in the period 1979–2003. This increase was realized through continuous reform and structural changes that included shifts from central planning to markets and from agriculture to manufacturing and services, and opening up to international trade and knowledge transfer. Poverty in China is a rural phenomenon (at the beginning of the 1980s, absolute poverty in the urban population was 0.3 percent vs. 28 percent of the rural population.) Because rural-urban migration is limited, growth in rural areas has been most important to reducing poverty. In the early 1980s, when fast rural growth emerged from institutional reforms—including institutional changes in land holding, production, distribution and procurement prices—the poverty rate in China rapidly halved from 49 to 24 percent at the \$1/day income level, and the number of rural poor declined from 250 million in 1978 to 125 million in 1985, measured at the official poverty line.

After rural economic growth slowed, once the poverty effects of the early rural reforms were realized, China saw relatively slow progress in poverty reduction, and widening inequalities. By

1994, the poverty rate was at 18 percent at the \$1/day level. Measured at the official poverty line, 80 million of the rural population remained poor. Since the mid-1980s, overall progress in poverty reduction in China has been slower and even reversed in some years, coinciding with stagnation in the rural economy. The growth rate of per capita net income fell from 12.2 percent in the period 1978–85 to 2 percent in 1986–93.

In 1994, the government introduced the “8-7 Plan” (National Plan for Poverty Reduction), aspiring to lift the majority of the remaining 80 million poor above the government’s poverty line during the seven-year period 1994–2000. Originally, the 8-7 Plan targeted poor counties, emphasizing the responsibility of local leaders for the effectiveness of poverty reduction work in their jurisdictions. The objectives of the 8-7 Plan were to: (1) assist poor households with land improvement, increased cash crop, tree crop and livestock production, and improved access to off-farm employment opportunities; (2) provide most townships with road access and electricity, and improve access to drinking water for most poor villages, and (3) accomplish universal primary education and basic preventive and curative health care. Since 1997, funding for poverty reduction jumped by over 50 percent in real terms annually, reversing a decade of decline in real funding for poverty reduction in China.

The 8-7 Plan focused on three main programs: subsidized loans, food-for-work, and government budgetary grants. Subsidized loans—over half of the total funds under the plan—at first covered mainly enterprises and later households with activities in industry and agriculture. The food-for-work program, representing almost 30 percent of total poverty funds, used surplus farm labor mainly to develop infrastructure. Government budgetary grants, accounting for less than 20 percent of the total poverty funds, supported investment in poor areas across sectors. In total, about 30 percent of poverty funds went to agriculture and industry each, and 35 percent to infrastructure. Given its short-term horizon and low returns to education in the then still very distorted labor market, the 8-7 Plan placed less emphasis on rural education and health. Under the 8-7 Plan during 1994–2000, central government funding on poverty programs totaled RMB 113 billion (US\$ 13.6 billion equivalent) and annually accounted for 5–6 percent of total government expenditures, a significant amount given the government’s tight budget constraint. Central government funding required matching from provincial- and lower-level poverty funds. This was difficult to provide from the limited fiscal resources available in poor localities.

Analysis indicates that the 8-7 Plan assisted China’s poverty reduction, and contributed to both the social and economic development of China’s poor areas. Empirical analysis indicates that the allocation of poverty funds across the officially designated “poor” counties under the 8-7 Plan was correlated with their level of poverty incidence. During 1994–2000, officially designated “poor” counties delivered higher than average growth in grain and agricultural production, and in household net income. The growth rate of agricultural GDP in the officially designated “poor” counties was 7.5 percent, compared to the national average of 7 percent. Household net income per capita increased from RMB 648 to RMB 1,337, growing at an annual rate of 12.8 percent, 2 percentage points higher than the national average. Analysis suggests that RMB 1 investment in agriculture increased household net income by RMB 0.17, and RMB 1 investment in commerce, restaurants, and services increased household net income by RMB 0.76. The effect of poverty reduction investment on the number of poor, however, does not appear strong. Our analysis indicates that special poverty reduction investments had negligible impact on the actual number of poor in the short term, which indicates that non-poor residents of poor counties may have enjoyed a greater share of the growth in household income.

The 8-7 Plan benefited from continuing macroeconomic and political stability, sustained economic growth, and sustained government efforts to seek effective institutional and policy measures to reduce poverty. The government’s capacity for resource mobilization was a critical

factor, bringing together its established administrative system with numerous enterprises, financial institutions, and nongovernmental and international organizations to work on poverty programs. Institutional innovation refocused China's poverty reduction method from relief to development, moving from government-led to a broadly based effort. Continuous learning and experimentation permitted China to learn from its own and international experience, and to work toward improving the participation and effectiveness of a large number of projects at village and household levels. The implementation of the 8-7 Plan, for instance, revealed the relatively weak poverty reduction effect of the subsidized loans and the complexity of the needs of poor villages. This prompted the government to launch multisectoral rural development projects, such as the Southwest Poverty Reduction Project (SWPRP, which is analyzed in another case study for the Shanghai Conference) as well as conduct various incremental changes within the ongoing poverty reduction programs.

The poverty reduction effect of the 8-7 Plan could have been strengthened by greater clarity in government objectives, better targeting, and more participatory approaches at the local level. A combination of different goals, namely the goal of the subsidized loans program both to reach the poor and promote economic development, led to sometimes conflicting objectives for local officials trying to carry out the program. Targeting could have been improved by considering poor villages (or at least townships) instead of poor counties and by complementing this geographic approach with specific household targeting to reduce leakages to non-poor as well as reaching poor households outside the officially designated "poor" localities. The selection of programs, project design, management, and evaluation could have been conducted in a more participatory manner to minimize instances when villagers saw poverty project investments as contradictory to their needs and failed to achieve the desired poverty reduction effect. Recent experience with multisectoral rural development projects indicates that community participation can be high when programs credibly seek to address the villagers' needs.

Drawing on important lessons learned from the 8-7 Plan, the Chinese government launched a New Century Rural Poverty Alleviation Plan for the period of 2001–10. In addition to poor counties, the new plan targets 50,000 poor villages. This will particularly benefit poor villages in non-poor counties excluded from the 8-7 Plan. The new plan also emphasizes participatory village poverty reduction planning and multisectoral approaches. Furthermore, sickness has been recognized as a principal factor contributing to rural poverty, and China is now experimenting with basic health and social security schemes in rural areas. Importantly, the new plan is complemented by policies to further reduce the existing obstacles to rural-urban migration and strengthen education services in rural areas.

Costa Rica and El Salvador: Finding the Appropriate Role for the Public and Private Sectors in Poverty Reduction

The health-sector reform in Costa Rica and the education reform in El Salvador both succeeded by decentralizing responsibility and accountability for service delivery to local and private actors while strengthening the policy and regulatory responsibilities of the public sector. Both countries introduced systems with greater built-in incentives and accountability mechanisms, a more balanced mix of public and private social intervention, and more cost-effective services. These reforms have improved the targeting of services to the poor and have greatly improved the poverty impact and sustainability of public spending in their respective sectors.

The context for reforms: economic performance, social public spending, and poverty

Most of the five countries of Central America have widespread poverty and a highly concentrated distribution of income. Nevertheless, there are marked differences among them. Costa Rica, with a per capita income of nearly \$4,000, ranks higher on the UNDP's Human Development Index (HDI) than the other countries; El Salvador, with a per capita income of \$1,752, is in an intermediate position.

Conflict engulfed the region during the 1980s. In El Salvador, the civil war cost more than 70,000 lives, drove tens of thousands of people from the country, and severely affected the economy. By 1989, GDP was 32 percent below its 1978 level. Costa Rica, with a long-standing commitment to democratic values and the only country in the hemisphere without a standing army, avoided internal conflict, but it was still affected by the surrounding conflict and, like many other Latin American and Caribbean countries, experienced a debt crisis during the 1980s. But economic growth improved dramatically in the 1990s, and by 2000 Costa Rica's real per capita income was 25 percent higher than in 1978. El Salvador's was still 10 percent below its preconflict peak.

Historically, Costa Rica and El Salvador have pursued different policy approaches to improving social indicators and reducing poverty. While both have relied on growth as a driver of poverty reduction, Costa Rica has accorded the state a central role in financing and delivering social services, while El Salvador has relied on a mix of the public and the private sectors. Reflecting these differences in approach, Costa Rica's social public spending was 16 percent of GDP in 2000, one of the highest levels in Latin America. El Salvador's was about 11 percent of GDP, or one-third below Costa Rica's. In Costa Rica, with its long tradition of higher social public spending, the poverty rate has been only half that of neighboring El Salvador. But during the 1990s, both countries succeeded in reducing poverty significantly: El Salvador down to 40 percent of its population, and Costa Rica down to 20 percent.

Costa Rica's health sector reform

Costa Rica's health sector has long been dominated by the public sector, and while public interventions in health in Latin America have often had poor outcomes, Costa Rica's have achieved impressive results. The country's 1949 constitution required the state to finance and ensure the provision of far-reaching social services to the people. A result of this mandate was the establishment of a universal health system, which gave the state an overwhelming presence in the health sector. Starting in the 1960s, efforts to strengthen the health system focused on public sector financing and delivery. A single public institution—the Caja Costarricense de Seguro Social (CCSS)—was the sole provider of health insurance, and the Ministry of Health and CCSS provided most of the curative and preventive services.

By the early 1990s, the health system was under serious financial strain and not fully responsive to evolving needs. But the successful reforms implemented during the 1990s ensured that the achievements realized in the previous decades were not only sustained but also improved upon—and with less public spending

Costa Rica has transformed its health system from a supply-based to a population-based model. It has introduced performance contracts for health providers and a clearer division of responsibilities among institutions, thereby increasing accountability. The coverage of primary healthcare has been expanded. At the same time, public health spending has been reduced from 6.7 percent of GDP in 1990 to a more affordable 5.3 percent. The reform has increased the share of health spending allocated to poor neighborhoods and to primary healthcare. In real terms, between 1997 and 2000 spending for primary healthcare rose by 82 percent, while spending for specialist and hospital services rose by only 20 percent; meanwhile, hospital productivity improved. The overall

efficiency of public spending has risen, and health outcomes have improved. Over the 1990s, Costa Rica raised life expectancy by two years, to 77.5 years, and reduced infant mortality rates from 15 to 10 per thousand—one third of the average rate in Latin America and the Caribbean.

El Salvador's education reform

El Salvador's education system, weak at the start of the 1980s, was further severely debilitated by the country's 12 years of conflict. By the end of the 1980s, more than one-fourth of the population was illiterate; 20 percent of the primary-school-age children were not reached by the system, especially in the rural areas most affected by the war; and school dropout and repetition rates were high. Since the early 1990s, El Salvador has implemented a successful reform program that has significantly improved educational outcomes. The reform was supported by a series of sector loans from the World Bank.

El Salvador's education reform has transferred resources and decision-making capacity to schools and empowered communities and parents. Schools receive support for teacher training and administration, as well as for purchase of inputs to improve educational quality. Teachers' job security and pay depend on their performance. Public spending on education has risen significantly, from 1.9 percent of GDP in 1992 to 3.3 percent in 2002, reaching the average for Latin America and the Caribbean. The share of basic education has increased—from 71 percent of the government's education budget in 1996 to 75 percent in 2001—while the share of higher education has been reduced. The geographic distribution of basic education resources favors low-income, and especially rural, areas. Over the 1990s, the reform has permitted El Salvador to significantly increase the primary enrollment rate (from 81 to 111 percent), to double the secondary enrollment rate (to 50 percent in 2000), and to greatly reduce repetition and dropout rates.

Key factors of success

Both the reforms reviewed here have helped to improve social indicators and reduce poverty. In keeping with Costa Rica's tradition, that country's approach to health reform has focused more on public sector financing and delivery of services; El Salvador in its education reform has relied more on stakeholder involvement under strong public sector leadership. Some of the general lessons from both experiences are:

- *Both the public and the private sector have critical roles to play in improving social indicators and reducing poverty—neither can do it alone effectively.* The government of Costa Rica succeeded in making public spending more efficient in the health sector by redefining the responsibilities of the main public sector actors, expanding private sector provision, and by improving the incentive and accountability mechanisms. El Salvador's successful education reform was made possible by effective government leadership, strong stakeholder participation in service delivery, and strong private support to the reform process, together with increased public financing to the sector.
- *A strong national commitment to the reforms is needed.* The governments of both countries spent considerable time and effort to build broad national support for reform. Without such government leadership and effort to promote dialogue and consensus building for change, the sustainability of a reform effort is compromised.
- *Efforts to ensure efficient and effective resource use are critical.* Given that most countries face severe fiscal constraints, social programs must be cost-effective and targeted to the poor. The public sector must ensure that social services are adequately financed and that they draw on the private sector and local actors to help deliver social

services in a competitive, efficient, and accountable way, while promoting stakeholders' social auditing of resource use.

Key factors in the success of these reforms are based on balancing public and private participation in providing social services. Social development policies emerge from a country's historical conditions, the state's social contract with its citizens, and the relative strength of community organizations, the private sector, and other actors. But there appears to be a consensus that governments should have the responsibility for financing basic social services and for ensuring that poor have access to these services, even if the services are provided by the private sector, NGOs, or other groups that give guarantees that the services are delivered in an efficient and accountable way. El Salvador and Costa Rica have done this in their own ways by:

- *Developing a clear vision of social sector strategies.* This is fundamental to forge a strong political commitment to see the strategies implemented and, to the extent possible, ensure their continuity as governments and public officials change.
- *Ensuring that social policies and programs are technically sound.* The design of strategies, policies, and programs is a complex technical undertaking that should be based on a thorough diagnosis of the state of the sector—and of alternative options and their costs.
- *Engaging in dialogue and consensus building.* Consultation and discussions need to ensure that participants have influence in the definition of the proposed strategies, policies, and programs. Too many consultation and consensus-building processes fail because they are conducted as mere public relations exercises.
- *Securing the support of critical stakeholders.* This is particularly important when sectors are highly politicized or controlled by workers or interest groups opposed to changes that they perceive to threaten their privileges.
- *Decentralizing delivery systems and empowering beneficiaries.* To make empowerment meaningful, local actors and stakeholders must have control over resources and decision-making.
- *Modernizing and decentralizing the ministries or other public institutions.* Institutional reform and decentralization are essential complements to the transfer of resources and responsibilities to other layers of the system. This ingredient of the reform process is often delayed because it requires complex changes in large institutions and strong political commitment.
- *Establishing incentive and accountability mechanisms.* A clear set of incentives for institutions and staff to perform efficiently and effectively must be put in place and perverse incentives eliminated. The private sector will be reluctant to participate in social sector development if the “business plan”—including how resources will be used and accounted for—is not clear. Social auditing by key stakeholders has proven to be an effective instrument to improve control over resource use.

India: Local Democracy and Empowerment of the Underprivileged—An Analysis of Democratic Decentralization

Poverty alleviation efforts are facilitated by democratic decentralization. For a country as big and as diverse as India, anti-poverty programs can become highly problematic unless the elected local government institutions (LGI) participate in their delivery. The crucial importance of the LGIs in the reduction of poverty lies in better targeting of the poor and in providing cost-effective and need-based goods and services at the local level, stimulating growth and thus reduces poverty.

There is no guarantee, however, that local democracy will function well in all contexts. It is prone to misuse by powerful sections of the community; it may lack an effective accountability mechanism; and it may provide little space for the poor to participate in local decision-making. In some cases, LGI leaders may not have enough motivation or incentive to accommodate the development needs of vulnerable groups.

In India, several attempts to empower the rural local government bodies known as *panchayats*, principally for better implementation of various rural development programs of the state, met with only partial success. Currently a massive project of empowering rural (and urban) LGIs is under way following amendments to the constitution in 1992. The panchayats are now constitutional bodies and, as such, a part of the governance system of the country. Can the constitutional reforms succeed in institutionalizing local democracy? Are the rural LGIs empowered, responsive, participative and accountable? Are they reducing poverty? Do vulnerable groups have a say in such institutions?

Decentralization before 1992

The rural local government institutions created by the imperial rulers were far from being representative in form and self-governing institutions in content. They had to function within the framework of an essentially bureaucratic local administration, were subject to various types of control of the superior government, and did not have either the resources or the responsibility to make a meaningful impact upon the well-being of the population.

The tradition of viewing local government institutions, particularly those of the rural areas, as weak, subordinate bodies persisted after independence. The reforms introduced first in the late 1950s and then in the late 1970s and early 1980s did bring a wind of change, but they also failed to view the panchayats as autonomous units of government of the local areas. Under both the reforms, the panchayats were conceived as development agencies only, not fit to handle any regulatory function of governance. Moreover, even in respect of development, the rural LGIs were expected to execute the schemes designed by the state or national government. Thus, with a few exceptions in some states (Karnataka during the mid-1980s and West Bengal since 1978), the pre-1992 reforms could not overcome the historical legacy

The constitutionalization of local government institutions

The 1992 amendments to India's constitution sought to institutionalize the concept of decentralized planning by autonomous panchayats. Because panchayats and municipalities are required to prepare plans for economic development and social justice, the issue of social justice is embedded in development planning. Of the 29 items intended to be transferred to the panchayats under the constitution, at least 16 relate to social sector development meant to expand the capability of people. The local level plans should accordingly aim at what is understood as 'human development'.

The constitution gives clear indication that the LGIs should involve the local community in taking decisions. This is reflected in provisions for reservation of the seats and offices of the local

bodies and in giving constitutional recognition to the gram sabha and the ward committee. The constitution also places special emphasis on the political empowerment of the weaker sections of the rural community.

The immediate fallout of the amendments was a tremendous widening of the democratic base of the country. The constitutional amendments created a third stratum of government at the sub-state level, that of the *panchayati raj* institutions (PRIs). Today there are around 600 district panchayats, about 6,000 panchayats at the intermediate level (block/*taluka/mandal*), and many thousands more at the village (*gram*) level. In urban areas, more than 1,500 city corporations/municipalities are in position, besides over 2,000 *nagar panchayats*. Around three million elected representatives of people run these LGIs—of whom no fewer than one million are women and some 660,000 are from the scheduled castes and scheduled tribes—compared to the 5,000 representatives who make up the parliament and the various state assemblies.

The states, by and large, have implemented the mandatory provisions of the amendments, although some have tried to delay the election process. In respect of matters like devolution of functions, financial resources, and functionaries, the constitution provides broad guidelines, leaving the task of working out the details to the respective state legislatures. To what extent the PRIs will in the real sense emerge as the government at the third stratum depends on the decentralization policy each state takes. Most states have shown lack of political will for introducing devolution type of decentralization. Exceptions exist, the most notable being the state of Kerala. In some other states, such as Karnataka and West Bengal, substantial decentralization has taken place through the transfer of centrally sponsored or state sponsored schemes to the panchayats. The state of Madhya Pradesh also took several steps to transfer powers to the local government institutions, but found it difficult to implement them effectively.

In many cases, the state legislatures have not carved out exclusive functional areas for the panchayats in development matters, but merely permit them to work within the functional domain of the states. But without adequate financial and administrative resources, the panchayats find it difficult to perform those functions.

Even in the states that have shown the political will to decentralize, devolution has not gone beyond the implementation of schemes conceived by the state or central government. As a result, the panchayats have become one of the implementing arms of the state government instead of blossoming as the institutions of self-government.

Fiscal decentralization has been scanty. In 9 out of 12 major states, the tax revenue of local bodies (PRIs and municipalities) constituted less than 5 percent of the total tax revenue of the state. Local bodies have not been given sufficient tax assignments to raise revenue locally. The PRIs are principally grant-fed—their dependence upon the state government is quite heavy.

Most of the states have not transferred the staff the local-level institutions need to carry out the responsibilities entrusted to them. Kerala, Karnataka, Madhya Pradesh, Rajasthan, Uttar Pradesh, and Gujarat have issued orders placing certain categories of functionaries under the control of panchayats. In West Bengal, measures were taken recently to decentralize the health sector, as part of which health workers were placed under the control of the gram panchayats. However, the system has not stabilized yet.

The weakness of India's states vis-a-vis the central government has limited the extent of devolution and decentralization to the PRIs. The 1992 amendments obligated the states to devolve their powers to the local bodies without a similar obligation on the part of the central government to shed some of its powers. Even such small executive steps as the transfer of centrally sponsored

development schemes on subjects constitutionally earmarked for the states was not done, despite recommendations of various committees and experts to do so. Naturally, the states resented this, fueling their reluctance to devolve adequate powers and resources to the panchayats.

There are other problems. No attempt has been made to restructure the district administration, which is run by the line departments of the state government. Panchayats have been superimposed on this bureaucratic structure. Thus, at the district and sub-district levels there are in reality two local governments – one run by the state bureaucracy and the other by locally elected representatives. The former have more powers and resources.

In spite of the statutory and administrative efforts to provide political space to the weaker sections of the communities, it cannot be said that the panchayats have been able to take effective measures for removing the economic and social deprivation of the marginalized people. In places where the grip of the dominant caste over the social system is very strong, even the elected functionaries from the weaker communities feel powerless. The position of women belonging to the scheduled castes and scheduled tribes is worse.

Notwithstanding such disquieting features, reservation provisions have made a major contribution towards inclusion of the marginalized communities in the power structure of the local government institutions. However, before perceptible changes are noticed in terms of their effective involvement in the decision-making process, much needs to be done for enhancing their capabilities.

The impact of decentralization on poverty alleviation efforts

Between 1977–78 and 1999–2000 the state of West Bengal reduced rural poverty from 68.34 percent to 31.85 percent—a reduction of around 36.5 percent in 22 years and second only to Kerala's. This achievement was possible because of two factors. One was land reform, which provided landed assets or ensured security of tenure over the same to over 4 million asset-poor households. The other was institutional reform of the panchayats. The two complemented each other in reducing rural poverty directly as well as by raising agricultural productivity, which in turn increased rural employment. The panchayats played a crucial role in implementing land reform, in selecting beneficiaries of poverty alleviation programs, and in providing non-land inputs for raising agricultural productivity (irrigation facilities, seeds and fertilizers, access to credit). West Bengal's experience strengthens the hypothesis that poverty alleviation efforts are facilitated by democratic decentralization of service delivery.

Similar results were obtained in the state of Kerala, which launched by far the boldest decentralization program in 1996—the People's Plan Campaign—when the state government decided to transfer 40 percent of its plan fund to the LGIs in untied form. The LGI's prepared local level development plans and executed them in a participatory manner. That the faith reposed on the local bodies was not misplaced is revealed from some of their quantifiable achievements. Between the period 1997–2002, 552,000 acres of additional land were brought under cultivation, more than 75 thousand agricultural implements were supplied to the farmers, 48,735 kilometers of new roads laid, 128,875 wells dug, 97,893 water taps installed, 570,582 houses and 571,145 sanitary toilets were constructed. The LGIs and NGOs organized 200,000 women into self-help groups to access microcredit and promote microenterprises. Other examples, albeit on a lesser scale than Kerala's, establish the linkage between democratic decentralization and rural poverty reduction.

Women in panchayats

Women's reservation in the PRIs has been a landmark event. Since 1992 there has been a quantum jump in the number of women's representatives in rural local bodies. Today around one million women are elected by the people to the panchayats every five years. They head about 175 district

panchayats, more than 2,000 intermediate panchayats, and about 85,000 gram panchayats. Even within a strong patriarchal culture, reservation has encouraged women to demonstrate their leadership. Empirical research has brought out many examples of good governance in panchayats led by women—supplying drinking water, vaccinating children, providing health care to pregnant women, and checking the menace of alcoholism.

Experience of the last decade shows that women's entry in politics and acceptance of the same by the male dominated rural society has not been smooth and devoid of problems. Women face innumerable problems ranging from proxy presence to outright violence. Higher educational attainment, prior exposure to the outside world, and knowledge and understanding of one's roles and responsibilities in panchayats are important enabling factors at the individual level, while at the social level such factors include support from the family, support of the male panchayat members and government officials, and support from voluntary community groups or organizations.

Institutionalization of panchayats and empowerment of weaker groups

The most positive aspect of the 1992 constitutional amendments is that the panchayats are now firmly rooted. Elections to these local government bodies are more or less regularly held – an objective that could not be achieved in the earlier experiments with local democracy. Thanks to the reservation provisions, the poor and other weaker groups of people are represented in the power structure of these bodies. Even if there is skepticism among many people that the political empowerment of the weaker groups is more symbolic than real, it would be a folly to ignore even this symbolic value in disturbing the traditional power structure.

Empowerment of LGIs depends on assigning responsibility and powers over significant development activities and devolving adequate financial and administrative resources to accomplish the assigned tasks. The constitution left these issues to the discretion of the states and most states, as mentioned earlier, showed reluctance to devolve functions and resources. The lesson that needs to be drawn from this is that any scheme of decentralization that fails to address these issues clearly and convincingly will find it difficult to realize the objectives. For this reason, demands have been raised in India to amend the constitution further for empowerment of panchayats.

Being located nearest to people, a local government must have a direct accountability to the local community, not only before elections at five-year intervals, but on day-to-day basis. By far the most elaborate arrangement for ensuring accountability was developed by Kerala when it launched People's Plan Program. This included a liberal transparency system under which any citizen was given access to any information (and even official documents) relating to panchayat activity, a social audit by citizens' committees, beneficiary committees to execute public works, an internal audit system, and creation of an ombudsman. However it cannot be said that the opportunities thus provided to the citizens to demand panchayats' accountability have been used extensively, largely because people remain unaware of their potential power.

It is sometimes argued that the decentralization process should follow an incremental approach. The state of Kerala did the opposite. Decentralization has many enemies with a vested interest in the *status quo*. Kerala's approach was adopted to marginalize them at one stroke. Under the People's Plan Campaign, the resources of panchayats increased almost three fold within a year. With support from the state government and various civil society organizations and individuals in various forms—executive and statutory interventions, training, campaigning, providing expertise, developing work manuals—the LGIs adapted to the new environment. The Kerala experiment shows that untied funding, coupled with the introduction of local level planning, may be a very strong entry point of initiatives needed for empowerment of the panchayats as well as for increasing the level of participation.

The Indian experience suggests that the local government institutions need various types of support from the superior-level government to succeed. These include legislative interventions, constructive directions, monitoring without curtailing the autonomy of the LGIs, training, and, of course, resources. Experiences of relatively successful states where decentralization created some impact – for example, Kerala, Karnataka, West Bengal or Madhya Pradesh – underscore the point that the rural LGIs cannot be left to fend for themselves.

It has often been said that Indian democracy suffers from centralization of state power and powerlessness of common people. To what extent the constitutional amendments have been successful in removing this deficiency? The experience of the last decade gives a mixed answer. There is no reason also to take a cynical view. No doubt, there are many instances of stubborn resistance of the old order yielding to the new. At the same time, in the words of Dreze and Sen, “the first wave of social change associated with the panchayati raj amendments warrants *cautious optimism* about the potential for local democracy in India.”

Indonesia: Rapid Growth, Weak Institutions

From 1967 to 1997, in the pro-growth environment of Soeharto’s New Order, Indonesia’s GDP grew by an average of 7 percent per annum. Rapid growth was accompanied by significant gains in the development of human capital and a diversification of the economy away from agriculture, while poverty fell from more than 70 percent in the mid-1960s to 11 percent in 1996.

The “economic miracle” was built on strong macroeconomic policies, support for agriculture, investment in physical and human capital, and increasingly liberal policies in the financial sector, trade, and foreign investment. Economic policies were largely managed by a group of technocrats isolated from the political sphere, who used windows of opportunity to push through reforms and make “good policies in bad times.” At the same time, the country’s underlying financial, legal, and political institutions did not keep pace with the reforms, or with Indonesia’s increasingly complex and open economy. This lack of functioning institutions made the country vulnerable to shocks. Lack of appropriate controls and oversight had weakened the financial sector and increased external vulnerability, while corruption undermined the credibility of economic policies.

When the Asian crisis hit in 1997, the absence of strong institutions made managing the crisis and recovering from it more difficult and more costly for Indonesia than for other crisis-affected countries. The absence of functioning politics prevented consensus-building on measures to fight the crisis, and a weak judiciary could play no role in the restructuring of the economy.

After the crisis, Indonesia again embarked on major reforms, this time of its institutions, including constitutional and electoral reforms, the establishment of an independent central bank and independent judiciary, decentralization, and liberalization of the press and civil society.

Economic policies 1967–97

A select group of economists from the University of Indonesia, later known as the technocrats, was able to determine key features of economic policy in relative isolation from day-to-day politics. Macroeconomic stabilization, the first phase of economic liberalization, proceeded through several steps:

- *Restoration of external viability*: debt rescheduling, adoption of a unified, fully convertible fixed exchange rate

- *Fiscal constraints*: austerity measures, including reduction in government spending, subsidies to state-owned enterprises, elimination of most price controls and subsidies, and adoption of a balanced budget policy
- *Restoration of the banking system*: creation of national central bank, improved access to credit, authorized establishment of foreign bank branches and private domestic banks
- *Liberalization of the investment regime*: incentives and assurances to new foreign investors, return of previously nationalized foreign-owned industrial and trading properties
- *Food security*: achieving self-sufficiency in rice production, price stabilization and other agricultural support programs.

With the growth of oil revenues in 1973 and 1974, the government reverted to a public-sector-dominated economic strategy emphasizing import substitution and the public financing of a limited number of capital-intensive projects. Indonesia's system began to develop into one of "bureaucratic capitalism," in which powerful public figures, especially in the military, gained control of potentially lucrative offices and used them as personal fiefs. Private-sector resources were misallocated, and distortions depressed the overall level of private-sector investment. Small and medium-sized enterprises, with their employment-generating benefits, were neglected and hindered by the lack of availability of financial services (traceable to the imposition of a credit ceiling on commercial banks).

In 1980, government revenues from the oil industry accounted for 70 percent of total revenues. Over the next decade, as oil prices fell, Indonesia faced a rapid decline in government and export revenues, triggering a series of adjustments, including banking and finance sector deregulation, trade reforms, and liberalization of the investment regime to integrate Indonesia into the international financial markets. Adjustment challenges that emerged from the price shocks reflected structural problems that resulted primarily from the government's regulatory framework. The first macro and banking policy reforms were implemented in 1983. The overall effect was to raise interest rates on deposits and loans, and increase freedom for banks to mobilize deposits in support of new lending. The investment-approval process was streamlined, and investment controls relaxed.

In 1988, to enhance financial sector efficiency and increase the availability of long-term finance, banks were further deregulated by encouraging competition and promoting the development of a capital market. These changes required new regulatory measures, but serious weaknesses in the system were left unaddressed. By the early 1990s a series of banking scandals demonstrated that regulation and supervision had become problems for the banking system—a problem matched only by that of political interference.

Institutional underpinnings

Soeharto's New Order asserted that a strong state, capable of suppressing antagonisms based on ethnicity, religion, or geography, was a precondition for industrialization. The military became the key instrument for eradicating subversive and "destabilizing" forces within society, and the administration severely limited popular participation in politics. Opposition from other sections of society, including students, was dealt with harshly, leading the government to clamp down on free speech and restrict public meetings and political activity. At the local and provincial level the central government also asserted control over the political process, imposing a uniform model of administration in 1979 on villages throughout the country. Local community representatives were

frequently replaced by nonlocal bureaucrats. Community loss of control over land and resources often resulted in decreased self-sufficiency and correspondingly higher dependence on allocations from the central government, counter to the government's stated aim of raising development levels. However, the Village Law did create a series of units to coordinate development activities at the provincial, district, and village levels, which led to the creation of employment and basic infrastructure (roads and irrigation systems) in rural areas.

The judiciary's decline began well before Soeharto took office, but the New Order led to the breakdown of the core of the judicial system. A system of merit-based personnel management and continuous internal assessment was abandoned outright in the late 1960s. During the oil boom of the 1970s, judges were exposed to political pressures and manipulation. Patronage networks emerged; an institutional atmosphere of deference and sycophancy was established; and the independence of the judicial system was undermined. Systemic underfunding of the judiciary became inextricably linked to corruption. Economic actors bypassed the courts, due to the lack of certain and equitable dispute resolution, and turned to informal institutions such as family and friends or community and religious leaders to solve disputes. The frequency of vigilante and mob justice for alleged thieves, land disputes, and adultery testified to the weaknesses of governing institutions, particularly the weak judiciary and law enforcement.

While modest by standards of other Southeast Asian countries, the civil service expanded rapidly during the 1970s to support the government's heavy investments in education, health, and physical infrastructure. A scarcity of skilled and experienced technicians and managers led to highly centralized decision-making, which reduced accountability, retarded the development of public infrastructure, adversely affected rates of return on public sector projects, and constrained the development of local institutions. The complex and opaque system of civil-service salaries, and the significant wage differential between private and public employees with similar education and experience, contributed to underfunding that undermined the quality and integrity of the civil service. Low base salaries contributed to "projectism" (neglect or reformulation of routine activities that do not attract a bonus or allowance), "moonlighting," and corruption.

The 1990s saw a growing perception among Indonesians that deregulation and economic growth were benefiting only a small segment of the population—the segment tied to political elites. Most Indonesians were better off, but they also confronted mounting injustice in their daily lives. As the economy grew, the financial markets became more abundant, and the influence of the technocrats diminished, the magnitude and number of "egregious projects" and "misadventures" increased. Corruption appeared to be at the root of the problems.

The crisis and the clean-up

Contagion from the Thai Baht crisis in July 1997 triggered a currency crisis in Indonesia, which rapidly turned into a financial crisis, an economic crisis, and then a political crisis. GDP fell by 14 percent in 1998, poverty doubled to almost 28 percent of the population at the height of the crisis, inflation peaked at 80 percent, and much of the banking system and corporate Indonesia was left in bankruptcy. Soeharto was forced to step down in May 1998, and his successor gave way to the first democratically elected president in 1999.

Now, more than six years after the onset of the crisis, Indonesia's GDP has not yet fully recovered to precrisis levels, GDP per capita remains some 10 percent below the 1997 level, and the government racked up debt equal to some 50 percent of GDP to recapitalize the banking system. Since 1998, the country has continued its difficult transition from a centralized, autocratic regime to a more decentralized democratic system of governance. It is now rebuilding the institutions needed for a market economy. At the end of 2003, more than six years after the onset of the Asian Crisis,

Indonesia was the last of the former crisis countries to graduate from the IMF-supported stabilization program.

By October 1998, a comprehensive solution for the banking system started to emerge, with the Indonesia Bank Restructuring Agency (IBRA) playing a leading role—but weaknesses in IBRA's legal underpinnings have prevented quick implementation. After the enactment of reforms, IBRA emerged as the largest creditor in the country, controlling assets that at one point had a face value equal to 36 percent of GDP. Due diligence revealed extensive abuse of liquidity support as well as numerous offenses against the banking laws, most notably against limits on insider lending and loan concentration. Government, through IBRA, agreed on out-of-court settlements of the claims of the state against former bank owners because the weak legal system made it highly unlikely that the former bank owners could be brought to justice or be forced to redeem some of the losses of the state. Restructuring and asset sales also ran into significant delays and legal and political problems. In 2001 large portfolios of nonperforming debts were auctioned off at any price above a minimum set by the agency. Bidders often seem to have a fine nose for what the minimum price had to be. Corporate debt amounted to about \$120 billion by the end of June 2000. Agreements with international creditors and efforts to facilitate debt workouts on a voluntary basis have had some successes but were hampered by numerous legal and financial factors.

The crisis cost the State some 40 percent of GDP for bailing out the banking system—probably the most expensive financial crisis ever recorded. The weak legal system protracted the clean-up after the crisis, aggravated the losses to the state because of lack of a legal threat to bad debtors, and delayed the economic recovery substantially. It also greatly damaged the sense of justice among Indonesians, who saw most of those who had ravaged the financial system, and most of the corruptors of the New Order era, left unpunished.

Lessons for Shanghai

In terms of the Shanghai framework, Indonesia's development experience offers many lessons. The country's commitment to macroeconomic stability was embedded in a balanced budget, open capital account, competitive exchange-rate system, and liberalization of investment laws.

Institutional innovation included:

- Depending on economically well-versed technocrats to take over in bad times, providing investors the confidence that sound policies would prevail, despite regular set-backs in trade and investment policies
- Packaging small reform together in a major policy move with clear political benefits and strong signaling effects
- Using pragmatic approaches (rather than ideological policy stances) to address pressing issues such as food security or fuel subsidies
- Adapting existing institutions into appropriate policy tools, including the world-class microfinance institution, BRI, which evolved out of an unsustainable agricultural subsidy scheme, and the Kecamatan Development Program, which evolved from an earmarked grant to villages.

Indonesia also benefited from the roles played in times of crisis by the international community—including donors, the Paris Club, GATT, IGGI, and Harvard University.

A different lesson from the Indonesia experience is that institutions and policies sometimes have an expiration date:

- Without rule of law, an increasingly complex economy is hard to manage.
- Without an independent supervisor, the financial sector needed for a modern economy can become an accident waiting to happen.
- Without popular participation in political decision-making, the increasingly difficult choices a government must make may lack the legitimacy needed to make these decisions effective.
- And without a clean, efficient civil service, implementation of those policies and their effects may diverge strongly from what policymakers intended.

Strong institutions are most needed when they matter most—in times of crises. If there is one final lesson that the Indonesian experience offers it is that a country cannot start early enough with the building and nurturing of strong institutions.

Republic of Korea: Four Decades of Equitable Growth

Korea's success in combining rapid economic growth with significant reductions in poverty is paralleled by few other countries. At the beginning of its development drive, Korea's poverty problem was as great as that of most other developing countries. What is remarkable is the speed by which, and the degree to which, Korea succeeded in bringing the problem down to an extremely manageable size. The effort had been successful by the end of the 1980s; after a hiatus in 1997–98 resulting from the East Asian financial crisis, the poverty rate again declined.

The country's achievement is even more impressive considering that less than 25 percent of the country is usable for agriculture or other economic activity and that Korea possesses very few natural resources. The country also experienced a devastating civil war in which the major part of its infrastructure was destroyed.

Korea's success was brought about almost entirely by adopting good economic policies, taking advantage of opportunities that presented themselves, and insisting on a disciplined work effort. That strategy has been maintained since the early 1960s. The primary lessons to be learned from Korea's experience are that properly designed and efficiently implemented policies are vital to economic success; that such actions can overcome even a severe shortage of natural endowments; and that the dramatic transformation of per capita incomes on the scale witnessed by Korea does not happen overnight, but demands a sustained commitment.

Macroeconomic outcomes and the incidence of poverty

In the 1990s, Korea's real GDP grew by more than 5 percent every year except 1998. Unemployment was very low until the economic crisis of 1997–98, when Korea suffered a serious economic downturn. In response to the crisis, the Korean government implemented drastic reforms to correct the structural weaknesses in its economy. Restructuring occurred in the corporate, financial, and labor sectors in order to promote transparency, efficiency, and flexibility. Since 1999, the Korean economy has shown rapid recovery.

Korea's poverty profile over the period 1975–2001 shows a spectacular decline in the absolute poverty ratio, and a high correlation between the relative poverty ratio and income distribution. Absolute poverty was alleviated by the rapid growth of income, but relative poverty was not. The government embraced the principle of “Growth First, Distribution Later.”

The highest incidence of poverty in Korea occurs among families headed by persons of low educational attainment and those headed by unemployed or underemployed persons. Age is a significant factor, in that poverty is higher in families headed by older persons. High rates of poverty are found in families headed by single mothers with dependent children. The majority of the poor in Korea live in cities.

After a long period of rapid economic growth, Korea ran into serious difficulties in late 1997. After the 1997 economic crisis, the government undertook various antipoverty programs designed to ease the impact of mass layoffs, including temporary livelihood protection for the many who lost jobs.

The Korean government and ministries concerned with poverty policies evolved a new model for welfare tailored to the prevailing circumstances of Korea and reflecting the desire to extend benefits to all of society and to update the older system. Known as “Productive Welfare,” the policy seeks to secure minimum living standards for all low-income households, provide human-resource development programs to support self-reliance of the poor, and guarantee a basic living standard by expanding the coverage of social insurance to all people.

Productive Welfare helped overcome poverty through the National Basic Livelihood Security Act and the expansion of the coverage of social insurance. In addition, human resource development programs were introduced to enhance the access of the vulnerable class to the labor market by laying stress on labor welfare, taking measures to protect irregular employees, and extending the application of the minimum wage system to all industries.

The social insurance system has drastically reduced uncovered groups, integrated the management systems of two health insurance funds, and expanded employment and industrial injury insurance coverage to all workplaces. Anyone who has an income is now covered by the national pension scheme, regardless of employment category. The health insurance system has been also made more equitable.

Thanks to the reduction of the eligible employment period requirement and expansion of qualifying workplaces, the numbers of marginal workers, who are not covered by social insurance, have decreased for the past two to three years. A substantial number of persons still do not have access to income maintenance benefits under social insurance, however.

Korea's progrowth, antipoverty education policy

A key factor in Korea's success was the commitment of authorities at the highest level to economic development, and the strong perception that policies that had been announced would, in fact, be implemented. The Park regime put economic development unambiguously at the top of its priorities; it is almost a truism that Korea's success owed more to its capacity to implement policies than to formulate plans. The country's capacity to implement plans and projects expeditiously and within budgeted costs derived from the structure of economic decision-making and the quality of the administrative services that carried out the policies. Policy implementation was accomplished through a rigorous structure of rewards and punishments, including compulsion and administrative discretion. The result was a sharp increase in the public's perception that the government meant what it said.

Rapid growth, based on an outward-looking strategy, was fuelled by rapid expansion of exports. The export-led strategy, in addition to generating resources, altered the structure of production in the direction of Korea's comparative advantage. Competing in the world economy also forced Korea to pay attention continually to issues of human resources and productivity.

Three sets of factors largely explain Korea's export performance: first, the government's decision and implementation processes regarding trade liberalization and tariff reduction; second, a set of export incentives; and third, Korea's ability to take tactical advantages of opportunities offered by the international environment.

Korea's ability to compete internationally in increasingly sophisticated items meant that the country's workforce had to be enhanced; thus investment in human resources was another important ingredient in Korea's success. One of the main achievements of the Korean government during the 1950s was the eradication of illiteracy through a rapid expansion of educational institutions.

The continued expansion of education, especially at secondary and tertiary levels, provided avenues of upward social mobility for even the lower middle classes. It also endowed Korea with a more productive labor force and enabled it to take advantage of export opportunities.

Another important impetus to poverty alleviation, particularly in the rural areas, came from land reform. The strategy of rapid GDP growth included the agricultural sector and soon changed the picture in rural areas. Prices were sharply raised for agricultural products relative to the prices of agricultural inputs, and new, high-yielding varieties of rice increased rice yields per acre by almost 50 percent. The resulting improvement in rural incomes was impressive.

Malaysia: 30 Years of Poverty Reduction, Growth, and Racial Harmony

Malaysia, a multiracial country, managed to drastically reduce the incidence of poverty and lessen income inequality while achieving rapid economic growth and maintaining racial harmony. What transpired in Malaysia during the 1970–2000 period was complex and challenging, requiring masterful management by the government of the varied demands of a heterogeneous population.

Policies for national development

Malaysia formulated a range of policies and plans to guide the management of national development during 1970–2000. They consisted of: core national policies; long-term, medium-term, annual, and special development plans; and sectoral and industry-specific master plans.

The core policies were the most important; their main components formed the benchmark for all other policies and plans. They consisted of the New Economic Policy (NEP), 1970–1990, and the National Development Policy (NDP), 1991–2000. Complementing these policies was Vision 2020, which was formulated in 1991 and projected a vision of Malaysia three decades hence. The two core national policies were based on a philosophy of growth with equitable distribution. The policies saw national unity as the goal of development and the two-pronged strategy to achieve it (1) the eradication of poverty and (2) the restructuring of society. This was to be conducted within the context of rapid and continuous economic growth.

There was, in addition, the National Economic Recovery Plan, 1998; this was a special document to deal with an abnormal economic condition the country faced because of the East Asian

financial crisis. Among other plans were Industrial Master Plans, National Agriculture Policies, and the Privatization Master Plan.

The implementation, monitoring, and evaluation of the policies and plans were carried out through an institutional framework that was developed to suit Malaysia's special needs. Apart from strengthening the organizational structure and work procedures of ministries, steps were also focused on limiting potential conflicts among various groups actively involved in the development process.

Strategies for poverty reduction

Malaysia experienced rapid and almost continuous year-to-year economic growth during the NEP and NDP periods and achieved greater income equality by the end of each period. At the same time, there was a large reduction in the incidence of poverty and marked progress in meeting targets for the restructuring of society.

The result of development efforts was marked increases in real national and per capita income, accompanied by declining income inequality. Related to these efforts was a considerable reduction in the incidence of poverty, while the Malay or *Bumiputera* racial group made notable progress in the modern sectors of the economy.

Achievements in poverty reduction were driven by a comprehensive program that incorporated eight critical strategies: (1) agreeing on the definition and measurement of poverty; (2) increasing productivity and diversifying sources of income; (3) targeting the hardcore poor through a special program focused on their needs and delivering other appropriate assistance to improve their situations; (4) involving private sector and nongovernmental organizations; (5) improving the quality of life of the poor by providing infrastructural and social amenities, such as piped water, electricity, roads, medical and health services, and schools for the rural population; (6) providing welfare assistance directed at the poor who were aged or disabled and therefore not employable; (7) maintaining stable prices, a strategy that involved government intervention in the markets of a small number of food and other essential items; and (8) reducing or eliminating income tax rates for the poor.

The poverty program, combined with Malaysia's rapid economic growth, helped to reduce poverty and improve the quality of life of all Malaysians. While the data do not show the relative contributions of the targeted programs and economic growth, there is reason to believe that a major portion of the increase in the household income of the poor accrued from nonagricultural economic activities of poor households.

Equitable growth and economic development

In Malaysia's case, the issue of whether the policy of equitable growth would affect economic development or growth negatively was not paramount. The goal of the NEP and NDP was not maximum economic growth, but national unity.

However, the policy of equitable growth, the cornerstone of Malaysia's socioeconomic development, could be questioned on at least three grounds: that it would slow down growth; that it would divert scarce resources from more efficient activities; and that it would have a crowding-out effect on private enterprise. The Malaysian experience has shown these concerns to be misdirected.

The policy probably had some negative effects on the growth rate, opportunity costs, and participation of non-*Bumiputera* in business. However, these effects were negligible and were more than outweighed by the achievements of the poverty reduction and restructuring programs and, more importantly, by the virtual absence of racial strife in Malaysia since 1969.

Many factors were associated with the economic growth of Malaysia. Among the demand-side factors, private expenditure contributed significantly to growth in general. In years of slow growth and recession, however, this role was taken over by public expenditure. International trade was another driving force for growth. Among the supply-side factors, the most important contributor to growth was the transformation of the structure of the economy. Among the noneconomic factors was the peace and security Malaysia enjoyed.

Some lessons from the Malaysian development experience

First: Each country must formulate its core development philosophy, policies, and plans suited to its particular circumstances and needs. It must also persevere while remaining pragmatic and flexible enough to modify plans so they remain relevant and suited to changing circumstances.

Second: In a multiracial or diverse country, there is a real need for peaceful coexistence among racial or other groups and close cooperation among ethnically-based political parties in order to have political stability and socioeconomic development .

Third: If a country is to achieve sustained and rapid economic development, it cannot accept racial or any inter-group strife and violence, especially on a prolonged basis. Any political solution to inter-group conflicts, through some formula of power- and wealth-sharing, has to be viable and enduring.

Fourth: There must be sustained and rapid economic growth to create new jobs, business opportunities, higher incomes, and increased wealth. This requires capable and effective management of the macroeconomy by the public sector and of industries by the private sector, as well as close rapport between the two. Continuous growth is also facilitated by an export-oriented and resilient economy.

Fifth: In a multiracial or heterogeneous nation, with wide and entrenched disparities of economic opportunities and incomes, government intervention in the market place and affirmative-action-type programs to ensure a fairer distribution of opportunities and incomes among all racial and social groups may be necessary. The avoidance or reluctance to undertake such initiatives may lead to social unrest and violence.

Sixth: Sustained economic growth requires strong governments and leaders committed to national, not personal, interests over a sustained period of time.

Seventh: The eradication of poverty requires two broad types of strategies: expansion of the economy and government-run affirmative action programs targeted to the poor.

Poland and the Russian Federation: A Comparative Study of Growth and Poverty

In the former Soviet Union and Central and Eastern Europe, output declined steeply with the abandonment of communist economic practices. Largely, however, the scale of structural and institutional distortions inherited from the command economy determined the decline. Adjustment triggered by liberalization of domestic and external markets caused significant shifts in demand. Export markets organized on the basis of central planning collapsed, particularly the Council for Mutual Economic Assistance (CMEA) (1990–91) and the Soviet inter-republican market (1992–93). New import opportunities decreased demand for some domestic products before new export

opportunities spurred production of other goods. Other microeconomic factors contributing to output decline were dramatic changes in costs following price liberalization and elimination of multiple exchange rates, various explicit and implicit subsidies, and special price arrangements inside the CMEA and the former Soviet Union. A third group of factors involved such issues as (i) collapse of the mobilization role of the central plan and administrative incentives connected with a totalitarian regime, (ii) expectations and incentives created by the privatization process, (iii) expectations of massive bailouts of state enterprises by the government based on past reform experience under communism, and (iv) lack of skills for working under market conditions.

Apart from these factors, the severity and longevity of the decline depended on the transition strategy the country adopted, particularly the speed of reforms and their consistency. Countries that reformed rapidly, such as Poland, suffered smaller declines and enjoyed quicker recoveries than countries that implemented gradual reforms, such as Russia.

The similarities and differences in Poland's and Russia's experience with market reform in the 1990s provide an interesting study of the dynamics of transition from a command economy. Poland was the pioneer of postcommunist political and economic transition, having begun the process in 1989. In Russia the process began two years later, when the Soviet Union collapsed. In the first stage of its transition Poland represented a classic case of rapid reform—sometimes known as *shock therapy*. Russia's attempt to follow the same pattern failed for domestic political reasons, leading it down a much slower and less thorough reform path. From the early 1990s Poland enjoyed a geopolitical chance to participate in the process of European integration, which will come to fruition with the accession of eight former communist countries to the European Union (EU) in May 2004.

Economic growth

Output of the Polish economy contracted in 1989–91, as factors of production were redeployed. The short-lived contraction was relatively shallow. Between 1992 and 1998 the Polish economy grew at an average rate of 6 percent, while inflation fell from more than 70 percent in 1991 to about 11 percent by 1998. Macroeconomic stability and institutional reforms encouraged investment, which grew at an annual rate of 16 percent. Increased economic activity reduced the unemployment rate from more than 16 percent in 1994 to below 10 percent by 1998. Over the same period there was a reduction in poverty of 4 percentage points. Inequality worsened—marginally. After 1998 Poland's economy experienced a slowdown in economic growth. Apart from exogenous factors such as the Russian financial crisis (which brought a shock in 1998–99) and the general slowdown of the world and European economy after 2000, domestic factors played an important role in slowing Poland's recovery—among them the slow pace of privatization and restructuring of several important sectors (heavy industries, energy, railways, telecommunication), labor market rigidities, a high level of fiscal redistribution, excessive social commitments and resulting high taxes, reversal of the deregulation trend of the early 1990s, and adjustment costs connected with adoption of the EU's body of law (*acquis communautaire*). The economic slowdown significantly undercut the gains in poverty reduction that were achieved between 1994–1998.

In Russia economic contraction was more pronounced. Slow and inconsistent macroeconomic stabilization and liberalization hampered the structural and institutional changes that were necessary to stop and reverse the decline in output. Populist policies slowed the adaptation process and made it more severe. Russia's negative growth through most of 1990s can be traced to the slow pace and poor sequencing of economic reforms. Comparisons with other countries show that progress in macroeconomic stabilization (especially lowering inflation) was a key factor in subsequent recovery of output. Countries that tamed inflation quickly experienced a speedier and stronger recovery. Moreover, in many Central and Eastern Europe (CEE) countries the early success

of economic stabilization helped to strengthen the constituency for further reforms, both political and economic.

Russia was mired in a slow reform equilibrium for several years. Strong economic growth began only in 1999 and continues. Between 1999 and 2002 the real GDP registered an average growth rate of 5.9 percent, while inflation was brought down from 86 percent in 1999 to 16 percent by 2002. Employment in 2002 was 67 percent of the 1991 level, but recovering gradually. The high growth achieved in Russia since 2000 may be explained by (1) the devaluation following the 1998 crisis; (2) the depth of the previous output decline and the deployment of reserves, such as idle capacity; (3) positive effects of economic reforms conducted in the 1990s (particularly privatization), and (4) high oil prices on international markets.

Employment structure and labor market developments

In both Poland and Russia a substantial share of the labor force moved from industry to a broadly defined service sector (a move more dramatic in Russia). At the same time, the share of employment in agriculture declined—more so in Poland than in Russia. Both countries (especially Russia) had been heavily over industrialized, while market services were underdeveloped. Poland, which managed to avoid communist collectivization of its agriculture, continues to suffer from over-employment in this sector.

There are striking differences between the countries in the share of employment in small enterprises. The initial differences (16.92 percent of the labor force in Poland and 6.43 percent in Russia) increased in spite of positive dynamics in both countries. In Poland small enterprises accounted for almost half of total employment in 1998; in Russia small-enterprise employment stabilized at below 20 percent.

Since 1998 employment trends in both countries have changed. Employment in Russia has increased with economic recovery but more slowly than GDP. In Poland, slower economic growth rates have been accompanied by employment decline, the unemployment rate increasing from 1.5 percent in 1999 to 4.3 percent in 2001. Both countries improved labor productivity, but Poland chose a less labor-intensive pattern of economic development, despite rapidly increasing unemployment and rapid growth in the number of people entering the workforce.

Generally, Russia and Poland represent two different patterns of labor market adjustment. In Russia the decline in employment was significantly smaller than the massive collapse of output. The adjustment took the form of lower real wages, wage arrears, hidden unemployment, and a move to low-productivity services. The second pattern, broadly prevalent in the CEE and represented by Poland, saw employment decline with output. Job destruction was concentrated in existing enterprises, while job creation was to be found almost exclusively in new enterprises.

Privatization, business formation, foreign direct investment, and trade

Poland's experience points to the key role of newly established private enterprises (mostly small and medium-sized) in fostering economic restructuring, absorbing labor resources, and bringing economic recovery. In fact, new business formation was the most powerful force in removing structural distortions inherited from the command economy.

Newly created private firms were less important in fostering economic recovery in Russia, because of over-regulation and a poor business and investment climate. The same factors discouraged foreign direct investment. In 2002 Russia's cumulative per capita inflow of foreign direct investment (FDI) was seven times lower than Poland's. Most FDI came to oil and other natural

resource sectors. Moreover, throughout its transition period Russia suffered a substantial capital outflow.

In contrast to Poland, large private corporations and conglomerates powered Russia's growth. Many built their strength in foreign trade and the financial market before moving into natural resources in the mid-1990s, using the loan-for-shares program and other nontransparent privatization schemes in mid-1990s. Manufacturing, agriculture, and the service sector were the last stage of their expansion.

Corporatization and privatization in Russia were more rapid than in the majority of transition countries, including Poland—largely because of the massive voucher-based privatization program of 1992, which quickly transformed the formal ownership of the Russian economy, albeit at the cost of diluted ownership and insider dominance. Privatization in Poland proceeded more slowly and was dominated by strategic foreign investors, which helped to promote inflows of FDI. Together with the private sector inherited from the communist era (accounting for about 25 percent of GDP in 1989) and rapid development of new private firms, privatization in Poland eventually reached Russia's overall level, but with better quality. In both Poland and Russia the state retained a substantial amount of hard-to-sell shares.

A large portion of the remarkable Russian growth in early 2000s can be attributed to the increase in oil production and very high international oil prices. From 1998 to 2002, average daily oil production in Russia increased from 6 to 7.7 bbl/d (barrels per day). Energy accounted for around 20 percent of Russian GDP and 40 percent of tax revenues in 2002. Poland had one of the most energy-intensive economies among the countries of Eastern Europe and relied heavily on energy imports from Russia (in addition to its own coal sector and coal-based electric power generation). When prices of oil and natural gas imported from Russia were increased to the world level, trade liberalization and hard budget constraints pushed the Polish economy toward energy-efficient technologies, while low domestic energy prices allowed Russia to hang onto inefficient technologies.

Partly because of its smaller size, Poland's economic growth is more export-driven than Russia's. Oil and natural gas lead Russia's export structure, which is dominated by energy resources. Poland export growth has relied on manufactured products, including increasing intra-industry trade with the EU. The share of the EU market in Poland's exports is stable at around 70 percent, twice that of Russia. Poland's reliance on manufacturing trade with the EU has hastened the restructuring of Polish industry and increased its competitiveness—a virtuous cycle. In the case of Russia, underpriced energy inputs have slowed the process of restructuring sectors outside oil and gas, keeping them internationally uncompetitive and exposing them anti-dumping restrictions.

Fiscal policy

Russia experienced severe fiscal imbalances from the late Soviet period until 1998, which led to subsequent currency crashes in the run-up to the full-scale financial crisis that began in August 1998. Since 1998 Russia's fiscal situation has radically improved—first as a result of ruble devaluation and later as a consequence of high oil prices—but the country remains vulnerable to any future decline in world oil prices.

Poland's fiscal position fluctuated less dramatically than Russia's in the 1990s, though it was never close to balance. In the early 2000s it started to deteriorate, leading to a rapidly increasing deficit and debt-to-GDP ratio that could undermine macroeconomic stability and the prospects of the new economic recovery that began in mid-2003. Poland has also found itself in a tax-and-spend trap, with the ratio of general government expenditures to GDP being in the range of 44 to 48 percent. The main fiscal burden comes from excessive social expenditures that crowd out public investments.

They also lead to high indirect labor costs (payroll taxes), which are responsible for at least part of the country's labor-market rigidities and unemployment.

Russia represents a lower level of fiscal redistribution and a lower share of social transfers in total budget expenditures, lowering fiscal pressure but affording less room for cushioning poverty and income inequalities. The same can be said about lower health and education expenditures in Russia.

Income inequality and poverty

Poland and Russia started their transition with low levels of inequality, reflecting the income policy of the communist regime and low levels of formal private-sector activity. With the transition to market economies, inequality has increased dramatically in most Commonwealth of Independent States (CIS) countries. Today, Russia's high level of inequality resembles that typical of many developing economies. In Central and Eastern Europe, the post-transition increase in inequality (as measured by the Gini coefficient) has been relatively modest.

Poverty studies in both countries show that people living in rural areas and small towns, and in economically undiversified regions, are more likely to be poor. Poverty increased in Russia during the first phase of transition and peaked in 1998–99. Although the economic recovery that began in 1999 brought a noticeable improvement, the poverty challenge is still very serious—about a quarter of the population is poor. Rural households have benefited less than urban households from the recovery. Poor social services have contributed to the expansion of a poverty zone in Russia. Growing unemployment is one of the primary factors behind poverty in Poland.

There are two major groups of poor in Russia and in Poland. The *old* poor group covers those who lived below the poverty line already before transition. This group consists of one-parent families, families with many children, disabled persons, single pensioners, and socially marginalized persons. The *new* poor group in both countries includes families with children, young families, a considerable proportion of rural population, and families of the unemployed (both registered and unregistered ones, especially in rural areas). The trend towards feminization of poverty has also been apparent. A characteristic feature of poverty in both countries is the inclusion of families with economically active parents and one or two children. This sociodemographic type of families is not associated with high-risk poverty but is currently prevalent among the poor. In Russia, as distinct from Poland, the category of *new poor* also includes a large portion of pensioners, families of migrants, and displaced persons.

Some key lessons that can be gleaned from the experience of Russia and Poland are:

Successful macroeconomic stabilization and extensive liberalization are the basic preconditions for overcoming declines in output following the transition from a command to a market economy. Countries that delay stabilization and liberalization suffer longer and deeper output contraction and wait longer to enjoy the benefits of post-adaptation recovery. The initial phase of economic recovery, particularly when following a deep, adaptive decline in output, usually does not require a serious investment effort because recovery is driven by reallocation of existing resources. Later, however, new investments and sources of financing become a crucial condition of continuing growth. The scale and quality of investment, in turn, depend on the business and investment climate.

The same factors that determine business and investment climate are also extremely important for reducing poverty and inequality and building an atmosphere of fairness and social justice. Removing regulatory distortions; eliminating sources of rent extractions and corruption; creating free and equal access to business activity; and increasing efficiency of delivery of basic public goods such as law enforcement, administration of justice, technical infrastructure, education,

and public health improve the quality of life and mitigate feelings of inequality and alienation among large segments of society.

The quality of economic institutions is strongly correlated with the quality of political institutions, political reform, and democratization. Free political competition, free media, civil-society networks, and effective protection of civil rights generally help in improving economic institutions and fighting social pathologies such as corruption. Political freedom and democracy can also help in building domestic ownership of a reform program.

Finally, the international community can create external incentives for building good institutions and following good policies. The enlargement of the EU is a good example of the effective *exporting* of good institutions and policies from high-income to middle- and low-income countries.

Tanzania's Economic Reforms and Lessons Learned

World Bank Operations Policy and Country Services

Having experienced a steady economic decline in the late 1970s and a financial crisis in the early 1980s, Tanzania formally adopted an economic recovery program in 1986. It has since pursued reforms and made significant achievements: macroeconomic stability has been achieved and a wide range of structural reforms completed. Gross domestic product (GDP) growth per annum averaged 4.2 percent during this period, reversing per capita income decline experienced in the decade before 1986. The growth in per capita income led to a considerable decline in the level of poverty. The long-term poverty trend has been declining for most of the post 1986 period, as indicated by various poverty studies conducted between 1976 and 1996. The studies indicate that the post-1984 period in Tanzania was marked by an overall improvement in real incomes: a 1996 by Ferreira study found that poverty (defined as the number of households below the basic needs poverty line) declined by approximately 22 percent between 1983 and 1991. Despite the setbacks on the macroeconomic policy front between 1991 and 1994, when poverty rose by approximately 11 percent, the most recent (2000–01) household budget survey confirms that there was a sustained decline in poverty over the entire decade. The survey findings show that as per capita income accelerated, after the reform progress was reinforced in 1995, poverty is estimated to have declined by approximately 28 percent between 1994 and 2002. The survey further points out that poverty reduction has been more rapid in urban areas, in particular in Dar es Salaam, than it has been in rural areas.

Tanzania's adjustment and reform process has been gradual and at best cautious but steady, deep, and sustainable. Subsequent to the temporary setback in macroeconomic policy during the first half of the 1990s, the government achieved macroeconomic stability in the late 1990s. Inflation was reduced from about 30 percent in the 1980s and early 1990s to single digits in late 1990s, when severe fiscal imbalances were brought under control through prudent fiscal management; inflation in 2002 was 4.6 percent. Acceleration of structural and institutional reforms, as well as creation of new institutions, led to improvement in the investment climate, increased foreign direct investment (FDI) flows, and job creation. The balance of payments improved significantly, reflecting large donor inflows and increased export earnings, mainly from nontraditional exports. Tanzania's sustained commitment to economic reforms triggered its eligibility for debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative in April 2000, making it one of the first countries to reach the completion point and to benefit from irrevocable and substantial debt reduction. Debt reduction in turn paved the way for additional donor inflows. The additional resources, including from the HIPC debt reduction, allowed the government to increase budgetary expenditure allocations to social

sectors and other priority sectors, such as rural roads, the judiciary, and HIV/AIDS-related activities. This has led to visible improvements in public service delivery, in particular education and health.

The success and durability of economic reforms in Tanzania is attributed to a strong and “tested” sense of ownership of the reforms early in the process, a wide domestic consensus on economic reforms, and a broader understanding of the issues. This achievement resulted from a number of factors: a consultative and participatory approach, a series of “homegrown” programs, sustained commitment and political leadership, and consistent support from development partners. The openness and inclusiveness of the consultative process of the 1980s internal debates, led by the University of Dar es Salaam, brought together reformers and nonreformers, helped clarify and broaden the understanding of issues, and legitimized the need for economic reforms. The government’s use of national commissions as instruments for collecting views and building consensus on issues broadened the domestic constituency for the reforms, reinforced internalization of the process, and thereby underpinned reform ownership.

Experimentation with homegrown programs provided the government space to test, learn, and adapt reform measures to country circumstances and to minimize alienation of support groups. It also helped build confidence in the government to scale up the reform measures. Once the measures demonstrated a positive impact, the likelihood of policy reversal was reduced because the support of the measures had been demonstrated to a broader constituency.

The sustained commitment and political leadership demonstrated by Tanzania’s leadership has fostered sustainability of the reforms. President Nyerere’s departure in 1985 signaled a break from socialist policies and allowed the process to evolve in an orderly fashion. President Mwinyi’s liberalization efforts post-1985 and initiation of institutional and structural reforms ushered in a free market economy, and President Mkapa reinforced the importance of macroeconomic stability and ensured consolidation of a free market economy, after 1996.

Development partners have been an important and integral part of the process of economic reforms. Their contribution was manifest in two distinct ways: providers of substantial financial and technical assistance and adjudicators and monitors of government’s performance (or nonperformance) in implementing economic reforms. Financial support from development partners, both bilateral donors and multilateral institutions enabled the government to aggressively reverse the socialist policies after the 1986 reforms and helped to bring economic recovery and improvement in public service delivery. Technical assistance contributed to capacity building, strengthened institutional framework and helped to create a conducive environment for a market-driven economy. While donor support fell in the early 1990s when the reform effort temporarily collapsed, it rose again when reforms resumed under the Mkapa regime in 1995.

The implicit role of adjudicators and monitors of government’s performance (or nonperformance) was demonstrated through withdrawal of assistance when the government was reluctant to adopt economic reforms, in response to economic crisis in the early 1980s, and also in early 1990s, when macroeconomic reforms faltered. Conditioning aid on policy measures was a contentious source of tension: it was perceived to undermine sovereignty and government’s ownership of economic management. It created tension between the government and its donors and prompted donors to evaluate their approaches in aid relations. For example, the disagreement between President Nyerere and the International Monetary Fund in 1980 was symptomatic of the government’s assertion of sovereignty, ownership, and space for internal dialogue. The 1994 Helleiner process, an initiative to mediate between the government and its donors, though precipitated by the derailed reform process, underlined the imbalances in government/donor relations. The Independent Monitoring Group, an outcome and a culmination of the Helleiner process, now serves as an instrument of accountability and a performance monitoring tool, on behalf

of the donors and the government. This was a direct response to government/donor tensions and the absence of a common adjudicating mechanism framework.

The direct dialogue with development partners has been an important catalyst in Tanzania's economic reform process. The dialogue informed the early debates on economic issues and indirectly contributed to homegrown programs. It also facilitated greater government ownership of the process and helped government/donor relations to evolve from confrontation to partnership approaches. Furthermore, it triggered the need to focus on aid effectiveness and to re-examine and improve aid delivery mechanisms.

Tanzania has made tremendous progress on many fronts. However, the remaining central challenge is making growth deliver more efficiently in terms of poverty reduction on pro-poor growth. To accomplish this, the focus should be on accelerating growth of agriculture and rural sector development, to engender economic opportunities in rural areas where poverty remains pervasive. Equally important is the need to sustain robust growth, a necessary element to achieving the Millennium Development Goals (MDGs).

Conclusions and key lessons learned

Since the inception of economic reforms in 1986, a large segment of Tanzania's population has benefited from gradual poverty reduction, which was driven mostly by steady improvement in economic performance, implementation of structural reforms, and, in the most recent past, greater attention to public service delivery. GDP growth has been sufficient to allow increases in income per capita, including in rural areas. Overall the long-term poverty trend has been declining. However the decline in poverty has been more pronounced in urban areas, while poverty in rural areas remains considerably higher. The HIPC debt reduction, which was followed by additional donor inflows, allowed the government to increase expenditure allocations to provision of public service delivery.

An important aspect of Tanzania's economic reforms has been the transition from a socialist to free market economy. In this context the government's main challenge and focus were how to implement economic reforms with minimum adverse effect on provision of social services, in particular to the vulnerable. For example, the government opposed the devaluation of the currency because of fear of inflationary pressures and its impact on the vulnerable group. Such issues were discussed, clarified, and understood through a truly open and participatory debate. The implementation of the homegrown programs was a transitioning and learning processes in which the government learned what policies worked (or did not work) in eliciting economic activity.

What are the lessons learned?

- Early winners and good results help to build support for more ambitious and large scale reforms.
- Understanding of the issues by a wider segment of society through debates and participatory approaches engenders broad ownership of the reform process.
- It is important that the reform process is locally-driven. It increases the public's sense of ownership and ensures commitment to implementation and sustainability.
- It is important to carry out analytical work during the pre-reform period to be able to inform the internal policy dialogue and to frame the economic debate.

- Participatory approach helps bring a wide range of stakeholders on board—the open dialogue, and the various “home-grown” programs through which the reform process evolved, created broad ownership and allowed the government to formulate a reform program that was not only acceptable at home, but was also acceptable to development partners.
- Public acknowledgement of policy failure by political leadership sends a powerful message to the general public. It is a necessary and important step toward initiating change in policy regime.
- To ensure sustainability and credibility, it is important that the government rally public opinion in support of reform program. This requires a forthright and active effort to explain the benefits and costs of the reform agenda to civil society
- Sustained commitment to reforms and consistent message from the political leadership is critical to the credibility and sustainability of the process.
- Institutional impediments should be recognized at the outset in order to establish realistic expectations for reform outcome.
- Divestiture signaled a stronger commitment on the part of the government to private-sector-led development; it led to increased domestic and foreign capital, technology, and managerial skills.
- In order to cultivate “buy-in” as well as the general public’s support for privatization, there is need for successful privatized public enterprises which bring about improved productivity, contribute to the tax base, and create employment opportunities for local investors.
- The gradual approach creates space for the government to adapt policies to its individual country circumstance. While it slows the speed of reforms, it engenders strong ownership, sustainability, and minimizes policy reversals.
- There is need for a strong institutional mechanism for accountability to sanction government’s performance and donor behavior.
- Tanzania’s open and direct discourse with its donors helped improve aid relations and aid effectiveness—and fostered partnership approaches. It resulted in improved donor coordination, increased government ownership, and a movement toward harmonization of processes.

Tunisia’s Path to Development: 1961–2001

In the four decades since it gained its independence, Tunisia has experienced significant economic progress. Between 1961 and 2001, the economy grew by an average of over 5 percent per year and per capita incomes tripled to \$2562 in 2001. Over the same period, a number of social indicators also registered remarkable improvements. Literacy levels and educational attainments increased substantially, especially among girls. The overall health status of the population improved, as life expectancy increased and infant and child mortality decreased. The incidence of poverty also fell sharply and now stands at 4 percent of the population, compared to 22 percent in 1975.

The path of Tunisia's progress was not always smooth. There were substantial fluctuations in real growth, from a high of 17.7 percent in 1972 to a low of -1.5 percent in 1986, reflecting the adoption of different economic policies and the impact of domestic and international business cycles on development. Until the late 1980s, fuel exports constituted a sizable component of Tunisian merchandise exports, exposing the economy to shocks associated with oil price changes in international markets. Moreover, Tunisia's early industrialization strategy relied on massive government investments in import-substituting industries that represented a major drain on fiscal resources and eventually precipitated a macroeconomic crisis. However, what distinguished Tunisia's development experience from that of other countries in the Middle East and North Africa (MENA) region was the development of manufacturing industries to the extent that in 2000, exports of manufactures accounted for 77 percent of merchandise exports (the highest in the region), up from only 8 percent in 1961.

Three phases in Tunisia's development

From the standpoint of policy, three phases may be identified in Tunisia's economic development. The first phase, 1961-1970, may be thought of as a socialist period. These years witnessed high growth rates driven by substantial public investments in basic infrastructure, human resource development, and agricultural expansion to set the foundations for new manufacturing industries. However, with capital accumulation based on foreign sources of funds, rising current account deficits and growing debt eventually brought this investment drive to a halt. Concurrent events, such as three successive years of drought, and popular discontent over expropriations and reports of corruption within the government-established agricultural production cooperatives, precipitated a macroeconomic crisis in 1969, and led to some policy changes.

The second phase, 1971-1986, may be thought of as a mixed economy period. This period was marked by the emergence of a constituency, both within the government and society at large, for private initiative. The cooperative system was gradually dismantled and a series of measures were undertaken to encourage the private sector, especially in manufacturing. An incentive system was instituted to promote exports, by giving exporting firms (whether local or foreign-owned) special advantages, such as tariff exemptions on imports of capital equipments and inputs. Favorable international conditions in the form of high oil prices boosted government coffers and enabled it to pursue a social security policy based on subsidies. Despite these changes, the government continued to maintain a tight grip on key economic and investment activities by implementing a system of fixed prices at different production and distribution stages. Progress towards market orientation was further stifled by a populist style of governance starting in 1981, under which expansionary monetary and fiscal policies led to serious macroeconomic imbalances and ultimately compelled the adoption of a program of structural adjustment and macroeconomic stabilization in 1986.

Structural adjustment efforts characterized the third phase from 1987 onwards. In addition to standard fiscal and monetary policy reforms, Tunisia liberalized its financial sector. A policy of gradual trade liberalization was pursued, first by implementing current account convertibility, followed by accession to the General Agreement on Tariffs and Trade accords and by a free trade association with the European Union in 1995. The free trade agreement has brought Tunisia substantial industrial and financial support from the European Union (EU) and has the potential for enhancing its trade and investment links. Some of the support is in the form of funds to equip Tunisian enterprises with necessary skills to face competition with the EU. The most important aspect of the association agreement, however, may well be that it has served to anchor Tunisia's commitment to reforms.

Quantitative analysis suggests that structural reforms, especially with respect to trade, taxes, and the financial sector, did increase the productivity and competitiveness of the Tunisian economy.

Efficient capacity utilization in the economy coincided with periods when macroeconomic discipline was maintained and/or restored. In fact, the results suggest that the gains in productivity would have been greater had Tunisia liberalized earlier.

Economic and social policies

While growth and poverty reduction in Tunisia were driven largely by the economic reforms of the late 1980s, they were augmented and reinforced by the pursuit of economic and social policies that focused on improving individual and collective welfare, especially in education, health, and social assistance.

Widespread access to education has been one of the hallmarks of Tunisia's development experience. In July 1989, the authorities launched a major reform of the education system that increased the basic education cycle to nine years and introduced free and compulsory education until the age of 16. The reform also aimed at reducing the number of school dropouts. At the same time, the authorities increased their efforts to recruit qualified teachers. As a result, the percentage of teachers with higher degrees rose from 67 percent to 78 percent in five years. The government also embarked on other large-scale activities in this area, such as the computerization of schools and an overall assessment of the basic education system. With these measures, dropout rates have decreased steadily. Achievements in education have not only helped reduce poverty, but have also created an increasingly educated and productive workforce. Coverage of primary education is almost universal, and there is very little difference in enrollment rates between boys and girls.

Quantitative analysis suggests that gains in productivity in Tunisia for the period 1983-2001 came largely from labor and not from capital. This may indicate over-investment in capital in the earlier, so-called socialist period. By disaggregating labor inputs by type of qualification, analysis also shows that the major source of productivity growth during this period came from manual workers and unskilled machine operators rather than from educated and skilled labor. This is corroborated by the relatively high and persistent unemployment rate among Tunisia's educated population and suggests that the country may have over-invested in higher education. Other explanations include (i) low labor intensity of growth induced by direct and indirect capital subsidies; (ii) economic growth that was not sufficiently rooted in the private sector, thereby limiting the scope for greater private job creation; (iii) labor market rigidities, such as protective labor regulations and high indirect labor costs; and (iv) skill mismatch because of weak links between the education and training system and the economy's labor needs, resulting in a rising unemployment rate among the educated labor force.

The health status of the Tunisian population has also improved with the development of both preventive and curative health care services and the decline in birth rates. Indicators of life expectancy, infant mortality, reproductive health, and malnutrition are far better now than four decades ago. Today life expectancy is 72 years, up from 51 years in 1961, and infant mortality is only 26 per thousand live births, down from 139 in 1966. Access to basic health care is available to almost all the population, regardless of income.

Poverty incidence has declined steadily over the years, partly in response to growth and partly because of more direct measures aimed at increasing the employment and income-generating opportunities of low-income households. Public works programs represent an important source of employment for the poor. In urban areas, this consists mostly of road maintenance, sewer cleaning, waste-water removal, and cleaning of public roads; in rural areas, employment is mainly roadwork, soil conservation, and forestry activities. These programs provide short-term jobs to reduce underemployment and unemployment; they are a key government vehicle for helping the poor.

There exists also a consumer subsidy program aimed at protecting the purchasing power and nutritional status of the poor. Initially, the program provided a subsidy on a universal basis. However, this proved to be an expensive way to reach the poor since many nonpoor were also receiving a subsidy for food and other essential items. The program was redesigned in 1991 to become more efficient in helping the poor. Among other measures designed to help the poor are housing rehabilitation programs and housing finance subsidies for low-income salaried families.

More recently, government efforts in Tunisia have also aimed at developing a strong civil society and at increasing transparency and accountability. Efforts to improve relations between citizens and public organizations represent concrete efforts to reduce access costs to public services for citizens and using user feedback to improve the performance of public organizations. As a result, the government has incorporated ombudsmen features into its bureaucracy at every level, so citizens and nongovernmental organizations (NGOs) can convey their problems to the government. In addition, nongovernmental intervention has also made an impact in how the country operates. For instance, (i) NGOs participate in sectoral commissions to evaluate the implementation of the national development plan and to formulate recommendations for upcoming plans; (ii) industrialists and trade unions, chambers of commerce, and communication consultants participate and make recommendations in the decision-making process for government projects; and (iii) NGOs conduct seminars around certain topical themes, such as the electronic industry or medical research, and the seminar recommendations are addressed to the relevant authorities.

Lessons learned

Tunisia's positive performance can be attributed to four main factors:

- Implementation of the economic reform and stabilization programs, particularly financial and trade liberalization, which significantly improved the competitiveness of the Tunisian economy
- The priority given to social policy—the development of education and social security, the attention devoted to health, and the aid given to the poorest of the population
- The slowdown in population growth through the enhancement of the status of women and education policies
- Continuing investment in basic infrastructure.

Uganda: From Conflict to Sustained Growth and Deep Reductions in Poverty

Uganda's economic performance since 1987 has been impressive. The country has sustained economic growth averaging 6 percent and maintained an inflation rate in single digits. In just eight years (between 1992 and 2000), the proportion of people living in absolute poverty declined from 56 percent to 35 percent. Overall, while Uganda's economic growth was largely robust over the last decade and a half, there has been a marked slowdown in recent times. Because of poor weather and a slowdown in economic growth rates, the percent of the population in poverty increased to about 38 percent in 2002–03.

What explains this success in this small, landlocked East African country, in a region mired by armed conflict and economic stagnation? Several factors stand out: strong and single-minded

political leadership, supported by capable, committed, and trusted officials in key ministries and by pragmatic external donors prepared to engage with the government at the working level.

Uganda's poverty reduction success is even more intriguing in the context of liberal economic policies implemented by a government that was originally perceived to be dominated by left-wing individuals and therefore reluctant to adopt economic reform policy recommendations that external donors had sponsored. From 1987—when the National Resistance Movement (NRM) government hesitantly accepted these policies—until 1992, there was limited commitment to them; reform implementation was patchy with mixed results. But after 1992, by which time the early results for economic recovery and political stability were apparent, the government committed itself to liberal reforms across a wide range of structural issues, greatly improving the effectiveness of implementation.

Although liberal reforms sustained economic growth and poverty reduction—especially because of the liberalization of agricultural marketing—the government felt that this was not sufficient to reduce poverty. To complement these efforts, the government increased its support for social projects in 1992, with donor support. And in 1996 it introduced an ambitious decentralization system delegating administrative responsibility and budgets to local governments to ensure that resources spent on reducing poverty reached the intended beneficiaries. The government also introduced universal primary education in early 1997.

To provide a broad framework for implementing targeted interventions to reduce poverty, the government—again with active donor support and with the participation of a broad range of stakeholders—drafted its Poverty Eradication Action Plan in 1997. Because of Uganda's early leadership in this process, it became the first country to qualify for the World Bank and International Monetary Fund (IMF)-sponsored Heavily Indebted Poor Country (HIPC) debt-relief initiative in 1998 (original) and 2000 (enhanced).

Uganda's path to reform, 1986–2002

The NRM government inherited a collapsed state in 1986, under the control of different armed factions. Its first objective was thus to restore peace, law, and order. This objective was realized mainly because of the discipline of its armed wing, the National Resistance Army (NRA), in ending the harassment of civilians by armed forces. This was a major achievement since military impunity (especially disregard for property rights) and human rights abuses had stifled commerce and discouraged productive work and investment.

The second objective was economic reconstruction, but there the government ran into several problems. The untenable economic situation at home, coupled with donors' reluctance to engage with the early NRM regime, led to a change in NRM's development strategy. In 1987, the NRM government began to change its strategy from one of national socialism to a more liberal one, to attract donor resources. The IMF's recommendations for reductions in monetary supply and sharp devaluation of the official exchange rate were accepted. The government also introduced the *open general licensing system* for private sector imports. It promised to tighten both budgetary and monetary policies to control inflation and achieve macroeconomic stability. The IMF responded by disbursing \$73 million as import support, and the Bank released \$55 million as an Economic Recovery Credit. There were also promises of debt rescheduling and additional aid worth \$250 million. All of this helped. Economic growth in 1988 rebounded to 7.7 percent.

The thrust of donor-sponsored policies was to disengage the state as a key economic actor in favor of market forces. Between 1987 and 1992, these structural measures moved slowly, because of procrastination in implementation. However, foreign aid was a catalyst for rehabilitating

infrastructure, delivering social services, and supporting the balance of payments—all important in fueling growth. As a result, the reformists' political clout was strengthened and the left-wingers lost support..

The defining moment for liberal economic reform in Uganda was in 1992, when President Museveni merged the Ministry of Finance with that of Planning and Economic Development to integrate the government's budgeting and planning functions under one institution. The merging of the ministries happened when the IMF and the Bank had withheld balance-of-payment support because program implementation had strayed too far off track. This was the first time the IMF and the Bank had suspended aid since the inception of the Economic Recovery Program in 1987. Museveni also appointed Tumusiime-Mutebile, the leading liberal reform supporter in the bureaucracy, as permanent secretary in the Ministry of Finance, Planning, and Economic Development, and as treasury secretary. Understanding the need for institutional coherence and efficiency, Tumusiime-Mutebile recruited staff on the basis of professional merit, increased staff remuneration, and used foreign technical support to supplement internal capacity where necessary.

The government then set investment promotion as a top priority. The government agreed that the return of properties previously owned by Asians and confiscated by Idi Amin in 1972 would help Uganda to regain a positive image as an investment destination. This was a hard political decision, but after considerable foot-dragging, repossession started in early 1992. The reduction in urban poverty from 28 percent in 1992 to 17 percent in 1997 and 10 percent in 2000 owed a good deal to private investment attracted by the strengthening of property rights. The government also created the Uganda Investment Authority in 1991, backed by substantial donor support, to become the institutional hub for investment promotion and facilitation. As confidence in Uganda improved, investment increased from 8 percent of GDP in 1998 and to 21 percent in 2003. Remittances by Ugandans living abroad became the largest source of foreign exchange inflows, rising from \$400 million in 1998 and to \$650 million in 2002.

Foreign aid has played a key role in Uganda's reform and growth process, benefiting different social economic groups directly through access to basic social services and infrastructure as well as through employment and business opportunities. But the bulk of the country's recovery has come from a close partnership between government and the private sector.

The government's reform of the trade regime included promoting economic growth and liberalizing foreign exchange and trade. The 1994–96 boom in coffee prices resulted in higher prices and a dramatic reduction in poverty in the cash-crop sector for family-based small producers. Liberalization also encouraged export diversification and prompted further growth in export earnings. For example, nontraditional export earnings rose from \$39.4 million in 1993 to \$253.2 million in 2000, and \$437.6 million in 2003.

In 1990, the government tackled civil-service reform, aiming to make the bureaucracy lean and efficient. The payroll was cut in half, and 38 ministries were collapsed into 22 in 1992 and 17 in 1998; but the reforms had a mixed reception. The fiscal deficit continued to grow, while donors supported further institutional reforms.

The poverty reduction challenge

With the Poverty Eradication Action Plan (PEAP) in 1997, the fight against poverty took center stage. The PEAP had four major pillars: (1) creating an enabling environment for rapid and sustained economic growth and structural transformation; (2) good governance and security; (3) actions to increase the ability of the poor to raise their incomes; and (4) increasing the quality of life of the poor, through investments in primary education, clean water, improved health care, and sanitation. In

response to these key challenges the Poverty Action Fund (PAF), set up in 1998, protects poverty spending from in-year budgetary cuts.

Other government priorities include a 10-year road development program begun in 1996, to focus on rehabilitating main roads. Updated in 2002 to include feeder roads, the program is financed by the Bank and empowers local communities in the management of their own affairs. One of the biggest achievements in Uganda's poverty reduction strategy has been investing, with donor support, in universal primary education.

The health system, too, underwent several reforms. Uganda's early enthusiasm to combat the HIV/AIDS menace began with the Ministry of Health establishing the AIDS Control Program; in 1990, Museveni established the Uganda AIDS Commission in the president's office to coordinate the fight against AIDS. The government also created the Joint Clinical Research Center to spearhead HIV/AIDS research and partnered with the Ministry of Health. Uganda's approach of openness to the AIDS/HIV pandemic and massive public awareness campaigns has paid off well: the HIV prevalence rate declined from 30 percent in 1986 to 6 percent in 2002.

Outstanding challenges

Income poverty has recently increased despite economic growth, and inequality is up markedly over the last six years. Health and fertility outcomes have been stagnating, while insecurity continues to afflict many Ugandans, with 1.6 million people displaced. Uganda has four key challenges today:

- Restoring security, dealing with the consequences of conflict, and improving regional equity
- Restoring sustainable growth in the incomes of the poor
- Promoting human development
- Using public resources transparently and efficiently to eradicate poverty.

Uganda's openness to new ideas and policies, and its *technical* partnership with donors would probably not have been possible in the absence of a domestic political project around poverty reduction and a core of technically competent and relatively powerful government officials. Both helped in setting priorities for international assistance and the policy dialogue. Uganda is also unique because its postwar government based its legitimacy not just on security but also poverty reduction as a tool for nation building, giving officials enough autonomy to deliver on the policy.

Some of the lessons of Uganda's experience are familiar: Good policies require strong structural foundations. Strong macroeconomic performance requires macroeconomic stability and fiscal discipline. Structural reform can remove price-distorting policies and promote private involvement in the economy and openness to trade. Others are less familiar: A clear and uncontested center of power helps implement reforms, particularly early in the game. A good working relationship between the government and donors is vital for policy formulation and implementation. Foreign aid is critical for economic growth and poverty reduction. Decentralized public spending can reduce poverty.

2

Investment Climate

Burkina Faso: 30 Years of Successful Cotton Production

Agence Française de Développement

Burkina Faso's cotton sector developed during the 1950s by the Compagnie française pour le développement des fibres textiles (CFDT), a French public holding company dedicated to cotton cultivation in the franc zone. Renamed DAGRIS in 2001, the company holds shares in some 40 companies, providing services to improve crop yields and other aspects of cultivation.

Cotton cultivation is an important tool of development, particularly in rural areas. In Burkina Faso's strategy, which relied on small producers, early increases in cotton production were accompanied by the development of a ginning industry based on a local company, later named SOFITEX, that held monopoly and monopsony powers. The country's cotton production network has grown continually from the day of its inception in terms of area in cultivation, the number of producers, production of seed and fiber cotton, and yields. Ginning quality has been raised to a very high level.

These positive results were made possible by the strong commitment and coordination of all partners, including the government of Burkina Faso, which consistently supported the sector's development. A distinguishing feature of the sector is the thorough organization of producers at the local, provincial, and national levels, which has allowed producers to assume responsibility for a growing number of functions within the sector. Producers' involvement took a giant step forward in 1999, with the signing of the Accord Interprofessionnel and their purchase of a 30 percent share in SOFITEX.

Responsible for most of the commercial and industrial activities of the sector, and for various support services, SOFITEX deserves a large share of the credit for the sector's success. Excellent financial performance has enabled it to maintain or increase prices paid to producers despite the unfavorable world market. The company's solid results have given it strong credibility with banks.

These elements have made Burkina Faso's cotton sector one of the strongest agro-industries in Africa. The impact of that strength in reducing poverty is significant. The revenues of cotton producers have grown and been securitized; the rural population, meanwhile, has gained access to the financial system. Cotton cultivation has driven growth in staple crops, especially grains, thereby reducing food insecurity. It has also made possible improvements in rural infrastructure and greater satisfaction of basic needs such as access to medical care and education. Macroeconomically, the cotton sector has had an important effect. Cotton is Burkina Faso's leading export, accounting for a growing share of GDP and reducing unemployment and capital flight.

Burkina Faso developed its cotton sector in an original, homegrown way. Now one of the world's most competitive cotton industries, it has the modern tools and institutions to sustain its

development. Despite these strengths, its future beyond the medium term depends on the direction of American, European, and Chinese cotton-production subsidies, which keep world cotton prices artificially low.

Caribbean: CARTAC and the Eastern Caribbean Economic Management Program

Canadian International Development Agency

Countries in the Caribbean region face similar problems in meeting the standards of economic and financial governance expected of them by their citizens and investors. The Caribbean Regional Technical Assistance Centre (CARTAC) is a regional resource, based in Barbados, that provides technical assistance in core areas of economic and financial management at the request of 20 participating countries. CARTAC was created to help develop skills and institutional capacity to meet these standards at the national, regional, and international levels.

CARTAC's mission is to enhance the institutional and human capacities of countries in the Caribbean region to achieve their macroeconomic, fiscal, and monetary policy objectives. It does this by providing technical services in four core areas: public expenditure management, tax/customs policy and administration, financial sector regulation and supervision, and economic and financial statistics. The Centre project started in 2001 and will end in 2004. The total budget is US\$15.4 million.

CARTAC's resources are available for identifying and designing measures needed to strengthen specific aspects of economic and financial governance; preparing detailed implementation plans; assisting with implementation; reviewing proposals or assessments by governments or other donors for consistency with internationally agreed standards; providing hands-on technical advice and training; organizing training courses, seminars, workshops, and the dissemination of best practices; and arranging professional attachments for skills upgrading.

The Canadian International Development Agency (CIDA) contributed C\$8 million in the form of a grant during FY2000–01 for the establishment of the US\$13.4 million Centre. Total contributions have reached US\$15.4 million. Canada's rationale for providing support is the relevance of CARTAC to the needs of the countries in the region. The program supports CIDA's own strategy of fostering regional solutions and common economic and financial management frameworks to facilitate regional integration.

From a development assistance perspective, CARTAC is as a mechanism to facilitate a greater degree of donor–recipient coordination around economic reform issues. The International Monetary Fund (IMF) and United Nations Development Programme (UNDP) recognized that CARTAC activities should be coordinated with those of other donors in the region, including another Canadian project, the Eastern Caribbean Economic Management Program, Phase III (ECEMP III).

After the needs assessment carried out by a joint UNDP/Caribbean Development Bank team in 2000, CARTAC was formally accepted by the Council of Finance and Planning Ministers of Caribbean Community in January 2001. CARTAC operates as a UNDP project; it is financed by contributions from bilateral and multilateral donors, by payments-in-kind, and by annual contributions from participating countries. The most significant project with which CARTAC is collaborating is ECEMP III; CARTAC also collaborates with two other CIDA-funded programs.

The IMF is the executing agency. Strategic direction for the program is provided by a steering committee; day-to-day implementation is the responsibility of a program coordinator provided by the IMF, based at CARTAC headquarters in Barbados. CARTAC coordinates closely with the ECCB and the CDB. The initial degree of commitment was satisfactory.

Preliminary results

Expected results include improved public expenditure management capacity, better capacity for tax and customs administration, improved capacity to produce statistics for economic policy making, and strengthened offshore financial institutions.

The number and cost of interventions have been appropriate, and the value of the results has been positive. The technical assistance delivery model used for CARTAC is well suited to the particular needs of small countries. Resident advisers are in place for a reasonable period and able to provide continuing advice through short-term, relatively inexpensive interventions. Extensive use of experts from regional governments and regional consultants enhances cost effectiveness. CARTAC became integrated into the region quickly and well, and has been able to complement the work of other agencies.

Many countries in the region face common issues yet, for various reasons, the skills and lessons learned in one country are not easily applied in others. CARTAC has been able to overcome this problem in a number of ways, such as creating the Public Expenditure Management Network, holding the Smart Stream Users Conference, and the secondment of experts from one country to another. CARTAC's advice is practical and hands-on, and it is useful in bridging the gap between theory and implementation.

CARTAC required more resources for the OECS states than originally planned. In one instance, CARTAC departed from its original plan to provide only short-term advisory services.

Impact analysis

CARTAC interventions appear to be most successful when fully integrated into a development strategy and work plan developed and owned by the participating country. CARTAC has been, and should continue to be, primarily reactive rather than proactive, so all activities are owned by the participating country or the region. CARTAC results have been significantly positive; this is borne out by the mid-term review (MTR) evaluation. Outputs have justified the cost of the inputs, and a second phase of three years is being considered.

Measuring longer-term results will be a challenge. Longer-term positive impacts are likely to result from improved policies and systems, and since CARTAC provides support for country-level capacities to apply internationally agreed standards and best practices, it supports the convergence and integration objectives of the Caribbean Single Market and Economy. It should also reinforce the ECEMP's effectiveness in the Eastern Caribbean. CARTAC has developed a number of indicators of change to determine long-term results.

Driving factors

CARTAC has, in the view of the participating countries, filled an important role in the Caribbean. Recipients have been uniformly satisfied with the quality of assistance. Respondents to the MTR are confident that the improvements in their country as a result of CARTAC's assistance were sustainable. The ability to share experiences with regional counterparts has been one of CARTAC's more important contributions.

Almost all respondents to the MTR spoke of CARTAC's openness to requests, the speediness of its response, the quality of its inputs, and its key strategic support at crucial junctures. CARTAC's mandate is limited; therefore, its work is most effective when complemented by another public sector reform project. CARTAC training sessions and seminars have exposed participants to issues occurring in other jurisdictions and led to a greater acceptance to seeking regional solutions.

Lessons learned

Advisers are more effective when based in the region, because relationships are built and continuity gains are experienced. From the CIDA point of view, a grant contribution to an international partner has been a very effective and efficient process. It encourages donor coordination and facilitates a sector-wide approach. With good reporting and feedback from the executing agency and from the field office, concerns are soon dissipated regarding the lack of control the donor could have on the implementation of the activities.

China: Building Supply Chains in the Dairy Industry: The New Hope Group *International Finance Corporation*

Over the reform period, the non-state sector has emerged as the fastest growing and most dynamic component of the Chinese economy. It has grown at 20 percent per annum in the last 20 years, and has, since 1992, created 6 million jobs each year, or 75 percent of all jobs created. Despite the progress on reforms, a sizeable surplus of labor still exists in the rural sector and SOEs.

Private companies have been active in taking over and restructure failing SOEs, creating jobs in urban centers and better paying jobs in rural areas. The New Hope Group, one of China's leading industrial conglomerates, is playing an active role in the efforts to address some of these employment challenges, particularly in the interior provinces of China. Founded in the early 1980s by 4 brothers in the Liu family, the Group is mainly engaged in animal feed, food processing, banking, real estate, chemicals and dairy businesses. The case study illustrates the novel approach of this privately owned group to the establishment of supply chain links in the dairy industry and its contribution to raising the incomes of poor farmers in Sichuan province.

The Chinese dairy industry: opportunities and challenges

China is a huge market for dairy products, given the currently prevailing low consumption levels along with accelerating demand. Average annual consumption of dairy products has almost doubled over the past five years to about 10 kg per capita, but is still only 10 percent of the global average of 100 kg.

The Chinese Government attaches great importance to the development of the dairy industry. National policies have given the dairy industry priority status. Development of this industry is perceived by the central government to be a win-win situation for several reasons: (i) it increases the income of dairy farmers, and facilitates the development of agriculture and the social and economic stability of rural areas; (ii) it promotes the growth of the processing industry, which will add to the state's tax revenue.

At the same time, the Chinese dairy is confronted with a number of challenges including (i) increased international competition following WTO accession; (ii) quality of dairy cattle and raw milk; (iii) weak disease prevention systems and a low proportion of animals being milked by machines; (iv) poor linkages between dairy cattle breeding and processing. In addition, the increase

in manufacturing capacity, unless supported by corresponding increases raw milk availability, may result in sustained periods of low capacity utilization.

Nationwide market studies indicate that supply chain efficiency enhancement is the next pivotal point where top operators can differentiate themselves and find comparative advantages. In 2002, China produced about 12 m tons of milk. Average yield per cow is about 2,000kg, indicating relatively low productivity. Poor farm management, animal husbandry, and sub-optimal feed regimes account for the low quality and productivity.

New Hope Dairy: a novel approach to dairy farming

New Hope Dairy Group (NHDG) is one of the largest private sector companies in the dairy industry in China. New Hope was attracted to the promising growth prospects of the dairy sector, and moved into the sector with the acquisition of Sichuan Yan Ping Dairy in October 2001. It also acquired 11 state-owned companies in Southwestern, Eastern, Northern and Northeast provinces. Through these acquisitions, the company has established a leadership position in the dairy sector in its home market of Sichuan, as well as a prominent position nationwide.

Sichuan Yan Ping Dairy (SYPD) currently has three sources for the supply of raw milk: (i) approximately 5,000 household producers who travel up to 40 km to deliver the raw product to one of four collection stations. There is minimal refrigeration of the milk until it reaches the collection center; (ii) two large scale farms with up to 1000 cows; (iii) 4 collectivized mechanized milking facilities, such as Hong Xing Collective farm.

The collective farm is a relatively new concept in Sichuan province. The strategy of the NHDG is to encourage farmers to move towards a collective farm model in which all the cows are milked by machine. The Hong Xing Collective farm is a model, which the company has been replicating in Sichuan and Yunnan. Hong Xing Collective Farm is located in Hong Xing village, Liu Jiang Township, Hong Ya County approximately 60 km south west of the Yan Ping Dairy Processing Company.

The concept of a collective farm in Hong Xing was initiated with support from township and county governments by the village director, who approached a local builder in the area, to build the dairy facility. The builder supplied all of the capital required to build the structures. Only after the building was certified by the county's Construction Administration Committee was he able to begin recuperating his investment. The village director is responsible for settling the debt with the builder by recruiting individual producers to purchase stall space within the barn at a cost of RMB1,200/ stall.

The collective farm is managed by a committee comprised of village members and managed by the village director. After producers have paid the RMB 1,200 RMB for stall space to the investor, it is owned by the individual. Within this space the cow owner assumes complete control over the management of his cows within the collective farm organization. Farmers live at their original homes and travel to the farm as necessary. Forage is gathered from their plots of land daily.

At the Hong Xing Collective Farm Model, all of the cows are milked using a pipeline milking machine system. All of the milking equipment and bulk tank at the collective farm is owned by the New Hope Dairy Cattle Company. A current service contract with the equipment manufacturer is in place to ensure proper operation of the milking units and refrigeration. Member of a collective committee, elected by the villagers, supervises the milking and keeps a record of the amount of milk each cow produces at every milking. This information is used to ensure each individual cow owner is paid according to the total individual milk production. After cooling, milk is

collected by and at the expense of the Yan Ping Dairy directly from refrigerated milk tank daily. The milk is transported in an insulated tanker truck. Individual farmers are paid based on individual production records.

Results clearly indicate that the collective farm model enhances productivity and milk quality. A more scientific approach has been applied, as farmers have been trained in identifying health problems with cows at an early stage and in taking appropriate preventive and medical treatment actions. The farmers in the collective farm have received training in farm management, animal husbandry, and optimal feed regimes. The milking by machines, and the refrigerated storage of the milk eliminates contamination and wastage as practically no milk is rejected by the milk collection centers. Because of better quality, the milk from the collective farm receives a 10c higher prices than milk from individual households.

In 2002, the annual per capita income of rural households in Sichuan Province was about RMB 2,900. Poverty is rampant in the province with no counties having a per capita income in excess of RMB 4,000, and 33 counties having a per capita of less than RMB 1000. The analysis of dairy farms at the Hong Xing Collective Farm reveals a net income of RMB 3,200 RMB per cow per year, which demonstrates the potential of dairy farming to generate income in rural Sichuan. Each individual farmer owns two or three cows on average. With the incomes from milk supply over a two to three year period, farmers have been able to build new houses.

Challenges and emerging lessons

The scaling up of the collective farm model has been successful in the Eastern and Northern parts of China, but has been somewhat slower in Sichuan's Mei-shan county and in the Southwest. One of the reasons is that in these parts of China farmers are dispersed on a hilly terrain, which makes it less economical for them to commute to the collective farms. New Hope Dairy is examining the incentive structure of the collective model to see how this problem can be overcome.

It is therefore important to adapt approaches to the local circumstances. And in this context, working with the local community is critical. In the case of Hong Xing, the initiative was taken by the village's leaders who suggested an effective approach, which the private company in conjunction with the local authorities has been popularizing.

One important lesson from New Hope's experience with building supply chains is the importance of working with stakeholders. NHDG is working with a large number of stakeholders to promote the concept of collective farms, including the Central Government, the Dairy Association of China (DAC), Provincial Animal Husbandry Bureaus, Provincial Science and Technology Departments, municipal and county governments. This approach allows for holistic solutions to the problems of milk supply chains.

China: Institutional Transition, Improvement of Investment Environment, and Poverty Reduction in Sunan and Wenzhou

Regional development strategies based on the promotion of township and village enterprises (TVEs) have dramatically reduced poverty in China. TVEs have provided jobs for rural surplus labor, raised the income of the rural population and the nation as a whole, promoted market-oriented reform, improved China's trade balance, and speeded up the transition of China's economic structure and the modernization of rural areas. Among several different models of TVE-led development, those of Sunan and Wenzhou have had the greatest impact. Sunan developed large-scale collective industries

initiated and run by local governments, while Wenzhou relied on thousands of family-based private businesses in light industry, which were able to flourish in the special policy environment created by local government.

Both regions were extremely poor and economically stagnant until the late 1970s—now both have rural per capita incomes more than double the national average and provide millions of jobs for rural workers from other parts of China. Sunan’s industry now attracts the biggest share of foreign investment in China. The Sunan local governments divested themselves of the TVEs in the late 1990s; their strategy today is to attract private investment to the region through special tax incentives and administrative reforms. Sunan is also constructing a unified social security system for urban and rural residents so as to eliminate poverty institutionally. Wenzhou has successfully developed a free economy based on private ownership within an environment of public ownership. Today it supplies at least half of China’s output in many simple products and is building itself into an international light industrial production and exchange center.

Sunan has a population of about 14 million and one of the highest population densities in China. It includes three regions, Suzhou, Wuxi, and Changzhou, located in the Yangzi River Delta Plain. To the east, it borders on the Chinese manufacturing center of Shanghai, and to the west, the provincial capital of Nanjing. It has a developed transport network that extends in all directions by rail, road, shipping, and aviation. Sunan has been China’s industrial base since the 19th century, but under the New China, its economy stagnated. The *hukou* system strictly restricted rural people to farming; they were not allowed to develop industry or move to cities. Increasing pressure on arable land depressed rural incomes.

In the early 1970s, Sunan’s people seized the opportunity to develop rural collective enterprises on a large scale. Using the limited capital they had accumulated from farming, Sunan’s people, led by ambitious rural cadres, set up enterprises on idle collective land free of charge. They purchased cheap second-hand machinery and equipment from the cities and hired retired technicians as instructors, and then began absorbing “Sunday engineers” from neighboring big cities to give them technological assistance during their free time. Learning by working, and developing their own sales teams, these rural enterprises started by selling low-end agricultural equipment to the neighboring cities and graduated to supplying half-finished components on contract to big businesses in Shanghai.

In 1984, the central government embraced TVEs as the path to prosperity for rural people and a major source of fiscal income for the country. The old *tong shou tong zhi* (unified revenues and expenditures) system of fiscal management was replaced by various kinds of responsibility systems, the effect of which was to further motivate local authorities to promote rural enterprise development. Sunan’s authorities made full use of the new tax and credit rating benefits that were granted to TVEs by central government, and they also adopted responsibility systems within the enterprises to promote efficiency.

In the early 1990s, taking the opportunity to develop the Pudong region, Sunan turned to production for export, and started to optimize its industrial structures and to promote industrial upgrading for that purpose. When the central government extended opportunities to develop rural industry, Sunan was quick to respond. Seeing the potential for creating jobs and raising incomes, the local governments of the region developed collective labor-intensive processing industries to serve the neighboring manufacturing centers. The new collective firms could build on the advantages of Sunan’s location, traditional industrial base, and high quality labor force, as well as the local governments’ social mobilizing power.

In 1996, Sunan’s TVEs showed negative growth for the first time since the economic reforms. As the market economy became more firmly established and China moved from all-out

shortage to relative surplus, the advantages that many TVEs used to enjoy turned out to be great hindrances to their further growth, and the social commitments imposed on TVEs became heavy burdens for them. Local authorities in Sunan reacted by reforming the ownership of the TVEs, privatizing many. The bigger ones merged to form companies, and most of the small and medium enterprises were auctioned, taken over, declared bankrupt, or turned over to their employees.

After the reform of ownership, Sunan's authorities shifted their export-oriented strategy to concentrate on the creation of a business friendly investment environment, centered on the Shanghai-Pudong Development Zone. Many industrial parks have been established with preferential investment policies and new administrative mechanisms designed to attract more foreign investment. Export orientation promoted the upgrading and optimizing of Sunan's industrial structure through technology transfer, introducing new industrial processes and products and many other improvements made in direct cooperation with foreign investors. To strengthen local R&D capacities, R&D centers have been founded in some large companies, and science and technological innovational parks have been built up.

Wenzhou is located in the mountainous region of the south of Zhejiang Province. It is remote from big cities, with neither a railway connection nor a high-quality highway. The region was traditionally known for its poverty, and arable farmland per head is minimal. During the first 30 years of New China, Wenzhou received almost no state investment, and the economy was stagnant. But Wenzhou's access to the sea and a fine natural harbor had given rise to a well-developed handicraft industry and to commerce. Wenzhou people developed an unorthodox local culture that emphasized trade and commerce, and risk-taking in traditional agriculture. All these factors helped establish a solid foundation for Wenzhou's lead in developing a market economy.

With skills and business traditions passed down from generation to generation, and small savings accrued out of hard labor, Wenzhou's people developed individual industrial and commercial businesses and gradually formed specialized production bases, producing simple yet highly demanded commodities in the backyards of their homes. They also organized local specialized markets for certain commodities and established nationwide trading networks for sales and stock purchases. Wenzhou's informal finance system was resuscitated and provided indispensable financial support.

The local government provided an environment that made private enterprise possible by improving the investment climate, protecting private property rights, and maintaining market order. During the 1980s, when the overall tone of China's economy was still command economics and public ownership, the Wenzhou government introduced *gua hu jing ying*, a special arrangement that allowed private family businesses to operate using the legal titles and bank accounts of commune- and brigade-collective enterprises, which in return took 0.5–1 percent of the profits of these businesses. This innovation created a socialist "red hat" for private enterprises, protecting them from scrutiny and allowing them to develop before a more market-friendly legal framework came into place. By 1986, more than 60 percent of individual and private businesses were operating under *gua hu jing ying*, generating 20 million RMB in revenues for Wenzhou collectives. The "red hat model" began to be adopted all over the country and greatly promoted the development of the private sector in China.

At the same time, Wenzhou firms spontaneously established industrial associations and introduced operational chains as well as production-marketing systems to speed up enterprise expansion. Since the late 1980s, industrial associations and guilds have been formed in shoe making, leather, textile, optics, tobacco, and food processing. These organizations regulate all players, enforcing quality standards and other self-disciplinary measures, so as to promote the competitiveness of the entire industry in Wenzhou. Wenzhou's strategy now is to build the region

into an international light industrial production and exchange center, capitalizing on its advantages in internal economies of scale, share of market, branding, and external economies of scale.

Rising prosperity in Wenzhou led to increases in the private saving rate. To solve the shortage of investment capital for urban infrastructure (hitherto provided only from public funds), the government made it possible for every citizen to invest in public infrastructure and benefit from so doing. It also introduced build-operate-transfer possibilities in the provision of public goods. Private investment capital is now the main source for urban infrastructure construction: more than 60 percent of urban infrastructure construction investment and more than 80 percent of new town construction investment comes from local private investment.

Why have Sunan and Wenzhou succeeded while many other places have not? Both Sunan and Wenzhou have a history of looking for opportunities and making institutional innovations in pursuit of greater prosperity. Wenzhou used strong political pressures—and undertook high political risks—to encourage the development of a large-scale private economy based on individual enterprises. Reform in the two areas relied on an effective functional division between central government and local government. The central government provides a stable and coordinated institutional environment. Local government is responsible for drawing up specific policies and regulations. This division is based on the principle of “not relying on the authorities, not on dogmas, but only on pragmatic approaches.”

The success of both Sunan and Wenzhou results from continuous institutional innovation. Based on a spirit of self-reliance and on adopting new ideas early, both regions were able to break out of the strict planned-economy system. Through institutional innovations at the company level and by fostering the establishment of markets, they were able to overcome the poverty induced by institutional arrangements such as the artificial separation between rural and urban areas and the prohibition on rural people from engaging in nonagricultural businesses.

The experiences of Sunan and Wenzhou show that institutional innovation based on self-reliance is the fundamental element for poverty reduction. They also show that government can provide strong leadership in poverty reduction by creating an institutional environment that protects individuals' property rights and encourages innovation and creativity. The two regions have accelerated the process of China's market-oriented reform and provided new ways to reduce poverty caused by poor institutional arrangements. In so doing, they have ameliorated the rural unemployment problem, while greatly increasing farmers's incomes, improving their living standards, and helping to modernize rural areas.

In Sunan under the command economy system, local governments at the township and village levels played the role of entrepreneurs. They directly mobilized and allocated factor resources within their communities and ran businesses themselves. This local corporatism was initially very effective in absorbing surplus labor and greatly increasing average rural income. It also created a stable source of fiscal revenue and consolidated local government political power and authority. With the establishment of market economy system, governments in Sunan changed their role from that of entrepreneurs to facilitators. Their strategy is now to create a business-friendly investment climate to attract more investors, both domestic and international, through building up industrial parks with special tax incentives and reforming traditional administrative management systems.

In Wenzhou, the local government's main aims were to protect individual property rights, ensure the sound operation of market forces and provide a favorable social atmosphere for privately owned business, while relying heavily on the support of central government.

Institutional innovation is the fundamental instrument for poverty reduction. The history of development in Sunan and Wenzhou is one of continuous institutional innovation and reform. Based on a spirit of self-reliance and of continuously trying new ideas ahead of others, the two regions broke out of the strict planned economy system and developed successful industries that exploit their comparative advantages.

Government leadership is the institutional guarantee for poverty reduction. It is very important that governments set up a series of effective rules and regulations governing national economic development.

A virtuous cycle of learning and experimentation allowed Sunan and Wenzhou to achieve success relatively quickly. In Sunan, this cycle was driven by government; in Wenzhou, the dissemination of experience has been a spontaneous, self-organized process driven from the grassroots upwards.

India's E-choupals: A Private-Sector Approach to Link Farmers to Markets *International Finance Corporation*

Seventy-two percent of India's population lives in its 640,000 villages. Agriculture is the only source of livelihood for a large majority of these people. While Indian agriculture progressed considerably since the days of the Green revolution in the mid-1960s, most of the farmers—each of whom owns about a hectare of land—have remained poor. First, they do not have bargaining power when they buy farm inputs or sell their produce, because they are small. Second, they do not have access to real-time information on prices and weather or news that impact their incomes because they live in the hinterlands. Third, it is unviable for any market mechanism to bring them customized knowledge to improve their farm yields because the agro-ecological and resource circumstance of each one is different from that of the others. Fourth, the infrastructure in rural India—physical, social, and institutional—is also weak, and compounds these problems.

While the organized market players find the aggregate size of the rural Indian market very inviting, few have ventured to service the needs of individual farmers directly. It is unremunerative for each of the market players to do so. Some do attempt it, but give up quickly because the customers do not find those offers attractive and the complementary products from other market players are not available concurrently. In fact, the only real option for most farmers is a local middleman, who offers them a complete solution—credit, inputs, market access—but appropriates a larger share of the profit for himself by blocking information flow and market signals because he is in a privileged position of being the sole source of information and the sole counterpart for transaction.

Government interventions like trained agricultural extension workers in each village to disseminate best farming practices, and an open auction system for better price discovery of farm produce were of great help in this connection. But these institutions were more appropriate for the supply-driven value chains in an era of food shortages, and have been ineffective in facilitating a smooth transition to demand-driven value chains that are required to compete in the new globalizing economy. Hence, small farmers continue to live in poverty.

ITC eChoupal—The meta-market

ITC eChoupal creatively leverages information technology (IT) to set up a meta-market in favor of India's small and poor farmers, who would otherwise continue to operate and transact in *unevolved*

markets where the rent-seeking vested interests exploit their disadvantaged position. eChoupal also sidesteps the value-sapping problems caused by fragmentation, dispersion, heterogeneity, and weak infrastructure.

ITC—a 94-year-old, for-profit, Indian agribusiness company with annual revenues of US\$ 2.6 billion—has taken on the role of a *network orchestrator* in this meta-market by stitching together an end-to-end solution. The solution simultaneously addresses both the viability concerns of the participating companies by virtually aggregating the demand from thousands of small farmers, and also the value-for-money concerns of the farmers by creating competition among the companies in each leg of the value chain.

eChoupal is an integral part of ITC's competitive strategy to create shareholder value. The creation of shareholder value is enmeshed with economic empowerment, market linkage needs, and enhanced modal incomes of India's agrarian communities. The mutuality and the strategic fit make it possible for ITC to scale up the initiative to a significant size.

The business model in operation

Under eChoupal, ITC has set up Internet kiosks in villages. Farmers selected from within the community and trained and designated as *sanchalaks* manage these kiosks. *Sanchalaks* help the farmers readily access the different agricultural crop-specific websites that ITC has created in the relevant local languages. Farmers can learn online the best farm practices; the prevailing prices, and price trends for the crop in the Indian and world markets; the intricacies of risk management; and the local weather forecast. Local agricultural universities, state meteorological departments, banks, and technical analysts are the sources of this information and knowledge. A team from ITC ensures that the content is relevant, and is updated at the desired frequency. Access to this information is absolutely free of cost to any interested farmer. The smallest individual farmer thus gets the benefit of world-class expertise on the cultivation and marketing of his or her crop.

Farmers can order quality agricultural inputs online with the help of the *sanchalak*. Virtual aggregation of such demand effectively reduces the cost of these inputs, bringing the power of scale to even the smallest of farmers. ITC ensures that at least three input suppliers are enlisted for each category of input: seed, chemicals, and nutrients. Farmers have the freedom of choice to decide which company's inputs to buy or, if they so desire, just go to any dealer outside the system, even after accessing information and knowledge through eChoupal free of cost. Thus the eChoupal system as a whole competes with any alternative channel, besides creating competition among the participating companies for every transaction to deliver unique value to the farmers. Additional services include sale and hire of farm equipment such as tractors and harvesters, soil testing, insurance, and a panel of specialists to answer specific queries of individual farmers through email. A few banks have started credit services on a pilot scale through eChoupal.

Finally, eChoupal links the Indian farmer with consumers in local and global markets, by leveraging ITC's proven competencies in marketing and distribution of agricultural products. In the alternative government's auction channel, farmers discover the price for their produce after they have incurred costs of transportation. Therefore, they end up selling even if they are not happy with the price. By contrast, eChoupal empowers farmers with information and improves their decision-making. Price is known in the village before farmers incur any cost of transportation. In the process, many overheads such as multiple transportation, handling, and bagging are avoided. Farmers also benefit from more accurate weighing, faster processing time, and prompt payment. Once again, after accessing price information free of cost, farmers are free to decide whether to sell their produce to ITC or sell through the government auction center.

Farmers selling directly to ITC through an eChoupal realise at least 2.5 percent higher price for their crops than they would receive through the government auction system because of lower transaction costs. Farmers also benefit through lower prices for farm inputs and higher yields. Moreover, the sense of empowerment is very valuable. Most farmers using the eChoupal system estimate their total incremental income at over 20 percent.

At the same time, ITC benefits from lower net procurement costs. Procurement costs are about 2.5 percent lower because of the saving in the commission it would otherwise pay to traders who serve as its buying agents at the government auction and because of the saving in transport costs. ITC also has more direct control over the quality of what it buys. The system also provides direct access to the farmer and to information about conditions on the ground, resulting in improved planning and better relationships with the community.

ITC also earns service charges from all participating companies. Companies find it advantageous to participate in the eChoupal system instead of setting up more expensive proprietary distribution systems or being kept out of the rural market altogether because of the high establishment and operating costs. In fact, what began as an effort to re-engineer the procurement process for agricultural commodities has become an efficient transaction processing system and a low-cost distribution channel that focuses on serving the needs of consumers in rural India. As a result, numerous companies market packaged consumer goods, personal care products, household appliances, and fuel through ITC eChoupal.

Sanchalaks earn a fee on all the purchase and sale transactions executed through eChoupal. Since farmers are free to choose whether to transact through the eChoupal system or through an alternative channel, entrepreneurial *sanchalaks* compete for business. They stay focussed on the needs of farmers and on their own ability to do business with farmers. The local presence of *sanchalaks* leads to customization of offers, while the pan-Indian network of suppliers brings about specialization and scale efficiency.

The investment in hardware at each kiosk includes a computer, printer, VSAT (very small aperture terminal), solar panels, and batteries. The hardware costs about US\$ 3,000. An equal amount is spent on back-up services that include web portals, training, and communication costs. ITC estimates a payback period of five years on its total investments in the eChoupal initiative.

As of March 31, 2004, eChoupal services reached more than 2 million farmers in about 24,000 villages through 4,200 kiosks. Expanding at the rate of seven kiosks every day, ITC intends to scale up the initiative to reach 10 million farmers in 100,000 villages by 2010.

Benefits to the community

ITC eChoupal brings the power of scale to the small farmer, relevant and real-time information despite distances, and customized knowledge despite heterogeneity. As a result, farmers earn higher incomes through increased yields, better quality, and lower transaction costs. The increased efficiencies and improved crop quality contribute to making Indian agriculture more competitive. Most importantly, by providing a more transparent process and empowering local people as key nodes in the system, ITC increases trust and fairness in information and transactions.

Free access to the Internet is also opening windows of rural India to the world at large. Many *sanchalaks* track futures prices on the Chicago Board of Trade and other global exchanges directly, in addition to the prices provided on eChoupal sites. Local language news and entertainment portals are part of the websites surfed regularly. All *sanchalaks* have become proficient in using email. Net-

based chatting among *sanchalaks* is on the rise. Village children use the eChoupal computers for schoolwork, games, and to access their academic test results.

eChoupal is now regarded as a reliable delivery mechanism for resource development initiatives. Its potential is being tested through pilot projects in water management and cattle health management with the help of nongovernmental organizations.

Key lessons

Resource flows are the results of entrepreneurial resourcefulness, and competitive enterprises create successful economies. Resourcefulness provides a positive attitude to economic development. This attitude requires suitable market accessories, such as eChoupal, that spur economic activity and then raise the modal incomes of millions of households in thousands of agrarian communities leading to very large-scale development (VLSD)

IT, e-commerce, and virtual networks have a substantive impact on the resourcefulness of the frontline actors in the farm economy. There is also a surge in the resourcefulness of traditional institutions that will have to do their best to extend their relevance and survival by coordinating the economic activities of the frontline actors in the networked farm economy. These work towards enhancing the profitability of whole communities of enterprises.

The joint impact on the frontline actors and the coordinating institutions should be of interest to those who have held the view that development and the scaling up of poverty reduction are a function of the availability of resources. IT shuffles the role of independent and dependent variables in the economics of the VLSD of poor economies. IT emphasizes the importance of resourcefulness and de-emphasizes the importance of resources.

Interestingly, eChoupal has also reversed the traditional sequence of development. The traditional sequence—social, political, and economic empowerment, in that order—has a potential death valley in the form of the community's inability to link with markets and attain economic sustainability. By contrast, economic empowerment happens first in the eChoupal model. Political empowerment and social empowerment follow economic empowerment in the eChoupal model.

This new paradigm underscores the critical role that for-profit private enterprises like ITC can play—as a metamarket orchestrator and as anchor participant—in scaling up poverty reduction.

India's Milk Revolution: Investing in Rural Producer Organizations

Over the last 25 years or so, the Indian dairy industry has progressed from a situation of scarcity to one of plenty. Dairy farmers today are better informed about technologies and economics of efficient milk production. Even landless and marginal farmers now own highly productive cows and buffaloes in many areas. Modern technology and advanced management systems in milk processing and marketing have brought about a marked change in the marketplace. Consumers now have a wide range of choice of products and packages. The Operation Flood (OF) program implemented by National Dairy Development Board (NDDB) played a key role in this transformation.

The importance of the OF program lies in its focus on small rural producers. Lucrative alternate employment opportunities are often not available in Indian villages, making dairying an attractive option. Low capital intensity, a short operating cycle, and steady returns make dairying a preferred activity among marginal and small farmers (those having less than two hectares of land)

and even for the landless, who depend on common grazing and forest lands for fodder. Nearly 70 million households own a total of 98 million cows and buffaloes. A majority of milk producers have 1–2 milk animals and account for some 70 percent of the country's milk production. On an average, about 22.5 percent of the income of the rural households is contributed by milk.

Anand-pattern dairy cooperatives

Anand-pattern cooperative structures are comprised of village-level dairy cooperative societies (DCSs). These promote district-level unions, which in turn promote a state-level marketing federation. Starting in 1970, NDDDB replicated the Anand-pattern cooperatives through the OF program all over India. The Anand pattern envisaged:

- Decentralized milk production by small milk producers
- Milk procurement by primary dairy cooperatives of milk producers
- Centralized milk processing by union of dairy cooperatives
- Marketing of milk and milk products by a federation of unions.

The primary milk producers democratically govern the entire federal cooperative structure to ensure that the higher tier organizations are geared to serve the purpose of the lower. This ensures that the gains at all levels ultimately flow back to the milk producers in significant measure. The core feature of the Anand pattern is farmer control at all three stages—procurement, processing, and marketing—of milk and milk products.

Impact and results

Over the last 30 years or so, the Indian dairy industry has progressed from a situation of scarcity to one of plenty, making India the largest producer of milk in the world. The credit for this should mainly go to the OF program. Milk production in 1968–69, just before the launching of Operation Flood, was only 21.2 million metric tons. It increased to 30.4 million metric tons by 1979–80, 51.4 million by 1989–90, and 84.6 million by 2001–02. As a result of substantial increase in milk production, milk consumption in India has risen from a low of 107 grams per day in 1970 to more than 226 grams per day in 2002.

The OF program was funded by a World Bank loan, European food aid, and internal resources of NDDDB. Total investments at the end of Phase III were estimated at Rs 15.87 billion. By 1996, the higher growth rate attributed to the OF program resulted in an extra 43 million metric tons of milk per annum. Since the start of this accelerated growth trend, the total increment has been 1,086 million metric tons. Each ton would require about \$310 of imported ingredients if it were to be replaced with recombinant milk. If even 2 percent of the observed increase in milk production were due to all investments from World Bank, the European Union, and NDDDB's own resources, it would return an economic rate of return (ERR) of 10 percent. The returns are phenomenal if most of the increased growth is attributed to OF program. Partly this is due to the congenial environment created by OF

Empowerment—social, economic, and political

Issues of exclusion and inclusion are important in a multireligious, multicultural, and highly stratified society like India's. OF appeared to its backers as a means of overcoming the barriers of caste, class, and power—something earlier rural development programs had been unable to do—because milk production requires little land but much family labor, which the poor have amply. Since milk is not a

polluting substance in the Hindu religion, people of any caste, even the lowest, can participate in producing it. Also, cooperatives that organize only milk producers can successfully bypass the constraint of the village power structure.

Economic empowerment deals with connecting people and their institutions with markets. Efficiency and effectiveness of operations are essential prerequisites for economic empowerment. In the pre-OF era, milk price was not used as an instrument of dairy development. No effort was made by any government to ensure a remunerative price to the producer, but the consumer price of milk supplied from government-run city milk schemes was invariably subsidized. This had two adverse effects on dairy development. First, in the absence of a year-round remunerative price for his milk, the producer did not have any incentive to increase milk production by better breeding, feeding, and managing of animals. Therefore, milk production stagnated, increasing at a miserably low rate of just 1 percent per annum in the pre-OF era. Secondly, due to the lower sale price of milk (below cost as well as the open market price), city milk schemes incurred huge losses year after year and were not able to save and reinvest in modernizing and expanding activities. Thus, the milk pricing policy followed before 1970 was anti-producer and anti-development.

Finally, political empowerment deals with connecting the poor with government. As “schools of democracy,” cooperative enterprises contribute to the promotion of social stability. The OF program not only was able to connect the grassroots dairy cooperatives with the state and central governments, but also with international agencies such as the World Bank.

Implementation factors

The success of a mammoth program like OF requires meticulous planning and implementation based various principles and factors. First, OF cooperatives have created a grassroots foundation underpinning India's democracy. Second, the instrument of development—dairy cooperatives—is entirely in the hands of the farmers who benefit from them. Third, the OF program sought to establish milk producers' cooperatives in the villages with the broad objective of increasing milk production (“a flood of milk”), augment rural incomes, and transfer to milk producers the profits of milk marketing, which hitherto had been enjoyed by well-to-do middlemen. As the farmers progressed through the learning process, other cooperatives were formed and brought within the organizational umbrella. Gradually methods were refined, and the organization that was eventually to become the NDDDB grew—from the bottom up—adding new layers and branches as it grew.

Lessons and issues

Several propositions are embodied in the core of the design concept underlying the Anand pattern. Violation of these could explain numerous failures not only in attempted replication of the Anand pattern but throughout the arena of development experimentation.

- *Market access, the pre-condition for post-subsistence production.* In a subsistence production system, raising production and productivity requires that subsistence producers have easy, low-cost access to a stimulated and expanding market. Such access helps the producers use up the slack available in their production systems.
- *Marketing, the first step to cooperative organization.* To mount a successful marketing strategy it is best to begin by studying demand rather than the production system. Where marketing is underemphasized or mishandled, dairy and other cooperatives fail.
- *Anand's superior design concept.* A superior design concept is required to avoid a mismatch between demand and supply variations and to free the cooperative from cutthroat competition with small-time players.

- *The principle of pump priming.* The best way to organize a producers' cooperative is to start with marketing. However, unless producers' cooperatives are organized, they have nothing to market, and unless cooperatives know how to dispose of their produce, they cannot start the procurement process. NDDDB found pump-priming the best answer to the launch problem that all new co-operatives face.
- *Member control and professional management.* In the absence of professional expertise, it would be difficult to quickly gain a sufficient market foothold and to exploit the full advantage offered by technology and market. The interests served by a successful business enterprise will depend upon whom professionals are accountable to, in principle and in practice.

Kenya: Exporting Out of Africa—Kenya's Horticulture Success Story

With over 70 percent of the poor in developing countries living in rural areas, agricultural growth must play a significant role in poverty reduction, and in small low-income countries this is likely to require improved agricultural export performance. In Kenya, horticultural exports have demonstrated huge potential in terms of both growth rates and overall demand, generating jobs that directly support a half million workers, small farmers, and their families.

Small farmers have proven to be effective suppliers for horticultural products such as French beans or avocados, when satisfactory contracting arrangements are established with an exporter or processing firm. Large farms have been more conducive to the cultivation of other crops, notably cut flowers, but have generated thousands of jobs for laborers who own little or no land and who are the truly poor. Many more urban poor find full- or part-time employment in the packhouses, cutting and packaging produce for export. Working conditions vary but available evidence shows that these employees and farmers are better off than their peers outside the industry. Recently, the industry associations within the horticulture sector have adopted employment guidelines that go beyond official government policy.

The sector's development has been gradual and eclectic, with many ups and downs, and many different actors. It is primarily a private sector story, with entrepreneurs and farmers innovating and taking chances. The government has played an ambiguous role, being broadly supportive but often interfering; it sometimes contributed the most by leaving the sector alone, but gradually it has learned to be a facilitator.

Background

Horticultural products—vegetables, fruits, and cut flowers—have grown steadily to become the single largest category in world agricultural trade, accounting for over 20 percent of such trade in recent years. The horticultural exports of Sub-Saharan Africa now exceed \$2 billion, yet this is only 4 percent of the world's total and there is plenty of room to expand. Not surprisingly, this sector has attracted the attention of policymakers, the aid community, and the private sector in low-income countries where traditional exports are the norm.

The Kenyan horticultural industry shows what can be achieved. Horticultural products have accounted for two-thirds of all growth in agricultural exports and recently surpassed coffee to become the second largest merchandise export, after tea. Kenya is the second largest horticultural exporter in Sub-Saharan Africa (after South Africa), the second largest developing-country exporter of flowers in the world (after Colombia), and the second largest developing-country supplier of

vegetables to the European Union (after Morocco). Approximately 135,000 people are now directly employed in the sector. Most are poor Kenyans, for whom the industry has made a real difference in their lives.

A long and winding road

The horticulture industry is defined broadly in this case study to include processed fruits and vegetables, fresh fruit and vegetables, and cut flowers. In the last decade in Kenya, fresh fruit and vegetables and flowers have seen impressive growth, which appears to have accelerated recently. The value of fresh fruit and vegetable exports increased from \$29 million in 1991 to an estimated \$164 million in 2002, while cut flower exports expanded from \$39 million to \$175 million over the same period. Total horticulture exports were estimated to exceed \$350 million in 2003, or 35 percent of all Kenyan agricultural exports.

Horticultural export growth benefited from sound economic management and political stability that characterized the first decade after independence, but then had to fight an uphill battle against deteriorating economic and political circumstances. The leading role played by Kenyan Asians and Europeans, and the expulsion of Asians from neighboring Uganda in the 1970s, created tensions and prompted government interference. An extended period of structural adjustment ebbed and flowed over the next 20 years and political instability returned in the late 1990s. Against this backdrop, the surge in horticultural exports is indeed impressive.

There are many different paths to poverty reduction

Export horticulture represents an opportunity for reducing poverty through income generation among smallholders, rural laborers on larger farms, and unskilled or semi-skilled processing factory workers. No reliable figures are available, in part because it is difficult to separate the export segment from the much larger, domestically-oriented business. However, if we conservatively assume that each farmer or laborer supports on average at least three other persons, then the industry affects roughly one-half million Kenyans.

A recent survey provides detailed information on the incomes of a sample of horticultural-sector workers and comparative data for a similar control group. This analysis provides strong support for the conclusion that urban employees draw substantial benefits from involvement in the horticulture sector, and that rural laborers are also better off as a result. However, the comparison of smallholders is more complicated. While the average income of export vegetable growing households is several times that of other farm households in the same geographical areas, those participating in this activity tend to be better resource-endowed (especially in terms of land and access to water for irrigation), complicating the issue of causality.

Women are actively involved in various segments of the horticultural industry. An estimated 70–80 percent of the packhouse workers, or table operatives, are women. Women also tend to play a leading role in vegetable production on smallholder farms, by one estimate accounting for two-thirds of the hours worked over the course of a season. They appear to be better-off as a result, and the new labor code will help reduce the potential for adverse working conditions or pressures .

Learning the tricks of the trade

Sunripe Ltd., founded by the Shah family and its partners in 1969 to market vegetables, is one of a half-dozen family-based companies which have played a major role in Kenya's growing horticultural industry. It now supplies over 17 countries annually. Sales growth has averaged about 20 percent per year over the last 15 years, reaching \$13 million in 2003. The company employs 1,200 full-time and

1,000 part-time workers. In addition to large farm suppliers, it buys from 1000 smallholders, including many women, predominantly through contract farming.

The landscape for smallholder participation is changing and, at least for export vegetables, their role seems destined to decline. Some new crops are unsuitable for small farmers. The contract farming arrangement has proven insufficiently reliable for many vegetable exporters. Perhaps most important is the growing concern among consumers for food safety certification and compliance with environmental and ethical standards. Meeting these requirements presents a real challenge and some observers worry that smallholders will be unable to remain as suppliers to the fresh vegetable trade with Europe. Yet, the rising food safety and other standards have provided an important opportunity to Kenya's fresh produce trade more generally. While relatively high transport costs inhibit its ability to compete in the lower cost/average quality segments of the European, the industry has moved to differentiate itself on the basis of product innovation and stringent quality assurance/food safety management systems.

Njoro Cannery (NC) and Kenya Cannery (KC) have been important players in Kenya's processed fruit and vegetable industry, each drawing strength from foreign partnerships, yet having had very different experiences with smallholder participation. NC became the largest private-sector contract farming operation in Kenya, thanks to a joint venture with Saupiquet, a large French firm, which successfully transferred its Moroccan experience with canned French beans. For a time, it served as a model for how to engage smallholders in export agriculture and inject money into a hitherto isolated local economy in Western Kenya. However, a variety of external market and internal operational changes eventually contributed to its decline in the mid-to-late 1990s.

The KC canned pineapple business brought in Del Monte in the 1960s for its financing, marketing, and management expertise, with important early support from the government of Kenya. Initial attempts to engage smallholders were not successful and so a large plantation was established. The project has proved successful and sustainable, establishing Kenya as one of the world's five largest exporters of canned pineapple, and employing 6,000 workers.

From bust to boom: letting 1000 flowers bloom

What started as a humble cottage industry—cut flowers—underwent a significant transformation in 1969 when the Danish company, Dansk Chrysanthemum and Kultur (DCK), undertook a large-scale investment on a 6,000-hectare estate in Kenya's Eastern Province. The Kenya government gave the company many tax and financial advantages, and the Danish government provided a large grant. DCK expanded its operations in the 1970s, but within ten years the project had collapsed. However, many of the employees who gained experience with DCK went on to play a major role in subsequent flower companies. Brooke Bond, a tea company, invested its profits in one of DCK's farms. Renamed Sulmac, the farm is a major player in Kenya's flower industry today.

In the 1980s, another international investor (from the Netherlands) built on their experience with vegetable exports to launch the Oserian Development Company, which has become the industry leader. The government's attempt to control airfreight rates and its failure to recognize plant breeders' rights had a negative effect on the industry, but the private sector learned to work around these constraints. Today the government is playing a generally constructive role, notably in the areas of plant variety protection and meeting product standards, and exports are booming.

The industry is nevertheless undergoing significant changes. Export production is concentrated in about two-dozen large-scale farms, which account for 75 percent of the industry. Small-scale farmers face an uncertain future because of declining demand for lower-quality flowers and increasing production and marketing costs. Their lack of access to adequate credit and inputs,

logistical constraints, environmental concerns, and other issues exacerbate these problems. The costs of complying with changing standards have an inverse relation with company size and present a real challenge to small-scale farmers. There has also been growing pressure from nongovernmental organizations (NGOs) for the industry to take bolder steps to preserve the environment. A few flower farms have taken steps to address some of these concerns by building water treatment and water harvesting facilities.

Lessons learned

Kenya's lessons learned may help other countries embarking on a similar export promotion path.

- *External catalysts were critical.* Foreign investors and partners played a critical role in launching and expanding the industry, while donors played a relatively minor role. Internal players, regarded as *external* by many Kenyans, were equally critical to the industry's success.
- *Learning and experimentation have been constant.* The industry's success is in large measure a testimony to the private sector's capacity to adapt to changing circumstances.
- *Political commitment helped at times, but could have been much more positive.* The government's concern for smallholder development probably helped promote their participation in the industry; the government's approach to the export horticulture sector has improved so that it can now serve as a fairly effective facilitator.
- Contract farming is vital for the inclusion of small farmers, but the employment of laborers may be even more important for poverty reduction. Ways need to be found to strengthen the contractual arrangement, especially with the growing importance of reliable supply volumes and traceability of inputs and agricultural practices. The government can facilitate the continued participation of smallholders in various ways, such as the dissemination of good practice in contracting, awareness-raising on export standards, certification of compliance, and support to producer associations. But, smallholder involvement in export horticulture may not be any more pro-poor than production in large farms.

Southeastern Europe: Trade and Transport Facilitation

The high transaction costs and uncertainties of trade in Southeast Europe have been major constraints on economic recovery and development in the region. Barriers including long waiting times at borders and demands for informal payments at border crossing points, have seriously limited the investment climate and access to new opportunities for employment. These constraints have discouraged foreign investment, reduced profits for local firms, reduced employment opportunities, and increased costs for imported goods. The Trade and Transport Facilitation in Southeast Europe (TTFSE) program tried a new approach to reducing transaction costs, opening up opportunities, and improving the investment climate. The approach is working.

A program that sought to reduce non-tariff trade costs and corruption at border crossing points had to be regional in structure. Simultaneously undertaking systemic reform of the multiple Customs administrations and other border control agencies in the region was highly risky. In designing the TTFSE, therefore, the World Bank team preparing the eight projects (for Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Moldova, Romania, and Serbia and

Montenegro) strategically focused on the introduction of reform at selected pilot sites in each of the countries. The program approached its objectives by supporting Customs reform; strengthening the mechanisms of interaction, cooperation, and communication among border control agencies and between these agencies and the trading community; disseminating information and providing training to the private sector; financing infrastructure and equipment at selected border crossings; and implementing an integrated set of new Customs procedures, information technology, and human resource management

Common performance indicators providing comparative and transparent quantitative information were established and monitored at these pilot sites by local project teams. Progress documented and lessons learned at one site could be used to replicate the approach at other sites and subsequently scale up the program. This approach both complemented and was coordinated with work by other donors in the region.

The strong interest of private sector users in sector reform was a major impetus for supporting this regional program by the World Bank. Building on this interest, users have been asked to participate in the monitoring process. User perspectives and performance indicators have not only been shared at the meetings of the Regional Steering Committee, to which all participating countries belong, but also have been made available on a regional TTFSE Web site. The TTFSE program has offered improved access to information and certified training to the private sector. It has helped to promote a public/private partnership in which the border control agencies have become facilitators rather than obstacles for trade. Under the Southeast European Cooperation Initiative, public/private liaison organizations called Pro-Committees have been formed to advance dialogue on trade issues between the private sector and the government. Support for the TTFSE program by national Pro-Committees and trade associations in the region will ensure the sustainability of the approach in the future.

Already the results of the TTFSE are impressive:

- Significant reduction of waiting times at the borders and inland clearance pilot sites averaging 50 percent.
- Preliminary savings of \$8 million annually, with multiple factors of this level possible.
- Improved dialogue among Customs administrations and border control agencies.
- Transparent and public Customs performance monitoring system in place.
- Revenue collection by Customs doubling through the introduction of risk management and selectivity procedures.
- Collaborative culture of partnership between the public and private sectors.
- Improved awareness of the appropriate facilitation role of border agencies versus revenue collection and classic control roles.
- Certified learning opportunities in freight forwarding and road transport operations.
- A regional Web site with border and country information for use by business communities and foreign investors.

These encouraging results provide a model for scaling up reform that is being followed already in Romania and Bulgaria. The model is being replicated regionally in the Caucasus—including a regional grouping of projects in Armenia, Azerbaijan, and Georgia. It is also being considered for replication in Central Asia. In the Caucasus, scaling up includes expanding the initial consultation process with users in the private sector, expanding policy dialogue, and including a more fully multimodal approach.

Tunisia's Export-Based Growth Strategy

Agence Française de Développement

Upon gaining its independence in 1956, Tunisia initiated a series of structural reforms that have shaped the country's future. Among the important areas of reform were the status of women, health and education policy, and family planning.

In the economic sphere, Tunisia experimented in the 1960s with a socialized command economy that failed to satisfy the majority of the population, although it achieved success in some areas, such as infrastructure and industry (notably chemical industries for phosphate processing).

With the advent of the 1970s, the country took a diametrically opposed path, emphasizing private initiative. Legislation passed in 1972 and 1974 encouraged private investment in industry by creating tax advantages and financial incentives. These measures, along with the establishment of offshore enterprises and the diversification of Tunisian industry, caused the country's exports to take off.

Toward the end of the decade, however, and into the early 1980s, the situation deteriorated due to social unrest, political instability, and poor economic and financial results.

Since 1986, Tunisia's strategy has been a happy marriage of economic and human development that has produced results that can rightly be described as a success story. GDP quadrupled from 7,160 million dinars in 1986 to 23,890 in 2002. Annual per capita income rose during the same period from 953 to 2,978 dinars. Illiteracy among people aged 10 or older dropped to 27 percent from 85 percent at independence and 46.2 percent in 1984. The enrollment rate in the first year of primary education is 99 percent. The population growth rate was brought down to 1.09 percent in 2000, compared to 3.01 percent in 1966. The proportion of children vaccinated is now more than 96.7 percent; in 2000 the infant mortality rate was 25.8 per thousand, compared to 51.4 per thousand in 1984. Finally, the poverty rate in 2000 was 4.2 percent, down from 22 percent in 1975 and 12.9 percent in 1980.

The success of the country's new development policy, based on exports and economic liberalization, can be explained by several factors :

- Political stability since 1987 and consensus concerning the country's development model, which rests on the large, well educated, and ambitious middle class
- Economic openness and liberalization, which drives Tunisian firms to continuously improve their competitiveness and to seek export outlets
- Sharing of the benefits of growth through the attention paid to human development, particularly the fight to create jobs and reduce poverty

- Tunisia's integration within the Euro-Mediterranean region, which brings the country financing and technical assistance from Europe and opens the world's largest market to the country's exports

But development is a continuous process of adaptation to change and rising to new challenges. In the coming years, Tunisia will have to respond to several problems. The country's future will depend on the quality of that response.

Tunisia will have to modernize its economy, in particular because the association agreement with the European Union requires that tariff barriers be completely eliminated by 2008. As international trade continues to liberalize, Tunisia will no longer be able to count on traditional markets provided under quota systems.

Unemployment still affects about 15 percent of the working-age population. Elimination of tariff barriers threatens to raise that rate still higher. The only response is to maintain a high rate of growth while raising the employability of young graduates, who are having increasing difficulty finding jobs.

The goal of rapid growth will make it increasingly necessary to tackle the problems of transparency and efficiency in the civil service and the legal system. That challenge is all the more important in the context of a development strategy based on private initiative and openness to the world.

Vietnam: Reducing Administrative Barriers to Entrepreneurship

International Finance Corporation

This analysis focuses on the Enterprise Law reform process in Vietnam and related reforms to promote domestic private sector development. It covers how the process was managed, the results or outcomes, and the lessons learned. The Enterprise Law was formally enacted in January 2000, but the process leading to its formulation started in the mid-1990s. This analysis focuses on the second half of the 1990s, but also examines the earlier period of *Doi Moi* (renovation) reforms when the foundations for private sector growth were first laid. The Enterprise Law reforms facilitated the entry of new firms and included reforms to help protect businesses from bureaucratic interference in business operations, increased flexibility to expand business operations, and incorporated detailed corporate governance provisions.

Background

Since an economic reform program was launched at the Sixth Party Congress in late 1986, Vietnam has been moving from a centrally planned economy towards a more market-oriented economic system. While reforms governing private sector development have been gradually implemented since the announcement of *Doi Moi*, Vietnam is still in transition. Many institutions that underpin a competitive market economy were only recently established and are weak, or are yet to be established. Since 1986, the government has passed several resolutions and legislation to encourage private sector development and to develop an enabling environment. However, the resulting regulatory framework was inconsistent and many applicants found themselves in *catch-22* situations when trying to establish enterprises. It was particularly difficult for private businesses to obtain licenses in areas such as trade and some professional services. Weak market institutions also constrained private business development.

The government's reform objectives appear to have included sustained employment growth and poverty reduction, stronger and more equitable growth, reduced corruption, and *catching-up* with the income and living standards of neighboring countries. Pressures to create new employment opportunities to increase incomes and reduce poverty have provided strong impetus for economic reforms in Vietnam. With the onset of the Asian economic crisis in 1997, and the rapid devaluation of the currencies of major regional competitors, Vietnam faced a downturn from its previously strong export growth. Corruption and measures to reduce corruption were a major theme at the 6th Party Plenum in October 1998, and have been repeatedly been raised since then by the Party secretary-general. More equitable development was important in sustaining social and political stability, especially in a slower economic growth environment.

Vietnam is a one-party state, governed by the Communist Party of Vietnam (the Party); the distinction between the Party and government is often opaque. When major changes were made in the country's leadership in 1997, it was a turning point for Enterprise Law reforms. Soon after the new leaders were appointed, consensus was reached on a specific action plan to improve the private sector development environment; the plan was released at the December 1997 Party Plenum.

Beyond the national government, other players and factors, such as provincial business policies, also had an influential role in changing the business environment. Increased demand for change coincided with more systematic consultation between the state and the business sector to address business constraints. More independent business associations began to emerge that represented the interests of the new private sector and the needs of particular sector groups. The Vietnam Chamber of Commerce and Industry (VCCI) is the largest and most prominent national business organization, with a majority of private enterprise members. A Vietnam Business Forum (VBF, held in conjunction with the Consultative Group meetings) provided another formal business forum to discuss business constraints with the government. However, foreign investors have been the most active VBF participants.

In the 1990s, Vietnam joined several international organizations—the Association of South East Asian Nations (ASEAN) in 1995, Asean Free Trade Area (AFTA), and Asia-Pacific Economic Cooperation (APEC) in 1998. The need for reform to join the World Trade Organization (WTO) was part of the policy debate on private sector development during the second half of the 1990s. Contacts with regional and international bodies almost certainly helped the reform process.

While technical change was not a major factor, increasing access to information through improved information technology—and a partial relaxation of controls on the movement of people and information flows—helped society and the government more readily compare the country's performance with regional and international performance. Improved information technology also helped the government and other national researchers to access information on best practices.

Key reform changes

Simplifying business entry was the most significant change under the Enterprise Law. Some of the reforms were introduced prior to the new Enterprise Law (for example, simplifying business registration and relaxing licensing requirements to engage in international trade). The Enterprise Law also included improved provisions on private enterprise rights, protection against bureaucratic interference; providing increased flexibility to change business activities and structures; to incorporate state enterprises; to protect minority interests and director and management obligations; and provide creditor protection. Also included were many provisions aimed at improving corporate governance. Regulatory change combined with sustained high-level support helped changed the attitudes of officials to adopt a more pro-business stance.

The National Assembly approved the Enterprise Law in 1999. While the process of securing approval of the Enterprise Law was time-consuming, the consultations and public debate that took place during this process were crucial in building public support for the law, which helped in subsequent implementation. Implementation also required new decrees (approved by the government), decisions (by the prime minister) and circulars (issued by ministers) to guide implementation and to repeal earlier regulations that were inconsistent with the new Enterprise Law.

Managing the reform process

Since enacting the Enterprise Law, the government has revoked about 150 business licenses and permits, and simplified other business licensing procedures. Despite considerable progress, business licensing remains a constraint and government action plans call for further regulatory reform. Further amendments to the Enterprise Law are envisaged within the next five years to extend its coverage.

Learning by doing and learning from regional experiences have been key features of the reform efforts. Often the regulatory changes formalized what was already happening in practice in some parts of the country. The results of experimentation, plus information on comparative regional experiences, were disseminated to a broad range of stakeholders via the increasing media debate on business development issues, business associations, and public-private consultations on business issues. In this way a broad range of learning perspectives fed into the policy formulation process. The VCCI was the main non-state interest group directly involved in policy formulation. The Central Institute for Economic Management (CIEM) in the Ministry of Planning and Investment also championed the reform efforts.

Reform implementation

The prime minister established the Steering Group on Enterprise Law Implementation (SGELI) in December 1999 to overcome delays caused by difficulties in securing ministerial consensus on implementing regulations. Effective implementation of the Enterprise Law also required complementary action at the provincial level, with the provincial departments of planning and investment responsible for registering new business.

Implementation arrangements worked in the sense that enterprise registrations far exceeded most expectations. However, the capacity of business registration offices and other provincial offices responsible for enforcing business regulations remain weak. Improving implementation capacity clearly remains a key priority. Despite marked improvements, targets to simplify business-licensing requirements have often not been fully achieved. Efforts to reduce government interference in day-to-day business operations have been less successful than hoped.

While there have not been any major reversals, there continues to be debate about how far deregulation of business licensing should go, and at times government line agencies and provincial authorities continue to issue regulations that are counter to the spirit of the Enterprise Law, impeding its implementation. However, it is likely that further reforms will be implemented to consolidate and extend improvements in the enabling environment for private business. Strong official endorsement (by the Party, government, and the National Assembly) of the private sector have had a significant impact in building investor confidence, and in increasing pressure on mid-level officials who have been reluctant to implement streamlined business procedures.

Impact of the reforms

Newly registered businesses under the Enterprise Law and their workers were the main beneficiaries of the reforms. While not directly governed by the Enterprise Law, household businesses that had not changed their status also benefited from progress in changing official and social attitudes towards the

private sector. There was also a spillover impact to firms and others doing business with these enterprises. Consumers benefited from the impact of increased competition. The status of business associations and business media was probably strengthened, because of their increasingly prominent role in the reform process. The main losers were the public agencies and their employees (at central, provincial, and district levels) who had made administrative decisions related to business registration and licensing.

The Enterprise Law reforms simplified procedures for registering new businesses, and for operating and expanding these businesses. Simplified procedures reduced opportunities and incentives for corruption, reduced uncertainty about the legality of business operations, and allowed investors to focus on business development. The net result was a dramatic increase in the number and total registered capital of new private enterprises following the enactment of the Enterprise Law in January 2000.

Lessons learned

- *Reform ownership*: Strong national ownership of the reform process was crucial in successfully implementing change; it helped build public support for reforms and subsequent implementation. Success in implementing the reforms owed much to sustained efforts to mobilize broad support for reform, including extensive consultations with all key stakeholders, although such consultations are time consuming, with unpredictable outcomes.
- *Reform process*: The reform process was more important than changes in the Enterprise Law itself. The consultative approaches to reform, the public debate about the important role of the private sectors, more frequent senior-level commitment to private sector development, more active business associations, and increasingly pro-business media helped build investor confidence, change social attitudes, and increase pressure on officials to adopt more pro-business practices.
- *External impacts*: Donor support helped facilitate the Enterprise Law reform process and increased government dialogue with the business sector. Donors helped raise the profile of public policy debate. Supporting national efforts to build reform commitment appears to have been more effective than earlier attempts to impose business reforms
- *Design external assistance to support reforms*: National ownership and donor support of reform processes were crucial to reform success. It takes time to implement institutional reform and development to achieve substantive improvements in the enabling environment. Long-term donor support is important in developing and strengthening the market institutions needed to make the reforms work, and in developing the capacity of local research institutions to monitor and evaluate the implementation of business-related reforms. Priorities for support to market institutions include (i) the legal and regulatory framework; (ii) social norms and the formal mechanisms needed to facilitate compliance and enforcement; (iii) professional services, standards and ethics; (iv) financial institutions and capital markets; (v) real estate and labor markets; (vi) information services; (vii) industry and professional associations; and (viii) education and training.
- *Replicability of the Vietnamese Enterprise Law reform experience*: Without a strong national commitment to improving living standards through business development, donor support to improve the business-enabling environment will have limited impact. Where commitment is weak, donors may need to focus more on building a stronger commitment to change by developing the domestic capacity to analyze the effects that improvements in the enabling environment have on employment, equity, and poverty alleviation.

3

Microfinance

Bangladesh: Growth, Achievements, and Lessons in Microfinance

It is remarkable that the microfinance industry in Bangladesh has been able to provide access to credit to around 13 million poor households. There are around twelve hundred microfinance institutions (MFI) currently in Bangladesh, although the industry is heavily concentrated in a handful of large organizations—Grameen Bank, BRAC, ASA, and Proshika. These four cover around eleven and a half million or 90 percent of all clients.

Over the last three decades, this access to micro-credit grew in several distinct phases. The origins of the current micro-credit model can be traced back to action research in the late 1970s, carried out by academics as well as practitioners in organizations that were created to deal with the relief and rehabilitation needs of post-independence Bangladesh. The new Government and the myriad aid agencies that arrived on the scene were unable to cope with the scale of destitution thus providing the foundation for the emergence of non-governmental organizations. The 1980s witnessed a growing number of non-governmental organizations (NGOs) experimenting with different modalities of delivering credit to the poor. The predominant model became one of providing individual loans to a target group of poor households, rather than providing loans for group projects which suffered from a ‘free-rider problem.

The various models converged around the beginning of the 1990s toward a fairly uniform “Grameen-model” of delivering micro-credit. A ‘franchising approach’ whereby new branches copied the procedures and norms that prevailed in existing branches, fueled the Grameen-style growth. This last decade, especially, saw a sharp increase in access to micro-credit. From the mid 1990s onward it became clear that the standardized model of providing micro-credit with fixed repayment schedules and with standard floors and ceiling on loan size were not sufficient to meet the needs of the extreme poor. In recent years, the standard Grameen-model has undergone greater refinement in order to cater to different niche markets as well as to different life-cycle circumstances.

Looking at the Bangladesh experience in perspective, one can argue that the current, remarkable access level is attributable to specific factors. First is visionary leadership within the pioneering microfinance organizations. The founders and leaders of Grameen Bank and BRAC, in particular, created decentralized structures with appropriate incentives that encouraged high staff performance, which in turn underpinned rational expansion based on existing capacity and client demand. Second, the government of Bangladesh created a conducive macro-environment and implemented a “hands-off” regulatory policy. Third, donors played a constructive role by providing resources at the appropriate time. This included funding the initial expansion phase of several microfinance institutions and then building the institutional capacity and systems needed to ensure sustainability. Fourth, high population density and relative ethnic, social, and cultural homogeneity made “franchising” the micro-credit model less difficult, and significantly propelled its expansion. Fifth, the public-private micro-credit “wholesaler,” PKSF, was able to take advantage of already-

established retail capacity to scale up the micro-credit industry, as well as demand professional standards and a focus on sustainability.

Impact of microfinance

The evidence on the impact of micro-credit can be assessed from two inter-related angles. Firstly, who does credit reach, and secondly, how does it affect the welfare of different groups of individuals and households? With respect to the first issue, the literature on targeting suggests that microfinance programs are reasonably successful at reaching the poor. Those households who fall above the stipulated landholding criterion typically tend to be marginally above the poverty line and could be prone to transient poverty in certain years. Not only do they join, but their borrowing pattern is similar to better-off members of their group.

With respect to the impact issue, the literature broadly supports the hypothesis that access to micro-credit contributes to poverty reduction in Bangladesh by reducing the vulnerability of poor households in Bangladesh. This manifests itself in at least three ways. Poor households are able to smooth their consumption more dependably, thereby limiting the hardships arising from seasonal shortfalls of income. The importance of this result cannot be over-emphasized given the fact that seasonal deficits play a key part in the poverty process in Bangladesh. Another pathway by which microfinance appears to reduce vulnerability is through the emergency assistance provided by many microfinance organizations during periods of acute natural disasters such as the recent floods in Bangladesh. The fact that these organizations turn into de-facto relief agencies is crucial in sustaining these households in the immediate aftermath of a natural disaster. Moreover the post-disaster rehabilitation assistance, in terms of both financial and other services, is also highly valued by micro-credit clients.

Finally, the impact of credit on female empowerment, or a reduction in ‘female vulnerability’ has also received considerable attention. Studies have showed that membership in micro-credit programs positively affected a woman’s decision-making role, her marital stability, and her control over resources and mobility. The analysis establishes that a woman contributing to her household’s income is a significant factor towards her empowerment.

The availability of micro-credit has indirectly affected social conditions—for instance, children of borrowers are more likely to go to school, have better sanitation facilities, and better nutrition. These impacts are due to the “increased income effect” of micro-credit as well as the “social mobilization effect” of borrower group meetings.

Lessons learned

Five lessons from Bangladesh could be relevant to microfinance growth and impact in other countries. First, is the importance of the “enabling environment” for microfinance, especially maintaining a stable macro-environment in which interest rates and inflation are kept at reasonable levels. Government regulations and policies are needed to create an appropriate environment for the growth of the sector, where regulatory policies strike a balance among protecting the interests of depositors, supervising microfinance institutions that collect savings, and not excessively regulating the sector with unnecessary red tape. While this long relationship has not been free from tensions on both sides, the Government of Bangladesh has thus far been able to place the interests of the poor foremost in its mind while dealing with NGO issues.

A second lesson is that micro-credit may be a more effective remedy against poverty and vulnerability if it is complemented by other interventions. These interventions may be especially important for the poorest households, which face the greatest risk of income fluctuations and have the greatest need for a range of financial and non-financial services.

Third, there is a role for donor financial assistance in expanding the capital base of emerging microfinance institutions, as well as developing the technical capacity necessary for organizational sustainability. Northern NGOs, such as the Ford Foundation, Oxfam and the Aga Khan Foundation, played an important role at the initial stages of the NGO-MFI industry in Bangladesh. The subsequent expansion and consolidation stage were funded largely by official bilateral and later by multilateral agencies, as Northern NGOs could not match the growing resource requirements of the larger MFIs. Hence, subsidies can be justified to support microfinance institutions in their early stages, as long as there is a viable route to institutional sustainability.

A fourth lesson is that, while visionary leadership cannot simply be “franchised,” the systems and formal rules that govern the successful microfinance industry in Bangladesh can to an extent be replicated. These may vary according to the size of the organization, but by and large, the successful organizations delegated significant decision-making authority away from head-offices, monitored individual staff performance, and linked staff incentives to program targets. Client feedback and program monitoring are also crucial. As organizations grow, the willingness to change products based on client need and demand and to create products tailored to niche markets is crucial for success.

Fifth, one of the lessons unique to the Bangladesh experience was the critical role played by a microfinance wholesaler, that channels funds for microfinance to MFIs and was critical in the expansion and improved professionalism of the micro-credit industry in Bangladesh. There is a growing degree of experience with setting up apex institutions worldwide—for example, PPAF in Pakistan, RMDC in Nepal, FONCAP in Argentina, LID in Bosnia-Herzegovina. One of the fundamental factors behind the success or failure of an apex is the underlying retail capacity in a particular country. However, apex bodies are not a panacea, and a rigorous analysis of the underlying retail capacity and demand for funds must be carried out before they are established.

Bangladesh: Scaling Up a Program for the Poorest—BRAC’s IGVD Program

Consultative Group to Assist the Poor

BRAC (formerly known as the Bangladesh Rural Advancement Committee) approaches microfinance as a key instrument to build ladders of opportunity for the poorest people. BRAC’s main point of departure from conventional thinking is that, although the poorest do need subsidy-based programs to supply their immediate food needs, microfinance can play a fundamental role in constructing a long-term sustainable foundation for improving food security and livelihoods. However, this is unlikely to happen automatically.

BRAC’s Income Generation for Vulnerable Group Development Program (IGVD) builds on a World Food Program–funded government safety net program that provides destitute women with free food grain for an 18-month period. BRAC forms groups of these women and provides basic savings and credit services and skills training. The savings service lets women accumulate some financial resources over time. Small amounts of credit lets women get comfortable with handling money and instills financial discipline. Training provides women with simple skills to run micro enterprises. Participation in groups makes women confident and gain self-respect.

Recognizing that ultra-poor women face greater social discrimination and higher incidence of illness which impair their ability to engage in income generation activities, the IGVD program provides participants with BRAC’s Essential Health Care services which incorporate an annual check-up, basic curative care, and family planning education. Human Rights and Legal Education

courses work to educate and empower women on their legal rights and mechanisms they can use to address the discrimination that they face in their communities

By the time the period of free foodgrain ends, women in BRAC programs are already operating microenterprise and earning incomes that enable them to stay above their previous levels of destitution. In fact studies have shown that two-thirds of these women subsequently graduate to regular microfinance programs and improve their economic conditions. Since its beginning in 1985, over 1.4 million women have been members of the IGVDG program.

BRAC's experiences suggest that creating a strategic linkage between grant-based and market-based microfinance programs requires careful planning, and solid and committed management. Scaling up this approach to reach significant numbers of the poorest requires constant learning and innovation, and ongoing negotiation with partners based on practical field experience. In particular, it requires an appetite for tackling the larger challenge of developing markets that can open up new opportunities for the very poor.

Most important of all, it requires vision and commitment to include the poorest. BRAC's experiences suggest that carefully designed strategic linkages, which include grants with a central role for microfinance, can work for the poorest. There certainly will be many different models and approaches for including the poorest, which will vary according to country contexts. However, the starting point has to be reversing the trend of apathy—which either excludes the poorest or treats them as “relief cases” to be dealt with by “others.” BRAC believes that the poorest are, can, and must be central to the vision and commitment of microfinance institutions. Only then will the search for possibilities and opportunities to include the poorest begin and develop.

The 3.3 million households in Bangladesh that benefit from BRAC's microfinance and income generation initiatives are a testament to the profound impact of these programs on the lives of the poor. But recent studies have shown that the benefits of these types of poverty reduction programs accrue primarily to the moderate poor and the vulnerable non-poor. How can the ultra-poor, those who have no assets and experience chronic illness and food insecurity, be effectively targeted through microfinance programs?

With 25 million people in Bangladesh considered to be among the ultra-poor, there is an urgent need for programs like IGVDG. Microfinance needs to be seen as a flexible tool that can be used in conjunction with safety net measures such as food and health subsidies, training, and social empowerment programs. The possibilities of these linkages have not yet been fully explored. Microfinance could be partnered with other interventions such as housing and productive asset grants, assistance in finding wage employment, and pension schemes as the ultra-poor often need additional assistance in providing for immediate consumption so that they can take advantage of mainstream programs

To bring the benefits of microfinance to the ultra-poor, their needs and aspirations must be considered. If programs fail to address the realities of the ultra-poor, the fault lies with the programs and their designers. Problems with program design can be overcome through listening to the poor and posing several questions. What are the social and economic constraints that keep the ultra-poor from participating in microfinance programs? Can these barriers be overcome through specific safety net linkages? How can these linkages be made to contribute to the sustainable livelihoods of the poorest of the poor?

Brazil: Struggling with the Growth-versus-Best-Practice Tradeoff—The CrediAmigo Program of the Banco do Nordeste

Consultative Group to Assist the Poor

The CrediAmigo microfinance program mounted by Brazil's Banco do Nordeste (BN) shows how an international financial institution like the World Bank can be a useful catalyst in the development of microfinance retail capacity. The World Bank's patient, phased support to BN as it designed, launched, and nurtured CrediAmigo goes against the common perception that multilateral banks always focus on large near-term disbursements to the detriment of longer-term capacity building.

In five years, the CrediAmigo program has provided microcredit to over 300,000 of Brazil's working poor and is financially sustainable. Most of these families live on less than two dollars per day, and work in the cities and towns of the northeast region. Even more importantly, CrediAmigo has demonstrated to the development community throughout Brazil that microcredit can be delivered sustainably, on a large scale, and with great impact on low income families. Prior to the success of CrediAmigo, no microcredit program in Brazil over the past 30 years reached more than a few thousand clients. Today, although there are a large number of well-funded public and private initiatives throughout Brazil, CrediAmigo stands alone in the scale and effectiveness of its achievement.

Progress so far suggests some lessons for multilateral donors in microfinance:

- Freedom from dogmatic presuppositions (for instance, “large state-owned banks can never do good microfinance”) allows an opportunistic approach that is more likely to yield results.
- After proper pilot work, a bank with a large pre-existing branch network can roll out microfinance much more rapidly than a new microfinance-only institution. In the case of many public development financial institutions (DFIs), they also have the mandate to do so.
- Outcomes may be better when a large volume of lending follows, rather than precedes, the development of proven retail capacity.
- Donors must help DFIs keep focused on best practice finance principles, especially when the short term interests of *both* donor and DFI lie in disbursing large amounts of credit with little regard for loan recovery. Donors **MUST** counter the ultimate tendency of DFIs to grow too quickly and with too little financial discipline.
- Donors can be effective with a limited technical role—setting benchmarks consistent with international best practice, and putting the client institution in contact with top microfinance practitioners.
- To accomplish this, generalist donor staff working on microfinance activities should get a basic grounding in the elements of sustainable microfinance, preferably through training or, at a minimum, close work with specialists.

Throughout the five years that Banco do Nordeste developed its CrediAmigo program, it has struggled to balance its desire to expand the program quickly and reach a maximum number of clients with the constrictions imposed by maintaining high levels of loan repayment and full cost recovery. This tension has been characterized by repeated episodes of rapid expansion, deterioration in the quality of its loan portfolio, and low staff productivity, followed by periods of consolidation

and reversal of these negative operational and financial trends. Overall, until now, CrediAmigo has largely stayed the course and, as a result, is considered to be a world-class microenterprise credit program. This standing, however, is threatened by the Brazilian government's recent interest rate policy, that could deprive CrediAmigo of important financial resources necessary to re-invest in its future growth and stay in keeping with its mission.

Arab Republic of Egypt: Commercial Microfinance—The National Bank for Development

There is a large unmet demand for microfinance services among the entrepreneurial poor in Egypt. It is estimated that Egypt's microfinance industry currently reaches only about 5 percent of the more than 2 million potential borrowers. In this situation, commercial banks could play an important role since they have the advantage of both outreach capacity through their branch networks and fundraising capacity through their legal ability to accept savings deposits. Traditionally, commercial banks in Egypt, as in many other developing countries, have shied away from microfinance, perceiving it to be characterized by high risks and low rewards. The National Bank for Development (NBD) in Egypt, however, has had a different experience. A private commercial bank, NBD has successfully run a microlending program for over 16 years.

Microlending programs have existed in Egypt since the mid-1960s. Most microfinance services are delivered through government and nongovernmental organization (NGO) programs and some are conducted through business associations, development intermediaries, and public sector and special-purpose banks. Until recently, microfinance services in Egypt typically existed within broader human development and social safety net strategies. An important microfinance provider is the Egyptian Social Fund for Development (SFD), which channels sizable amounts of its funds through NGOs. There are also several national and international NGOs that have been more effective at addressing the credit needs of the poor; they lack the infrastructure and institutional setup to expand outreach beyond their local communities.

The NBD was the first commercial bank to start microfinance operations in Egypt. Realizing the twin potential of microlending for generating profits to the bank while helping to combat poverty in Egypt, the NBD, in collaboration with the U.S. Agency for International Development (USAID), established the Small and Microenterprise Division in 1987 with microlending operations in four of its branches. By 2003, microlending services were being delivered in 44 branches to 22,600 active borrowers with about \$8.2 million in outstanding loans.

The NBD's approach to microfinance

In the Egyptian microfinance context, the NBD microlending program represents a unique operation. Modeled in part after the Grameen Bank, the NBD program combines the attitude of NGOs and the sound financial principles of banks, to make microenterprise lending a sustainable operation. This has translated into flexible lending procedures and client-oriented service delivery through well-trained and motivated bank staff. Together, these principles have shaped and guided the inception, progress, and expansion of the NBD microlending program over the past 15 years and have contributed to its profitability.

In the short run, the NBD's objective is to provide microenterprises access to credit to that would typically be denied by conventional banks. In the long run, its objective is to enable the transition of these borrowers into clients under more conventional banking standards. Underlying these two objectives are several other considerations, including improving the quality of life of small

borrowers, promoting employment generation, preserving and expanding small enterprises, and fostering better business practices among the poor. The NBD targets small borrowers with existing enterprises that are neglected by traditional banking institutions.

NBD loans offered are typically small and with short maturities. Up until 2000, the maximum loan size was LE10,000 (approximately \$3000). To further extend its outreach to the poor, the bank's management decided in 2000 to reduce the maximum loan size to LE3,000 (approximately \$500 at the June 2003 prevailing exchange rate). Total bank charges are about 30 percent. No collateral is required and loan approval is based on the enterprise's viability and its cash flow cycle. The program is targeted to the poor: the average loan size is \$480 while a typical poor household of six persons in Egypt has an average expenditure level of \$1,358 per annum (2002 data). The NBD has made special efforts in recent years to reach female clients; as a result, the proportion of loans to women has risen from around 13.5 percent in 1998 to around 22 percent today. The program has been profitable for over 10 years. Indeed, at just under 18 percent, the profit rate of the microlending operations is higher than the rate received from the bank's other more conventional lending operations

A unique feature of the NBD outreach structure is its mobile banking units. While this brings additional costs, NBD has been able to recoup the costs since the poor are willing to pay for the convenience of having services at their doorstep.

Loan approval procedures are transparent and quick—the entire process generally taking less than two weeks. Close supervision, while costly, supports the viability of individual enterprises and ensures high repayment rates. Another program innovation is the provision of life insurance coverage to all its borrowers and a mandatory savings component to be held in an NBD interest-bearing account.

The possibility of repeat borrowing is also an important feature. In 1998, NBD statistics for a sample of branches showed about 76,700 repeat loans for a total value of \$74.2 million, representing over 70 percent of the total value of loans disbursed and about 10 loan cycles.

Maintaining steady growth in its client base is one of the NBD's challenges. NBD managers emphasize that program growth is constrained by the high cost of reaching microfinance clients. NBD has chosen to service these clients through specially trained and remunerated officers rather than use its regular work force. This practice involves high administrative costs. Another challenge is to find a level of loan charges that maintains profitability but does not choke off program growth over time. Another continuing challenge for NBD will be balancing its targeting objective with that of helping clients get more benefits out of borrowing and/or maintaining steady program growth.

The NBD program's impact

Today 20 of NBD's 44 branches are donor-financed (17 by USAID and 3 by the Canadian International Development Agency, the United Nations Children's Fund, and the Ford Foundation) and 24 are self-funded. Program outreach also grew to about 22,600 borrowers, generating an \$8.2 million loan portfolio. NBD's microfinance program achieved profitability reasonably quickly.

To date, no systematic and statistically-sound quantitative assessment has been conducted on the NBD's microcredit program's impact on the livelihoods of its beneficiaries. From a selected sample of repeat borrowers, however, NBD staff noted increases in the number of employees in their enterprises and that over 60 percent reported an increase in their incomes of more than 50 percent. Other studies in Egypt have found modest improvements in living standards of microcredit recipients, including a nutritional benefit. Some impact studies for Egypt suggest that microcredit programs may be less effective in reaching the vulnerable; this may be because the destitute poor are

best served by direct assistance measures, while microfinance services are more effective when targeted at the entrepreneurial poor.

Critical success factors

- *Senior management and staff commitment to the program:* This provided the impetus for program initiation and expansion and engendered the client-oriented attitude that is pervasive among the program staff, including branch managers.
- *An enabling public policy environment.* There are no government regulations forbidding commercial microfinance and no restrictions on many of the NBD's innovative techniques.
- *Its institutional innovations:* These included client-oriented service; a decentralized loan approval process; mobile banking units; female loan officers for female clients; a staff incentive scheme to reward performance; and a life insurance scheme in the array of the loan's financial services.
- *External catalysts:* Donor support was critical in the initial phases to cover higher start-up and administrative costs. USAID also encouraged the NBD to experiment with alternative procedures and adopt measures that proved useful in making the program successful. It is also possible that Egyptian microfinance institutions benefit from positive externalities among themselves. Egypt is reputed to have the best microfinance institutions in the region as a large fraction of them follow industry best practice, have good portfolios, high repayment rates, and loyal customers.
- *The ability to charge market determined interest rates and fees.* Microlending involves higher administrative and operational costs that must be recovered through various loan charges and fees.

The NBD's experience shows that the poor are willing to pay a premium to have continued access to simple, quick, and uncollateralized credit. Significant growth in the microfinance industry can come from having commercial banks enter this market niche. Public policy could help the industry grow by making it easier for microfinance-NGOs to borrow funds from regular banks for lending and/or by making it easier for them to become banks themselves and accept deposits.

India: Scaling-up Access to Finance for the Rural Poor

Despite the large size and depth of the Indian financial system, and thousands of bank branches across rural India, the poor in rural India still have very little access to formal finance. A recent World Bank-NCAER Survey on rural access to finance indicates that 70 percent of the rural poor do not have a bank account and 87 percent have no access to credit from a formal source. Informal sector lenders remain a strong presence in rural India, delivering finance to the poor on frequently extortionary terms. Access to other financial services such as savings accounts, life, health and crop insurance also remains limited for the rural poor. The failure of India's rural banks to deliver finance to the poor may be attributed to a combination of factors. From the banks' perspective, serving the rural poor is a high-risk, high-cost proposition, with high uncertainty, and transactions costs related to small loan size, frequent transactions and government policies which contribute to a financial climate not conducive to rural banking. From the poor rural borrower's perspective, banks do not provide conveniently accessible and flexible products and services, high transactions costs including

cumbersome, costly procedures, hefty bribes, and long processing times and poor borrowers can't meet the demand for collateral.

Inadequacies in rural access to formal finance and the seemingly extortionary terms of informal finance for the poor provide a strong need and ample space for innovative approaches to serve the financial needs of India's rural poor. The past decade has witnessed the emergence of many microfinance approaches, most notably, a nationwide attempt, pioneered by non-governmental organizations, and now supported by the state, to create links between commercial banks, NGOs, and informal local groups ("self-help groups," or SHGs). Better known as "SHG Bank Linkage," evidence suggests that the model has effectively targeted poorer segments of the rural population and helped reduce the vulnerability of its clients. Surveys indicate that nearly 54 percent of SHG members are from the poorest groups—landless and marginal farmers. Recent analyses show that access for poor households to loans under SHG bank Linkage has improved asset position, increased savings, shifted borrowing patterns and activities financed, increased employment and consumption expenditure and had a positive impact on income, decreased poverty and had a beneficial social impact.

The growth of SHG Bank Linkage has been truly remarkable, particularly since the late 1990s. In 2003, the number of SHGs linked to banks was close to 800,000, compared to just 33,000 in 1999. SHG Bank Linkage reaches some 12 million women and their households. But outreach is still modest in terms of the proportion of poor households served, covering less than 5 percent of India's rural poor.

Other institutional structures for microfinance, notably, independent, specialized microfinance institutions (MFIs) based on the Grameen model in Bangladesh also have emerged in recent years. But with a few exceptions, most Indian MFIs are small in size, region specific (concentrated in the south) and with a limited collective outreach. In addition to the relatively small scale of their operations, Indian MFIs also tend to have a narrow scope, offering a limited range of financial services beyond credit. Only a handful offer savings or insurance as a service. And only India's three top MFIs offer a composite set of services to their customers. The limited scale and scope of Indian MFIs, relative to the MFI giants in Indonesia and Bangladesh, largely reflects a policy and regulatory framework in India that is hostile to the expansion of MFIs. The need to become a non-bank finance company in order to accept deposits, with high capital requirements, regulatory limits on raising debt from foreign sources and foreign equity limitations constrains MFIs.

SHG Bank Linkage seems to have all the right ingredients for scale-up. The success achieved so far by SHG Bank Linkage is attributable to the following key factors, which may also be relevant to other microfinance models in India and elsewhere. First, is the fact that SHG Bank Linkage is well aligned with Indian history and circumstances, and capitalizes on the country's vast network of rural bank branches. Second, is the importance of good policy, and skillful and committed leadership. Government established the necessary policy framework for SHG Bank Linkage very early on in the process, introduced a range of measures to encourage banks to lend to SHGs, and assigned NABARD with the task of leading and coordinating SHG Bank Linkage—a task which NABARD has assumed with exemplary diligence. Third, is the need for an enabling legal and regulatory framework; Government implemented a hands-off regulatory policy for SHG Bank Linkage. Fourth, is the emphasis on quality; during the early phase of SHG Bank Linkage, a strong emphasis was placed on ensuring that high quality SHGs were promoted and maintained.

Going forward, if the SHG movement is to be scaled-up to offer mass access to finance for the rural poor, NABARD and its partners face several challenges in increasing outreach while maintaining and improving sustainability. At the same time, in an economy as vast and varied as India's, there is considerable scope for new and diverse approaches to coexist. Improving access to

finance for the rural poor will require multiple approaches to meet the diverse financial needs (savings, credit, insurance against unexpected events, etc.) of India's rural poor through flexible products and services at competitive prices. Government has a critical role to play in creating an enabling and flexible architecture for innovations.

In particular, scaling-up microfinance in India in an effective manner will require attention to the following six areas: First, attention to quality. The SHG movement has now reached a scale where NABARD needs to revisit its strategy, with an emphasis on how to ensure that high quality groups are promoted and maintained, with adequate attention to financial sustainability of SHG lending. Quality is also an issue for many MFIs in India, which suffer from weak governance and management structures, and the absence of adequate internal controls and financial discipline—issues that must be addressed. Second, an enabling policy, legal and regulatory environment is urgently needed, particularly for the growth of MFIs. Third, clear targeting of clients. The dual pursuit of social ends and financial profits is an ongoing tension for all microfinance; mission drift is a common fear as pressures mount to serve richer clients with larger loans (and thereby to earn higher profits per loan since transactions costs per rupee tend to fall with loan size). Keeping focused on its target population is thus critical to the success of microfinance in India, as elsewhere. Fourth, appropriate products and services, and good staffing policies can contribute significantly to scale-up. Fifth, inclusiveness and competition in the sector can generate high payoffs. Sixth, efforts are needed to overcome geographic concentration.

While microfinance can, at minimum, serve as a quick way to deliver finance in the interim, the strategy should be to 'graduate' microfinance clients to formal finance institutions where they can access standard 'individual' loans, possibly on a fully commercial basis. An immediate problem arises in that there are no obvious lenders for microfinance customers to graduate to—none yet are close to offering the reliability, convenience, continuity, and flexibility required by low-income customers. If the idea of graduation is a serious one in India, strong efforts must be made now to reform the rural finance markets and institutions (like the commercial banks and the regional rural banks) with an eye to improving the efficiency of the sector and designing services and products appropriate for small clients. Indeed, India's vast network of rural banks potentially presents a tremendous advantage, and one on which the country could capitalize in delivering finance for the poor. Over the longer term, therefore, efforts to promote microfinance should go hand-in-hand with efforts to make the formal sector better at "banking the poor," and government can play a critical role in this context, too.

Indonesia: 20 Years of Large-Scale Microfinance at the Bank Rakyat

Established 20 years ago, the Unit system of Bank Rakyat Indonesia (BRI) today is the largest and one of the most successful microfinance institutions in the world. The 3,855 Units—small outlets mostly in rural areas with around six staff members each—are scattered all over Indonesia and provide services to almost 30 million small savers (the average account is US \$108) and 3.1 million small borrowers (average loan outstanding is US \$540). The BRI Units have followed a profitable, sustainable approach to microfinance on a large scale, based on locally-mobilized savings without subsidies and funds from government or donors. The commercially-based provision of credit and savings services has had a powerful positive impact on the lives of millions of poor and low-income households.

Several factors have driven the reform and implementation of the BRI Unit system. Effective leadership, strong commitment, and political support were crucial at the initial reform stage but also throughout the development process. The institutional design of the BRI Unit as the nucleus of the

entire system combined standardization and flexibility in a unique way. The BRI experience drew extensively on the lessons and experimentation of other initiatives and from BRI's own trials and pilots.

External factors gave the impetus for the initial reform. Later on, stable macroeconomic conditions and a series of financial sector reforms provided a conducive environment in which the new Unit system could develop and prosper. When the Indonesian banking system collapsed in 1998, BRI's Unit system remained profitable, loan repayment rate stayed high, and the deposit volume more than doubled. The BRI Units emerged from the crisis stronger and even more robust than before.

Kazakhstan: Commercial Banks Entering Micro and Small Business Finance—The Kazakhstan Small Business Program

Consultative Group to Assist the Poor

The Kazakhstan Small Business Programme (KSBP) is the second program ever to try to “downscale” commercial banks as a means to delivering micro and small enterprise (MSE) loans in transition countries. During the past six years since its start in April 1998, the KSBP, working with 7 truly private commercial banks, including the biggest and strongest local banks, has greatly outperformed expectations and serves as a model for expanding the outreach of commercial banks to poorer clients.

The Kazakhstan Small Business Programme, supported by EBRD, was implemented at the request of the Kazakh government as a successor for a failed SME credit line. KSBP's “principal objectives are (i) to provide finance to MSEs, which currently have insufficient access to formal sector finance; (ii) to build up the credit capabilities of Kazakhstan's financial sector so that local banks are able to provide MSEs with access to finance on a permanent basis.” KSBP was provided with a sovereign guaranteed EBRD credit line of USD 77.6 million as a refinancing facility. Furthermore, a considerable sum was provided by the Kazakh government, EBRD, USAID and the EU for a TA package to support institution building in partner banks.

According to its objectives, the KSBP was not designed as a project to fight poverty directly, but as a project to promote financial market development which has a long-term impact on poverty reduction in an indirect way by creating sustainable access to formal loan finance for small and micro entrepreneurs – a major and growing source of employment both in developing and transition countries. Consequently, the program's impact has to be measured against its objectives, and here it can show impressive achievements:

- *Outreach performance:* By February 2004 all urban centers in Kazakhstan had been covered by the program. Partner banks have opened MSE departments in 135 branches and an additional 50 loan outlets in 39 different cities, some of them as small as 20,000 inhabitants. The outstanding MSE portfolio has grown to over USD 162 million in volume terms and over 35,000 in terms of the number of loans. 535 loan officers are working in the MSE departments, disbursing over 4,000 micro and small loans every month. The program is still showing high growth rates.
- *Target group orientation:* 90% of the clients served had never had access to formal bank loans before. 85% of the outstanding number of loans are micro loans. Over 50% of the newly disbursed loans fall into the express micro loan category, a newly developed

product for very small customers needing uncollateralized working capital loans that are disbursed almost instantly.

- *Sustainability*: Although the program has been moving far down the market, serving the smallest traders while at the same time growing very fast, arrears have stayed extremely low (arrears > 30 days stood at 0.25% of portfolio volume in February 2004) and loan officer efficiency has continuously increased. A newly developed profit center accounting method which is currently being tested is now yielding strong evidence that the MSE business has not only passed the profitability threshold, but is just as or even more profitable than the average alternative business in the Kazakh banking sector. The partner banks are acting accordingly. They are using considerable amounts of their own funds to expand the business - over 40% of the portfolio is now being financed with the banks' own funds – and are continually investing in the training of new loan officers and the opening of MSE departments and outlets at new localities. MSE lending, so it seems, has become a sustainable business which private commercial banks will stick to even when the program staff have gone and the program itself has been wound up.
- *Spillovers*: KSBP has had positive spillovers on the whole institutional set up of the partner banks, and on their competitors as well. For example, the program's training and recruitment methods are copied, its incentive-based pay schemes are adapted for use in other departments, and MSE loan officers are frequently promoted within the banks to senior positions, or are hired by competitors.

The KSBP owes its success to:

- Sound, professional institution building – As a first step, a limited number of smoothly functioning MSE departments were established as stable islands within each partner bank. Further expansion – into other regions, into poorer market segments and into the organizational structure of the bank – was not attempted until the program was able to rely on a solid base of successful MSE lending and human resource capacity had been strengthened by the first generation of local consultants trained by the program.
- A favorable environment – Kazakhstan's macroeconomic situation was stable, and the government showed a strong political commitment to developing the SME sector. It supported the program right from the beginning, while at the same time waiving its right to make any direct intervention in the program. Furthermore, the Kazakh financial market had been liberalized, and was well regulated and supervised. Strong competitive pressure on banks due to an ongoing concentration process made even the big private Kazakh banks interested in participating in the KSBP and developing the new MSE business.

For the replication of the KSBP's downscaling success in other countries, sound institution building needs to be paired with favorable political and economic conditions. If these come together, downscaling should be tried before any other institution building alternative for microfinance is tested, because downscaling for-profit commercial banks is the touchstone of whether the financial services market just needs an initial kick in order to become a powerful instrument in the fight against poverty.

Kenya's Equity Building Society: A Domestic Financial Institution Scales Up Microfinance

Consultative Group to Assist the Poor

Equity Building Society (Equity) is a homegrown success story that has only recently attracted international attention. Equity's beginning, 20 years ago, was inspired by an entrepreneurial vision of a potential demand for financial services in the underserved, low-income population of Kenya. Despite high hopes for serving this market, the first 10 years were characterized by a difficult environment, fierce competition, and a lack of institutional knowledge of how to operate a profitable financial institution. On the verge of collapse in 1993, Equity brought in outside experts and committed to radical steps to turn the institution around. This commitment led to improved financial performance and increased outreach.

Since 1993, Equity has grown from 12,000 depositors to more than 250,000 depositors (as of December 2003). This growth can be attributed to committed staff and leadership, high-quality customer service, effective marketing, low barriers to access (especially compared to traditional commercial banks), appropriate product design, an acceptable enabling environment, and more recently to external support from donors. Equity also offers a wide range of loan products and other financial services, such as money transfers, banker's checks, and bid bonds.

In the last few years, Equity has gained recognition within Kenya, and throughout Africa and the world, for its dramatic growth and professional operations. Of course, success brings its own challenges. In the coming years, Equity will need to manage the sustainability of this impressive growth by incorporating new staff, supervising the expanding branch network, maintaining the quality of customer care, and strengthening the quality of its loan portfolio.

Kenya: Scaling up Microcredit—The K-Rep Story

From 1984 to 2003, a Kenyan institution, K-Rep, transformed itself from a donor-funded project into a nongovernmental organization (NGO) and then into a commercial microfinance bank that balances a social and a profit mission. In the microfinance field, transformation from an NGO into a commercial institution that is licensed and regulated to mobilize savings is critical for broadening and deepening access to financial services for the poor. Demand from the poor for access to appropriate financial services is intense; among the poorest of the poor that demand is rarely met. K-Rep is the only microfinance bank in Kenya and in Africa that has been so transformed. Its success provides a demonstrable effect for other African microfinance institutions (MFIs) and regulators.

K-Rep was started in 1984 as a United States Agency for International Development (USAID) project to mediate funds for NGOs addressing poverty alleviation in Kenya using microfinance and enterprise assistance. K-Rep has undergone two major transformations, the most recent and significant one being during 1997–2001, when a commercial bank (K-Rep Bank Ltd.), a development agency (K-Rep Development Agency), and a consulting firm (K-Rep Advisory Services Africa Ltd.) emerged to fulfill the mission of the K-Rep Group: to empower low-income people, promote their participation in the development process, and enhance their quality of life.

In the late 1980s, K-Rep changed its institutional status from a donor project to a Kenyan NGO, shifting its leadership from expatriate managers to indigenous microfinance specialists. This transformation laid the foundation for leadership structures, governance principles, and standards; and it provided a culture that the institution would continue to draw on in establishing its new corporate structure. In the late 1990s, K-Rep transitioned again, this time from an NGO to a

commercial microfinance bank, in pursuit of its main goal of self-sustainability as a basis for long-term expansion of outreach to the poor. To this end, K-Rep sought funding from financial markets and financial independence from donors, which would lead to greater institutional control. K-Rep also wanted to be in a strategic position to influence financial sector policy to become more favorable toward microfinance for low-income people. It saw an opportunity to gain acceptance, legitimacy, and recognition as a licensed financial institution and thereby change perceptions of the public, clients, and players in the formal financial economy.

The need to seek external investors posed a particular risk to maintaining K-Rep's commitment to its core mission while obtaining needed funding and expertise. K-Rep's board of directors developed a road map to guide the process of selecting investment partners. It sought partners with the right combination of desirable characteristics: strong financial and commercial discipline; sufficient resources for additional future investments, if necessary; sufficient clout to influence Kenyan authorities and to protect K-Rep from negative political interference; and willingness to divest some of their equity holdings when K-Rep went public. The leadership also had to educate industry regulators on the benefits of an NGO transforming into a regulated microfinance commercial bank. Its external partners and donor agencies were important catalysts in this four-year process.

Despite intensive preparations and training, the actual changeover to operating as a commercial bank presented a cultural shock to K-Rep's personnel and, as a result, its operating systems. Management had to bring in new staff to cope with regulatory requirements, resulting in a culture clash between new and old staff, which management addressed through a *Back to Basics* program and special training to restore morale and commitment to the core mission of K-Rep.

After the expected initial teething problems, the transformation yielded very positive results. In just four years, the combined outreach of K-Rep institutions rose to exceed 90,000 borrowers and savers—including the autonomous Financial Service Associations (FSAs) that the K-Rep Development Agency created and managed—compared to slightly over 15,000 before transformation. New products deepened outreach and provided the active poor with an opportunity to improve their incomes by maintaining and growing their businesses. Although non-poor clients were added in the search for deposit mobilization as a base for expansion, the ability to reach the poorest of the poor was also enhanced. Out of 45,000 active borrowers and 62,000 active savers of K-Rep Bank in December 2003, approximately 6,000 were considered very poor, while over 70 percent of the 48,000 FSA shareholders are considered poor. Leadership remained focused on the poor while pursuing sustainability by building stakeholders' confidence that large-scale microfinance business can focus on the poor and still be profitable.

K-Rep's success has provided a platform for legitimizing microfinance. It has improved awareness among the public about the industry's immense growth opportunities in Kenya. As a result of K-Rep's demonstrated success and its lobbying efforts, a bill institutionalizing a microfinance category among financial institutions licensed by the central bank is being submitted to parliament. Though K-Rep has successfully evolved into a respected and multifaceted enterprise in the African microfinance industry, it continues to maintain its original mission. It has clearly demonstrated that determined and proactive leadership capable of seizing opportunities, coping with obstacles in the environment, and responding to the continuing challenges of institutional change can not only scale up microfinance as a commercial business serving the poor, but also can do so in a way that remains true to the goal of microfinance: reducing poverty.

Lessons learned

The K-Rep experience highlights the difficulty of institutional transformation for scaling up—which requires focused leadership and commitment from donors, government, and other stakeholders to succeed. But K-Rep’s experience demonstrates that it is possible to pursue a for-profit objective and at the same time achieve social objectives by carefully structuring the organization to create the tensions and cross-fertilization needed for adaptation and innovation in ever-changing circumstances. Perhaps the most significant challenge is developing appropriate human capacity and commitment.

To succeed in proactively overcoming obstacles and eventually changing the external environment, institutions need to marshal a broad coalition of partners that can facilitate the change process through their unique contributions. Important external catalysts in K-Rep’s success included MFIs in other countries that demonstrated the feasibility of microfinance methodologies and of transformation to licensed status; donors that facilitated the learning process of regulators; and investment partners that could provide credibility and help lobby for change.

Among the important lessons from the evolution of K-Rep are (1) that a conducive regulatory environment is important to facilitate transformation; and (2) that leaders must continually respond to challenges, be innovative, and modify institutional structures to adapt to changing environments. In an industry that is still considered new, emerging, and informal, continuous learning and experimentation are essential for responding to needs of microfinance clients and stakeholders.

K-Rep was initially one entity, but when the time was right, its board made the somewhat painful decision to split out its financial services division, which became K-Rep Bank, and its nonprofit development function, as K-Rep Development Agency (KDA). Subsequently, its capacity-building and consulting functions were incorporated into K-Rep Advisory Services (KAS). The constituent units of the K-Rep Group work synergistically in pursuit of their common mission. For example, the for-profit consulting arm of K-Rep, KAS, has contributed to expanding and transferring knowledge to achieve the outreach objectives indirectly. It has provided advice and technical assistance in 15 countries and is estimated to have an indirect outreach to more than 100,000 beneficiaries across Africa. KDA has incubated a number of pilot projects, with its biggest and most promising being the financial services associations. KAS is now incubating a community phone project. When the board feels that the time is right, financial services associations or the community phone project, for example, could become K-Rep entities in their own right.

K-Rep is in the process of a major consolidation, which is likely to be followed by further transformations to take advantage of the skills and potential of the group’s three institutions and to harmonize their mission and objectives so as to maximize benefits. Thus transformation is part of a continuous evolutionary process.

Implications for replication in other settings

Institutions seeking to replicate K-Rep’s transformation need first to understand and foresee the changes that scaling up may create, particularly with respect to the structures needed to maintain their core mission and objectives. In Kenya, the Co-operative Bank is expanding its microfinance activities successfully as a result of better awareness—and a regulatory climate that is now more conducive to microfinance, as championed by K-Rep and its partners. K-Rep benefited from establishing a research and development department that would experiment and keep it informed of industry trends. The importance of testing new methodologies and adapting them to suit local circumstances requires an organization capable of learning, both internally and externally.

Government support is critical in establishing a regulatory climate that will allow sustainable microfinance institutions to service poor clients. Donors should be understanding, flexible, and

accommodative of the unique situations in which institutions operate. They should provide opportunities to empower and nurture MFI leadership and build linkages to international networks to expose managers to best practices. In the initial stages, donors could support institutions by assuming investment risks for social reasons, so as to build confidence with other partners. Finally, leaders must continuously transform institutions and develop their human-resource capacities in response to client demands and the changing environment.

Madagascar: Credit with Education in TIAVO Savings and Loan Network *Consultative Group to Assist the Poor*

The Network of Savings and Loan Associations (SLA), known as the TIAVO Network, began as a pilot program in rural microfinance in 1996, serving Fianarantsoa, the poorest province in Madagascar. The TIAVO Network has impressively expanded its services to the poor, especially to the very poor, by integrating the SLA and Credit with Education (CRE) programs. It achieved these gains despite political turmoil in Madagascar in 2002 and other severe constraints. Fianarantsoa—like all of Madagascar—faces inherent disadvantages in providing financial services for the poor: it has a low per-capita income, the population is dispersed, and communications are inadequate, in part because of the country's rugged topography.

The expansion of the TIAVO network is part of a nation-wide program supported by the government of Madagascar with donor financing. Its aim is to assist local groups to develop self-sustaining financial institutions in four of Madagascar's six provinces (initially), in order to address the virtual lack of financial services for the poorest of the population. Proponents of the program recognized at the outset that the microfinance institutions created or expanded under this microfinance program might not reach the very poor without specific efforts. Consequently, they tested and implemented special programs for socially excluded groups—typically women and the poor living in isolated areas.

The Credit with Education (CWE) program was introduced in the TIAVO network in 1999, using Freedom from Hunger's methodology and financed through MicroStart (offered by the United Nations Development Programme). Under CWE, poor women are encouraged to form groups, or credit associations (CAs), that join the SLA and thus gain access to credit from the TIAVO Network. The TIAVO SLAs are member-owned microfinance institutions that serve low-income members. Members must have savings and provide physical guarantees in order to get access to credit—requirements that individual women are unable to meet, but now can through CWE and the CAs.

CWE program loans are small and are guaranteed by the CA members; repayments are weekly or biweekly. Loan recipients are selected by local women's committees. The CWE program integrates training with the credit program. Promoters (field agents) visit the CAs in their communities every week. During these visits, they also provide training on family health, child nutrition, and business practices; and disburse loans and collect repayments.

From 2000 to 2003, credit outstanding in the TIAVO Network increased more than sevenfold, to around \$850,200, and membership more than tripled to 14,000. In the three and one-half years since the CWE program started, 129 CAs were established, with close to 2000 women members. CA members received a total of 11,000 loans by the end of 2003. Initially an independent program within the TIAVO network, CWE is now being integrated into the Network operations.

The experience of the program offers one more example of how successfully microfinance institutions can target programs to the very poor, and more evidence that these programs do increase the depth of outreach to the very poor.

Mexico: Integrating the Poor into the Mainstream Financial System: The BANSEFI and SAGARPA Programs

Consultative Group to Assist the Poor

With the passage of the Popular Savings and Credit Act in 2001 and the subsequent launching of a US \$150 million program to strengthen savings and credit institutions and expand their outreach in marginal rural areas, the Mexican government embarked on a pioneering effort to alleviate poverty and increase income-generating potential by massively scaling-up access to safe and efficient financial services for the poor.

BANSEFI—strengthening the savings and credit sector

The Savings and Credit Sector Strengthening Program, implemented by the National Savings and Financial Services Bank (BANSEFI), is building the capacity of more than 400 “Popular Savings and Credit Institutions” (or EACPs by their Spanish acronym) to meet new legal and regulatory standards and offer safer, more efficient financial services. The EACPs target almost 3 million users who are generally among the poor and lower-income groups. These clients typically have no access to the commercial banking sector, which currently reaches only about 25 percent of the adult population in Mexico’s urban areas and has a much smaller presence in the rural sector.

BANSEFI wants to ensure that the clients of every savings and credit institution gain access to safe and efficient financial services via its outreach expansion programs. Hence, BANSEFI is developing an information system to link EACPs (those that elect to participate) to its network federations and confederations, the banking supervisor, and BANSEFI itself. This shared technological platform will offer retail financial institutions advanced software and services—such as treasury management, funds compensation, and portfolio risk analysis—at lower costs.

With this technological platform (currently in its pilot stage), BANSEFI also spearheaded the development of a voluntary internet-based network of savings and credit institutions called “L@Red de la Gente,” or “the People’s Network.” L@Red links BANSEFI’s 551 branches to more than 180 offices of 19 participating institutions, and creates an expansive network of more than 730 branches. As of 2005, clients of any participating branch or institution will be able to make transactions on their accounts, for most of the products offered, from any other network participant. L@Red de la Gente represents, for many financial intermediaries, an additional incentive to accelerate their formalization process, since complying with established performance standards is a requisite to join this strategic alliance.

More importantly, these individual institutions and branches have been incorporated as nodes in the network of the national payments system. As a result, emigrants and public institutions can send cash transfers securely and cost-effectively to recipients in some of Mexico’s poorest and most remote locations. Federal programs providing payments to targeted groups for health, education, and agricultural production are already tapping the potential of L@Red, which will expand to include approximately 2,000 branches when the Savings and Credit Sector Strengthening program is completed in 2008. As of December 31, 2003, L@Red de la Gente had distributed payments from these programs to more than 1.5 million beneficiaries, and this number is expected to grow to 3.3 million by the end of 2004.

Among these programs, *Oportunidades* (a program that provides cash subsidies for health and education expenses to the poorest of Mexican families) is worth noting. This is one of the most successful anti-poverty programs in Mexico. Approximately 750,000 savings accounts have been opened for the beneficiaries of *Oportunidades* as a new way to transfer the government subsidies through L@Red de la Gente. This has not only made *Oportunidades* more transparent, but has had the effect of bringing some of the poorest Mexican families into the financial system. As these families earn interest on their new accounts, they learn how savings can open access to other types of financial services. This is the major permanent impact of the program. As of December 2003, for example, about 80 percent of the people who received transfers through L@Red from *Oportunidades* had savings accounts with positive balances in branches of L@Red. This suggests that this strategy is introducing savings services into the welfare dynamics of poor families, which can be the basis of future asset accumulation.

In addition to the transfers from government programs, the network also channeled more than US \$53.6 million in remittance payments, sent from abroad to friends and family members. It is worth noting that L@Red de la Gente offers accounts that link different savings and investment products (standard savings accounts, housing-savings accounts, etc.). This feature is particularly useful for remittances, since emigrants can choose the proportions of the money sent to be cashed or invested in different financial products.

SAGARPA—reaching marginal rural areas

As part of the same government strategy—the Secretariat of Agriculture, Livestock, Rural Development, Fisheries, and Nutrition (SAGARPA) is now working in 13 states to set up new savings and credit institutions, build the capacity of existing EACPs, and bridge the gaps between these financial service providers and the communities of poor and mostly indigenous people living in the areas they serve.

A survey of Mexico's marginal rural areas in 2000 showed that just 2.5 percent of households had access to credit from a financial institution, and less than 6 percent used formal financial savings instruments. Poor households in marginalized rural areas stand to gain the most from increased access to financial institutions and services—where they can safely build up liquid savings—because currently they rely on informal savings mechanisms and physical assets, like small livestock, that have low yields and high loss rates. They generally pay high transaction costs and commissions to receive remittance payments, and are typically charged about 120 percent per year in interest if they borrow money.

To help remove these constraints, SAGARPA began to implement the Rural Microfinance Technical Assistance Project (or PATMIR in Spanish) in 2001 to expand the network of EACPs into Mexico's poor and isolated rural communities. PATMIR provides savings and credit institutions operating in the marginal rural areas with technical assistance to develop their outreach capacity. It also provides professional technical assistance and limited start-up funding for different types of community organizations to develop new savings and credit institutions, or for existing institutions to open new branches.. In each case, technical assistance providers also assist participating institutions in complying with the new legal and regulatory standards.

As of January 2004, PATMIR had strengthened and increased the outreach capacity of 41 savings and credit institutions in Chiapas, Huasteca, Guerrero, and Veracruz, providing more than 10,000 clients with access to financial services at new branches or institutions, and improving the financial institutions upon which nearly 24,000 people rely. These clients now have more secure savings and greater access to remittances and government transfers (via L@Red de la Gente). These financial institutions also offer credit funded by member savings.

The program has now expanded to three more regions of the country and is expected to sustainably integrate more than 80,000 people from Mexico's poorest, most marginalized groups into the financial system before its completion in 2007. To achieve this goal, PATMIR works extensively with individuals and groups in these rural communities to educate them about the benefits of formal savings, how to use savings and other financial services to their advantage, and the rights and responsibilities of membership in a cooperative financial institution. Rather than quickly adding names to a membership roster, the program focuses on cultivating *conciencia, confianza y compromiso*—awareness, trust, and commitment—between the new members (who are typically from indigenous groups and include everyone—women, youth, and the aged, as well) and their financial institutions, so that each understands its investment in the other.

In addition, PATMIR helps the EACPs to incorporate new ways of attracting and responding to marginalized clients—by hiring multi-lingual staff to promote their services and introducing personal digital assistants and mobile banking to make savings more convenient and attractive, for instance.

In 2003, more than 4.2 million families received transfers through one federal safety net program alone, and US\$13.2 billion in remittances flowed into the country from Mexicans living and working abroad. Much of this money went to the marginal areas where PATMIR is working. By incorporating poor and marginalized households into the financial system and providing them with safe savings facilities, families are developing the capacity to better manage and capitalize on they generate and receive from multiple sources..

Main lessons

Bringing the poor into the financial system, especially those at the margins of society in geographically isolated regions, teaching them to better manage the cash resources they have, and providing access to new sources of finance at lower costs is the root objective of the massive and ambitious programs undertaken since 2001 by BANSEFI and SAGARPA. While it is premature to assess the programs' overall impact, results to date indicate that they are likely to have far-reaching effects on the scope and direction of sustainable financial services in the future to alleviate poverty and stimulate equity-enhancing growth. The main lessons the BANSEFI and SAGARPA programs have revealed so far include the following:

- Government intervention can effectively increase access to financial services for low income households and businesses by getting the regulatory framework right, building the institutional capacity of financial institutions, and subsidizing the deployment of modern technology to increase the efficiency of service providers.
- Packaging the development of adequate regulations and supervision, institutional capacity-building, and technological infrastructure is more likely to yield sustainable results and cost less over time than traditional interventions which focus on increasing credit flows.
- Outreach expansion efforts among the poor in marginalized rural areas have much better long-term prospects if they focus on building the stake that these clients have in their savings and credit institutions, as savers, rather than building financial relationships based on the expectation of getting a loan.

Mongolia's Agricultural Bank ***Consultative Group to Assist the Poor***

The Agricultural Bank of Mongolia (Ag Bank or XAAH) is the main provider of financial services in the rural areas of Mongolia. It has the largest branch network in the country, with 379 locations (93 percent in rural areas), and provides deposit and loan products at each point of service. Although it was in receivership in 1999 and faced possible liquidation, this former state bank has been completely turned around and was privatized through international tender to a major Japanese company in March 2003.

Turnaround efforts have resulted in Ag Bank disbursing 878,000 loans between late 2000 and February 2004, while maintaining an arrears rate consistently below 2 percent and becoming the most profitable bank in Mongolia, with a return on equity of 44.19 percent in 2003. As of February 2004, 128,227 loans were outstanding for a portfolio of almost \$50 million with \$75.5 million in 377,424 deposit accounts. The 15,433 domestic transfers totaled \$260,000 for the month. The average outstanding loan balance is \$382, deposit accounts average \$200, transfers \$17, and half of Mongolia's households do business with Ag Bank. This turnaround identified and mobilized the strengths of an existing institution to rapidly disseminate desperately needed financial services to the rural areas and protect access to the few existing financial services upon which many rural Mongolians rely.

After many years of operating deficits, loan losses, and a failed attempt at privatization, Ag Bank was placed in receivership in 1999, and many in the international community felt that it could never operate sustainably and should be closed. However, the importance of Ag Bank to Mongolia's rural sector can not be overstated. Although one of the smaller financial institutions in the country, it was the only bank with branches throughout Mongolia's vast territory through which to transfer money, make government pension and salary payments, and accept deposits. Closing it would have had a devastating impact on the rural economy.

The World Bank made reforming Ag Bank a condition of its Financial Sector Adjustment Credit Program for Mongolia, and the US Agency for International Development (USAID) agreed to provide funds for an outside management contract. The Government of Mongolia agreed to provide this outside manager with full authority to manage the institution, free from political or other interference.

A contract was signed with Development Alternatives, Inc., (DAI) of Bethesda, Maryland, USA, to manage the bank. In July 2000, a team led by Chief Executive Officer J. Peter Morrow arrived in Mongolia. DAI staff and advisors provided technical support as the team set the agenda for the turnaround and transformed Ag Bank. By agreement among all parties, the mission of the turnaround was to: (1) restore financial soundness to the bank; (2) bring financial services to the country's rural population; and (3) prepare Ag Bank to operate independently and be privatized.

The management team developed a new lending program, converted payment services into deposits, created an extensive marketing program to improve the bank's image and attract clients, implemented strong controls through new policies and procedures, established a more effective management structure, and significantly increased training activities.

In January 2003, the government of Mongolia received three viable bids for Ag Bank, all from strong and fully qualified private sector buyers. H.S. Securities of Japan was the highest bidder, and at \$6.85 million became the successful purchaser of Ag Bank. The sale closed on March 25, 2003. The new owners have hired DAI to continue managing Ag Bank, a contract that is fully paid for out of the bank's income.

The rural areas of Mongolia have been the Bank's main focus, and its successes there have laid the foundation for substantial growth and new services for all Mongolians. Ag Bank's current mission statement is: "To be the principal nationwide financial services company in Mongolia by delivering first-class products with the highest level of customer service." Key to the turnaround of the institution was developing and implementing products throughout the country profitably. Ag Bank has shown that financial products can be created and delivered gainfully in even scarcely populated and poor areas if they truly meet the needs of customers. The institution has proven that it can sustain itself and, in fact, contribute significantly to Mongolia's overall economic development. Aside from the large impact of its loan and deposit activity, the opening of 110 new branches and creation of more than 1,000 good paying jobs boosted the economies of many communities. In addition, Ag Bank is now one of the largest taxpayers in Mongolia where before it was a cash drain on the government.

4

Legal and Judicial Reform

Bhutan: Sustainable Development through Good Governance

In 1960 Bhutan, one of the world's most isolated countries, suffered from severe development problems, including widespread illiteracy, steep infant mortality, chronic food insecurity, and frequent natural disasters. But Bhutan has since made enormous strides, in recent years achieving human development indicators that put it on par with the rest of South Asia.

Life expectancy has nearly doubled, reaching 66 years in 1994. By 2000 infant mortality, formerly among the world's highest, had fallen to 61 per 1,000 live births. Today more than 90 percent of the population has access to primary health care, 65 percent of the rural population has access to safe drinking water, 80 percent of school-age children are enrolled in primary school, and adult literacy has jumped to 54 percent, up from just 10 percent in 1970. Economic progress has been similarly impressive, with GDP per capita reaching \$640 in 2002—more than five times the level in 1980. Thus, despite serious challenges, Bhutan's development policies have had far-reaching, sustained effects.

The “secret” to Bhutan's success

How has Bhutan achieved so much success in so short a period? Through good governance. The kingdom has made effective use of domestic and donor resources to rapidly expand health, education, and other services, even in remote and isolated communities. Moreover, development innovations have been mediated through traditional institutions by a strong, reform-minded leadership that has ensured policy stability and accountability for results.

Other factors also help explain Bhutan's rapid, sustained development:

- An absence of extreme poverty and of a large surplus workforce.
- A rich, largely renewable natural resource base (hydropower and forests).
- A well-functioning administrative infrastructure that delivers development services to cohesive community organizations capable of using them effectively.
- A home-grown development philosophy—based on the concept of “gross national happiness”—that stresses the primacy of Bhutanese culture and ensures that development approaches are adapted to local conditions and values.
- Long-term support from development partners willing to grant Bhutan considerable autonomy in recognition of its high standards for accountability, efficiency, transparency, and effectiveness in using donor resources.

Many key changes began in the 1950s and 1960s, when King Jigme Dorji Wangchuk (reign: 1952–72) introduced sweeping reforms that ended serfdom and abolished an in-kind, commodity-based tax system. The replacement, a modern, cash-based system, introduced the notion of equity and eliminated many traditional posts associated with the country’s medieval bureaucracy. This shift also required the state to develop new sources of revenue to support its administrative systems, as well as to invest in development infrastructure and social services. Today rural taxes account for a negligible proportion of tax revenue.

Smart investment strategies

During the 1960s Bhutan’s most pressing needs were to rapidly improve roads and telecommunications and to consolidate the institutions and mechanisms required for a modern, centralized state—including a civil service with competitive recruitment and merit-based promotion. The success of these investments laid the foundation for a steady increase in basic services, particularly health and education, that continues today.

Public spending on the social sectors has been a high priority since the 1970s, and essential medicines are now available to almost the entire population. Moreover, childhood vaccination rates have steadily increased, with 78 percent of infants now immunized against measles and 88 percent against diphtheria, pertussis, and tetanus (DPT)—twice the levels in the early 1980s and well above the average for South Asia.

In education, the decision to adopt English as the language of instruction greatly expanded access to instructional materials and international training. Today there are more than 100,000 students (in a population of 600,000) enrolled in 322 educational institutions in Bhutan, including a new national university. Demand for schooling has skyrocketed as education has become recognized as the path to a better life. But while Bhutan has invested heavily in new schools, there remains a significant shortfall of trained teachers. To ensure the sustainability of the education system, plans are being considered to introduce school fees, based on household incomes.

A drive toward decentralization

One of the key themes of the reign of King Jigme Singye Wangchuk (1974–present) has been to reduce excessive local dependence on the development role of the central government. This goal has been pursued through policies and institutions designed to decentralize administrative responsibilities and increase local decision-making and accountability. Accordingly, the monarchy has surrendered power to an executive branch led by a cabinet and to the national legislature. This process is now culminating in the drafting of a formal constitution making Bhutan a constitutional monarchy.

The formal structures and procedures for decentralization have evolved through the creation of local development committees at the district and block levels. These committees are empowered to formulate plans and make decisions for socioeconomic development programs in their communities. The committees also propose issues for debate in the national assembly. All the members of these bodies are elected representatives of local communities.

The central government recognizes that it is imperative to transfer skilled officials and other staff to districts. Still, perhaps the most important aspect of decentralization involves the transfer of financial powers and responsibilities to local development committees, a process that began in 2003. Budgets earmarked for projects in each district and block are now controlled by these committees. The committees have also been empowered to retain rural taxes and mobilize local financial resources. (At the same time, steps will be taken to ensure that fiscal decentralization does not disadvantage districts with lower economic productivity.) These and other changes in local financial

authority have already generated an increase in local initiatives that would not have been possible under earlier arrangements.

Looking ahead

Bhutan's development policies and social and political institutions reflect Buddhist concerns for equality and compassion, particularly the sense of responsibility for maximizing happiness and minimizing suffering for all members of society. The government views happiness as a policy objective—one that can be achieved only by enhancing people's well-being. Hence goals such as alleviating poverty and increasing access to health and education are national priorities.

One of the biggest challenges for scaling up poverty reduction is overcoming rural isolation by constructing roads, which the government has made a top priority. Improving the economic base of the rural population and so reducing poverty will depend on enabling rural communities to access national and regional markets for their agricultural produce. As part of decentralized governance, local governments will now undertake these responsibilities. Despite its declining contribution to GDP, farming will remain an important economic activity.

Bhutan also faces other major development challenges and constraints—including its geographic isolation, limited arable land, small private sector, growing unemployment, lack of skilled labor, and excessive dependence on hydroelectricity for revenue. Among the most important challenges for Bhutan is translating its steadily growing hydroelectricity revenue into sustainable financing for development investments without provoking “Dutch disease,” triggering inflation, or otherwise distorting the economy, or creating sociopolitical tensions by aggravating income disparities and regional imbalances. Still, given the government's long-standing concern for and competence in dealing with needy groups, it should be able to continue its progress in reducing poverty and advancing development.

India: Holding the State to Account through Citizen Report Cards

When a government is indifferent, the initiative for change must come from civil society. Citizens who elect and pay for governments cannot and should not remain quiet when essential services are in disarray and public accountability is lacking. It was against this background that a small group of citizens launched a “citizen report card” (CRC) on public services in Bangalore, a large city in Southern India in 1994. A CRC represents an assessment of public services of the city from the perspective of its citizens. The latter are the users of these services and can provide useful feedback on the quality, efficiency, and adequacy of the services and the problems they face in their interactions with service providers. When there are different service providers, it is possible to compare their ratings across services. The resultant pattern of ratings (based on public satisfaction) is then converted into a “report card” on the city's services.

A citizen report card on public services is not just one more opinion poll. Report cards reflect the actual experience of people with a wide range of public services. The survey on which a report card is based covers only those who have had experiences in the use of specific services and interactions with the relevant public agencies, or other aspects of public services. Users possess fairly accurate information, for example, on whether a public agency actually solved their problems or whether they had to pay bribes to officials. Of course, errors of recall cannot be ruled out. But the large numbers of responses that sample surveys generate lend credibility to the findings.

Stratified random sample surveys using well-structured questionnaires are the basis on which report cards are prepared. It is generally assumed that people from similar backgrounds in terms of education, culture, etc., are likely to use comparable standards in their assessments. But these standards may be higher for higher income groups than for the poor whose expectations about public services tend to be much lower. Dividing households into relatively homogenous categories is one way to minimize the biases that differing standards can cause.

The first report card on Bangalore's public agencies in 1994 covered municipal services, water supply, electricity, telecom and transport. Since then, Public Affairs Centre (PAC) which was set up in Bangalore by the small group of citizens referred to above has brought out report cards on several other cities, rural services and also on specific sectoral services such as health care. But since it has tracked services for a longer period in Bangalore, a case study of this experiment is described below.

The findings of the first CRC on Bangalore were most striking. Almost all the public service providers received low ratings from the people. Agencies were rated and compared in terms of public satisfaction, corruption and responsiveness. The media publicity that the findings received and the public discussions that followed brought the issue of public services out in the open. Civil society groups began to organize themselves to voice their demands for better performance. Some of the public agencies responded to these demands and took steps to improve their services. The inter-agency comparisons and the associated public glare seem to have contributed to this outcome. When the second report card on Bangalore came out in 1999, these improvements were reflected in the somewhat better ratings that the agencies received. Still several agencies remained indifferent and corruption levels continued to be high.

The third CRC on Bangalore in 2003 has shown a surprising turnaround in the city's services. It noted a remarkable rise in the citizen ratings of almost all the agencies. Not only did public satisfaction improve across the board, but problem incidence and corruption seem to have declined perceptibly in the routine transactions between the public and the agencies. It is clear that more decisive steps have been taken by the agencies to improve services between 1999 and 2003.

What lessons can we learn from this experiment? A whole complex of factors seem to have influenced the outcomes described above. Some, like the report card and the advocacy by civil society groups seem to have worked on the demand side of services. Other factors influenced the outcome from the supply side. A major initiative came from the new Chief Minister who was very much concerned about the public dissatisfaction with the city's services. He set in motion new mechanisms such as the "Bangalore Agenda Task Force", a forum for public-private partnership that helped energize the agencies and assist in upgrading services. The civil society groups and the media supported and monitored these efforts. What is significant is that the initial trigger for these actions came largely from the civil society initiative that we call "citizen report cards".

It is obvious that these initiatives are more likely to succeed in a democratic and open society. Without adequate space for participation, CRCs are unlikely to make an impact. A tradition of activism within the civil society also can help. People should be willing to organize themselves to engage in advocacy and seek reforms supported by credible information. Political and bureaucratic leaders must have the will and resources to respond to such information and the call for improved governance by the people.

Last, but not the least, the credibility of those who craft CRCs is equally important. The initiators of the exercise should be seen as non-partisan and independent. They need to maintain high professional standards. The conduct of the survey and the interpretation of the findings should be done with utmost professional integrity. A report card does not end with the survey and its

publication. Much of the advocacy work that follows will draw upon the report card findings. The CRC thus is a starting point, to be followed by further action through organized advocacy efforts, including civic engagements and dialogues with the relevant public agencies.

When a government on its own improves its services and accountability, initiatives such as CRCs may not be necessary. Even under these conditions, a report card can be an effective way for civil society groups to monitor the performance of government and its service providers. Public agencies can on their own initiate report cards on their performance as indeed some in Bangalore have done. But when a government is indifferent to these concerns, the report card approach can be an aid to civil society groups that wish to goad the government to perform better.

Nicaragua: Support for the Administration of Justice—The Rural Judicial Facilitators Program

Swedish International Development Cooperation Agency

With the Nicaraguan Supreme Court, the Organization of American States (OAS) is supporting the Rural Judicial Facilitators (RJF) Program in Nicaragua. The Swedish International Development Cooperation Agency (SIDA) provides financial support to the program. The RJF program's objective is to improve the people's access to justice in 57 rural municipalities with poverty head count ratios above 60 percent and poor access to urban areas and services.

In 1997, the OAS developed a Technical Collaboration Program (PCT) to support local conflict management in rural areas in the central northern part of Nicaragua, where violence had continued after the war and lawlessness plagued the villages. The program supported local Peace Commissions as a means of strengthening the local civil society's capacity to prevent and mediate in local conflicts. Support was also provided to establish a functioning legal system, including a layperson corps to assist local judges, named rural judicial facilitators (RJF).

The rural judicial facilitators mediate in minor criminal cases, family conflicts, and property-related disputes by providing alternative solutions. They advise community members on legal issues and inform them of their legal rights. The facilitators are leaders who are recognized in and elected by their communities. They hold no political posts; the only academic requirement is that they must read and write. Community leaders participate as facilitators on a voluntary basis.

PCT program evaluations concluded that the program had been very successful in providing legal services in poor rural areas and that the RJF component was especially innovative. Given that the limited access to justice in rural areas is not only a problem in Nicaragua's central northern parts, it was decided that the RJF program would be expanded and implemented in 57 rural municipalities in Nicaragua.

The RJF program currently involves 400 judicial facilitators, 14 percent of whom are women, who help people in 400 communities. Other actors are also involved. The local judges are in charge of the facilitators' education and counseling. OAS field promoters support the activities and follow up on the program results. The Supreme Court is in charge of the supervision and of the relations between the judges and the judicial facilitators. The latter task is conducted through a special office. The Supreme Court is also responsible for guaranteeing the program's sustainability.

The RJFs have played a significant role in improving the administration of justice in their communities. During the 2002-2003 period, the RJF program worked on 10,998 cases, which

included assault, family violence, property-related disputes, cases remitted to the local judges, and mediations.

The RJFs have contributed to the presence of law in remote communities; this has helped to prevent violence, crime, and further conflicts. They have also created a closer relationship between the judicial branch and the people. The program gives people a voice in the judicial process and increased their participation in legal reform. In this sense, the program provides an opportunity for people to overcome the unequal distribution of power and resources that characterize Nicaraguan society.

Furthermore, the RJF program has contributed to legal reform, more specifically the reform of the Criminal Code of Procedures (CPP), which recognizes the judicial facilitators as *auxiliary staff* in the administration of justice (Art. 423 CPP). This is an important acknowledgement of the need to improve the access to justice and of the communities' capacity to actively participate in that process.

Background and development

Nicaragua is one of the poorest countries in Latin America, despite being the largest country by area in Central America, with many natural resources and good agricultural potential. About half of the population live in rural areas; 70 percent of these people live in poverty. Of those 70 percent, 30 percent live in extreme poverty. Of the 16 departments and two autonomous regions in Nicaragua, 10 are in rural areas, where the poverty headcount ratios are above 50 percent. Of the country's 152 municipalities, 70 percent are predominantly rural, with less than 20,000 inhabitants, most of them very poor.

The initial program supported rural judicial facilitators in 13 poor municipalities, where they promoted the administration of justice in 1,700 cases and provided extra-judiciary mediation in 1,850 family and property-related disputes.

These positive experiences brought about the extension of the Rural Judicial Facilitators Program. The expanded program began in November 2002 and will continue, with the help of SIDA funding, until 2006. In the expansion process, priority is given to rural population with small incomes and high poverty levels. The RJF program directly influences poor communities' access to justice and is expected to serve 275,000 people through 700 rural judicial facilitators and 67 local courts, working directly with the Supreme Court and civil society.

Key components

The RJF Program activities can be divided into six key components:

- *Program promotion*: The program identifies target groups, holds meetings with local judges, and conducts visits with key actors. Exchange of experiences among judges take place.
- *RJF training*: The facilitators are trained in legislation, human rights, family violence, environment, and children's rights. The training process involves state institutions as well as the civil society, taking into account each municipality's specific conditions.
- *Program operations*: The program has defined a feedback mechanism that gives continuous information on the progress of the operational plans. The feedback mechanism includes monthly meetings with local judges, national meetings with RJFs, and other activities that allow a systematic evaluation of program objectives.

- *Material support:* The program distributes material resources to local courts and judicial facilitators, with the purpose of facilitating their activities. This is particularly important given the scarcity of resources where the activities are conducted.
- *Extension:* The program seeks to establish links with different local actors, such as the local government and social organizations. These activities include the exchange of experiences and information disseminated to people living in the communities.
- *Institutional strengthening and sustainability:* This includes actions that aim to set the conditions to ensure program sustainability. For example, the recognition on behalf of the judicial power that the RJFs are *auxiliary staff* in the justice administration with the authority to mediate in conflicts.

Crosscutting issues

In all these components, crosscutting issues such as children's rights, adolescent issues, environmental issues and, in particular, gender equity and indigenous rights, are taken into account.

The program's aim is to achieve broad participation of both men and women. It is estimated that 30 percent of the RJFs will be women by 2006. These female facilitators serve as role models for many women, which is particularly important for those who live with intra-family violence. In addition, several program activities aim to increase people's gender awareness and to find solutions to problems of inequality between men and women.

The program's extension to the Atlantic region of Nicaragua has given the RFJ program a more complete and multifaceted understanding of indigenous issues, since the region includes various ethnic groups and indigenous peoples with their own values and customs. A working methodology that takes indigenous issues into account is being developed in the Atlantic region, without altering the key program features. In two municipalities of this region, a pilot project was initiated where the RJFs established working links with the indigenous judges or *withas*. Moreover, a special addition to the RJF's regulation takes into consideration the indigenous cultures' customs, values, traditions, and the mechanisms of imparting justice. The focus on indigenous communities is important because these communities have poverty levels that are far higher than the national average.

Results

- It has been estimated that 40 percent of the population living in the communities covered by the program resort to the judicial facilitator for conflict resolution, saving time and economic resources.
- The reports of the national police, local courts, and the district attorney's office indicate that crime has gone down by 10 percent in the communities where the program was introduced.
- The facilitators' presence has increased people's trust in the justice system in the targeted communities.
- Civil society's role has been strengthened as a result of the promotion of links among different civil society organizations within the program framework.

Driving factors

The RJF Program is now in a consolidation phase and many factors point toward its continuity and sustainability.

The five-year Operational Plan of the Supreme Court (CSJ) establishes the RJFs as a highly prioritized long-term strategy; the CSJ has opened an RJF office, which will ensure the program's technical sustainability. Its financial sustainability has been achieved by integrating its administration into the CSJ budget. The reinforced Poverty Reduction Strategy (ERCERP) aims at improving the resources allocated and increasing civil society's active participation, particularly towards the poor.

Given the program results to date, many nongovernmental organizations (NGOs) are interested in expanding the project to other municipalities. Furthermore, they suggest that the number of RJFs per community (that conforms to a municipality) be higher than 10, with the aim of benefiting more poor social groups.

The Criminal Code reform provided the RJF with a legal and institutional role, while the Swedish government's contribution to the program fulfills a catalytic function, spurring further action by the government, the Supreme Court, and people living in remote communities.

Lessons learned

- The rural judicial facilitator model could be applied in other countries where the population lives mainly in rural areas and where access to justice is hampered by long distances and by a lack of financial means in poor communities.
- With the RJF program, the rural population can communicate more directly with the judicial system. It brings judges and people closer together, breaking a historic distance between them and reducing the unequal power balance between state public officials and the people they serve.
- The program's working method can be applied to different social sectors, including indigenous groups, without violating their customs, values, culture and traditions.
- The program's working method has brought together government institutions, NGOs, and the civil society, with the objective of expanding the program to other areas.
- The RJF program significantly contributed to a reduction in crime and violence by promoting a civil culture in the communities with the mediation process.
- The RJF program promotes citizens' participation in the administration of justice, which allows for an efficient use of limited resources.

Russian Federation: Monitoring Administrative Barriers to Small Business Development

The goal of the business deregulation program launched by the Ministry of Economic Development and Trade of the Russian Federation in 2001 is a significant reduction in administrative oversight, delays, and overall costs to businesses associated with procedures of registration, licensing, certification, and inspections. Enforcement of the laws underpinning the program is supposed to reduce the regulatory burden on business and foster a freer and less corrupt market economy.

To measure the effectiveness of the changes brought about by the business deregulation program, the Center for Economic and Financial Research (CEFIR)—in cooperation with the Ministry of the Economic Development and Trade (MEDT) of the Russian Federation and the World Bank, and with financial support from USAID—has conducted three rounds of surveys of small businesses in 20 regions of the Russian Federation. The surveys were face-to-face interviews, in which top managers or deputies of 100 firms in each region (20 recently registered and 80 incumbent firms) were asked questions about the administrative burden imposed on them by government regulation. The goal was to uncover the effects of the streamlining initiative of MEDT in the areas of licensing, registration, and inspections.

The survey for incumbent firms consisted of four sections: general firm information and perceptions about the overall business environment in their locality, as well as licensing, certification, and inspections. Focusing on the recent experiences of firms, the questions dealt with a wide variety of indicators of regulatory burdens, such as monetary payments, time and effort costs, number of agencies dealt with, and perceptions about the current level and change over time. By contrast, the questions in the survey of newly registered firms focused on the costs of entering the market: registration, licensing, and certification. In all three rounds, respondents were asked to compare the level of the administrative burden with the previous half-year.

The timing of the survey relates to the enactment of the four new deregulation laws. The first round of monitoring concentrated on the six months before and the six months after the law on protection of rights during inspections came into force. The second round concentrated on a time period after the laws on licensing came into effect. The third round tracked the changes after the new registration law. At present, results of the first two rounds have been analyzed; for the third round, preliminary findings are available.

The primary result of the first round was that in all areas of regulations the situation in 2001 was very far from the target level proclaimed in the legislation. According to legislation that came into effect in July 2002, the process of registering a new business should take five days and cost no more than 2,000 rubles. Data on administrative costs of entry for the second half of 2001 and the first half of 2002 show that the costs of registration were far from the target set by the government and that they were the same in the two rounds of the survey: on average, registration took about a month and cost about 4,500 rubles.

The second round showed noticeable improvements in inspections and licensing—the areas where new laws were enacted between the two rounds. A marked improvement in inspections was observed in the first half of 2002 compared to the first and second halves of 2001. The latter comparisons control for seasonal fluctuations, which the data presently allow only with respect to inspections. On average, the number of inspections in the first half of 2002 fell by 21 percent when compared to the first half of 2001, and by 27 percent when compared to the second half of 2001. Consequently, both the time that management spent on inspections and the costs of inspections to firms decreased.

Abuse of power by the inspecting agencies was still visible as of the first half of 2002, however: 6.4 percent of firms had experienced direct violation of the new law by fire safety inspectors and 5.2 percent by sanitary inspectors. Firms continued to report large numbers of unplanned inspections, especially by the police, for whom the share of unplanned visits was 45 percent. Twelve percent of firms reported that inspections presented a problem that could be characterized as “very serious” or “threatening the existence of the firm.”

Improvement in licensing is impressive. In February 2002, the new law on licensing regulations came into effect. The law stipulated a significant reduction in the number of activities

requiring a license, reduced the cost of a license to 1,300 rubles, and increased the term of validity of a license to no less than five years (from 3,000 rubles and three years stipulated in the old law). The share of firms applying for licenses and permits dropped by more than a third, from 29 percent in the second half of 2001 to 19 percent in the first half of 2002. The biggest reduction in applications was for licenses that were legitimate under the 1998 law but no longer required in 2002: the number of firms that applied for such licenses fell from 4.3 percent to 1.7 percent of the whole sample.

While changes in other areas of regulation induce optimism, one must be cautious about comparing fall 2001 to spring 2002. Improvements in the regulatory environment may be caused by a seasonal cycle—not by reforms. Thus, although the number of firms applying for licenses did not grow back in the third round (the second half of 2002), the costs of obtaining a license grew back to the level observed in 2001. At the same time, the number of permits, which are technically not licenses, had fallen.

Other problems persist as well: The cost of acquiring a license still exceeds 1,300 rubles. Almost half of all legitimate licenses are valid for less than five years, the minimum term prescribed by the new law. The perceptions of respondents imply that licensing remains a strong impediment to growth for many firms: 14 percent said that licensing presents a severe problem.

The study has had a strong and positive impact in and outside of government. The survey process has strong support at high levels of government and key findings of the survey have been discussed at the cabinet level. Combined with public debate and wide press coverage (including the CEFIR and World Bank websites), the program has helped establish a forum for open and honest dialogue between government and the private sector that has resulted in improvements to the reforms.

From the start, CEFIR has been particularly active at making the results known to the MEDT, initiator of the reforms. After the first round, a presentation was made for a group of top-level ministry officials, including several deputy ministers. The findings about the large numbers of illegitimate inspections were later discussed by the cabinet. This discussion has contributed to the development of some further initiatives to remove administrative barriers.

The results of the monitoring project also have been widely cited in the press and on the Internet, thus stimulating public discussion. Articles and opinion pieces appeared in most major Russian publications.

Factors contributing to a successful survey process include government commitment, institutional innovation, learning and experimentation, and external catalysis. The survey program was born from the need to replace the MEDT's process-based monitoring system with an outcome-based system that would better capture the results of deregulation measures enacted by the government. Understanding that need, ministry officials participated in the design of the survey instrument and in the sampling coverage. The fact that the survey was conducted by a private sector think-tank and that its results were publicly disseminated and discussed introduced a key civil-society dimension into the monitoring of key aspects of the government's reform program. The results of the survey have fed back into policymaking and are likely to lead to corrective policy measures. The development and conduct of the survey enabled all stakeholders to realize the value of outcome-based monitoring as a key part of program monitoring. It is expected that such instruments may be used on other aspects of the government's reform program, such as the effectiveness of social protection and utility tariff liberalization, and become a vital aid to the government in the implementation of its socio-economic reform program. The World Bank, as an external catalyst, played an important role in the development of the survey instrument. In addition, USAID provided, and continues to provide, financial support.

Valuable lessons have emerged from the study:

- Reforms have had the biggest impact in the localities with stronger fiscal incentives, less concentrated production, and larger representation of small business in the local economy.
- The presence of very large firms in the regions slows progress in licensing but accelerates progress in inspections. In other words, entry barriers are removed relatively slowly, while the burden on existing firms eases relatively quickly. This finding suggests that large companies inherited from Soviet times capture the local government and use administrative procedures to block the entry of new firms into the market. Hence, for successful development of small business and removal of administrative barriers, a local government has to diversify the structure of the economy, lessen the interference of large enterprises, and permit mobility of labor in and out of the town.
- A higher initial (pre-reform) level of small business in a regional economy improves enforcement of new deregulation laws. This result points to the importance of a small business lobby for deregulation reform.

In terms of successful monitoring of reforms, a major lesson learned is that the reforms have to set out clear goals, the outcomes of which can be measured and assessed. In the case of Russian debureaucratization, the adopted laws provided a clear set of rules, providing exact figures for the costs of bureaucratic procedures, lists of licensed activities, and rules for inspecting agencies. These guidelines allowed comparisons of the targeted levels of administrative barriers to the actually observed ones.

Hence, the method of independent monitoring of reforms can be applied in most other countries as long as a set of specific goals of the reforms can be identified. However, one needs to avoid over-reliance on perceptions of the respondents, a flaw of many similar surveys, and concentrate on quantifiable measures.

Rwanda's Demobilization: Creating the Environment for Investment

A secure environment is a prerequisite for sustainable growth. Without security, it is not possible to plan for the future, and resources that could be used for growth are instead spent on defending property and livelihoods.

In Rwanda, after the military victory of the Rwandan Patriotic Front (RPF) that halted one of the worst genocides in history, it was essential to provide security for the country's population. When the RPF took power in 1994, Rwanda was in a fragile, fragmented state, with a shattered economy and a population at constant risk from attacks by insurgents. Since then it has achieved the transition to a secure country that has made exceptional efforts at reconciliation and seen significant progress, both in raw growth statistics and in terms of poverty reduction and human development.

While in exile, the RPF developed a strategy for the development of Rwanda that focused on the unity of the state and the (re)creation of a strong sense of Rwandan identity, transcending ethnicity. They brought with them skills and international experience developed in exile. Their early years in power were marked by high resource flows into the country, enabling them to realize their agenda for national transformation at an extraordinary pace. From the start, the RPF identified achieving security as essential before state building could commence. It was their first priority, a policy that directly responded to the needs and wants of the poor majority of the population..

As trust and confidence grew, communities came forward with information about the activities of insurgents. Today people in the northwest live in peace, something inconceivable just four years ago.

The RPF created and promoted a National Unity and Reconciliation Commission whose mandate was to organize open discussions across the country in order for any and all Rwandans to air their views on the causes of past divisions and provide new ideas for national reconciliation.

The government focused on reconciliation with ex-combatants from armed groups previously (sometimes recently) opposed to the new administration and on reconciliation between perpetrators of genocide (*génocidaires*) and the populace. One of its main policy instruments in looking to achieve reconciliation has been the innovative *Gacaca* system. An evolution of a traditional Rwandan system of justice, *Gacaca* encourages truth-telling and reconciliation between perpetrators and victims. The process aims to embed a sense of security, helping communities shift from security provided by the threat of force to an environment marked by mutual respect and the impartial rule of law.

The pilot phases of *Gacaca* resulted in the identification of greater numbers of genocide suspects (some 50,000), prompting a debate about the need to amend the *Gacaca* law to ensure that the aim of speeding up the judicial process would still be met. Ensuring the success of *Gacaca* will need to remain a priority for the next five years.

Rwanda has a very complex and potentially conflictual situation regarding claims for land. The government has resolved differing land claims and land needs, but conflicts still exist and present measures are now being supplanted by a new land policy.

Growth and poverty indicators: progress made

Rwanda has made remarkable progress since 1994, both in raw growth statistics and in terms of poverty reduction and human development. Through sound macroeconomic management, the government has seen Rwanda's economy rebound by 70 percent between 1994 and 1997; it grew by an average of 7.7 percent between 1998 and 2002. Inflation has been reduced from 64 percent in 1994 to 3 percent in 2000–2002.

The fiscal deficit has declined; Rwanda is highly indebted and is looking to meet enhanced Highly Indebted Poor Countries initiative targets that will allow it to access US\$810 million of relief over the coming years. Economic growth has been broad-based, although improvements in living standards have been primarily urban. Agriculture and construction have been the main sources of growth since 1998, stimulated by the return of refugees and international development programs. Other key subsectors, such as utilities, manufacturing, and tourism, are still below the levels of the early 1990s.

Improvement and significant progress is being made in meeting the Millennium Development Goals, such as infant mortality and immunization rates. HIV/AIDS remains a key challenge, however, and the government is addressing this with HIV/AIDS education efforts. The net primary school enrollment rate has increased. A real GDP growth of at least 7 to 8 percent is estimated to be necessary over the next 15 years to ensure such continued poverty reduction.

The correlation between security and justice reforms and the growth and poverty reduction indicators is suggestive; however, a secure environment is critical to a poverty reduction agenda.

Institutional reforms

Because of its early focus on security, other reforms have only recently begun to be implemented. These include measures to make the Rwandan business environment more attractive; they also include an innovative overhaul of the system of land registration to reduce conflicting claims and encourage investment. By 1998, the government of Rwanda had formalized its goals in its flagship development document, Vision 2020, which sets out the steps to be taken for Rwanda to become a middle-income country. Public policy in Rwanda is continually evolving; goals have been refined and—critically-- have a poverty-reduction focus. Importantly, Rwanda is widely perceived as one of the least corrupt African countries. Rwanda's budget has been supplemented by international aid flows, but it has made significant progress in trade liberalization and banking and has been active in efforts to attract international business investment.

Key challenges: the justice system and land policy

Although the *Gacaca* are beginning to take some of the strain, the formal justice system in Rwanda is overburdened and under-resourced.. People in rural areas have little access to formal justice and there is a general lack of legal literacy and awareness of rights, as well as a very limited supply of paralegal and legal services offering free advice to litigants. There are only about 100 lawyers in Rwanda, operating mainly in Kigali.

International and local NGOs have been useful partners to the government in helping to address the capacity issues in the judicial sector. The government has created an independent Law Reform Commission which has developed comprehensive reforms that include the expedition of cases in lower courts; pre-trial mediation; the establishment of an independent, better-paid judiciary; and the development of a code of ethics.

Rwanda is densely populated, with low urbanization and high land fragmentation. Further fragmentation is not sustainable and consolidation is necessary. A new land policy has been developed, in close consultation with all stakeholders, including donors and civil society. The new land policy mandates that consolidation will be voluntary and will use a market mechanism, as well as government interventions.

Lessons learned

Security and reconciliation, as well as being ends in themselves, have proved to be essential to recovery and progress in the economic and social spheres. Conversely, in conjunction with political efforts, sustained economic growth has made a relapse into conflict less likely.

Rwanda has had to deal with the largest exodus and return of refugees in recent memory. With a focused government plan, logistical assistance from international agencies, and the presence of grassroots NGOs to help with mediation, such large movements of people and their reintegration can be managed successfully.

The *Gacaca* experience has shown that for extraordinary challenges, bold, unconventional responses are sometimes necessary. With determination and a willingness to involve the people, such experiments can be made to work.

Rwanda has also shown that a relatively closed political system is still able to involve its citizens in political processes via *bottom up* democratization, similar to that seen in China. Rwanda has been able to use the tight social organization of its society to rapidly reach and consult with a broad sector of the population. However, now that security has been achieved, and partly because of

external pressures, with the first nationwide elections held in 2003, Rwanda is beginning to open up its national political environment.

Singapore: Building an Efficient, Accessible Judicial System

A decade ago, Singapore's judicial system was characterized by long delays and backlogs. The country's judiciary was inadequately staffed, inefficient, and not accessible to a large number of citizens. The inefficiency of the judiciary hindered the country's economic and social development. Today, Singapore is widely recognized for having the most efficient, effective judicial system in Asia.

How did reform succeed so quickly in a country long perceived as having a judicial system that was inward-looking and favored the status quo? Lessons learned from the successes of judicial reform in Singapore should serve as a guide to policymakers in the design and implementation of judicial reform projects worldwide.

Since gaining independence in 1965, Singapore's economy has seen extremely high levels of growth, with GDP expanding 8.6 percent per annum between 1965 and 1999. This, coupled with a low inflation rate of 3.2 percent per annum over the same time period, has allowed the country to assume a position as the region's financial and technical center. Singapore is seen as one of the best places to live, work and invest in all of Asia.

But from the time Singapore gained independence in 1965 until 1990, the courts were slow and inefficient, and those within the judiciary did not see any incentive to improve performance. While in other institutions in the country reform was seen as a high priority, the status quo prevailed in the judiciary. This resulted in extensive delays and backlogs within the courts. Businesses were forced to wait long periods of time for commercial disputes to be resolved, lowering investor confidence. And long wait times in civil and family cases often left abused individuals without protection for extended periods of time.

Singapore's justice system

A strong, enforceable legal and judicial framework is critical to the successful functioning of any nation's judicial branch. Effective laws and procedures are central to the operation of the judiciary. Singapore's legal system has its roots in English common law; cases are decided based on precedents established either in Singapore or in other countries. Laws and procedures governing the basic functioning of the system are found in the Constitution and other written laws.

The institutions of the justice sector are organized around the Supreme Court and the subordinate courts. The Supreme Court is comprised of the High Court and the Court of Appeal, the highest court in the land. The subordinate courts include district courts (civil and criminal), magistrates' courts (civil and criminal), juvenile court, coroner's court, and small claims tribunals. Singapore also has specialized courts for family, traffic, and other matters. Islamic law is administered by the Syariah Court.

Judicial independence is guaranteed by Articles 98 and 99 of the Constitution and is protected by such safeguards as security of tenure, competitive remuneration and immunity from prosecution for actions undertaken while executing professional duties.

Singapore's judicial system handles approximately 430,000 cases each year, 95 percent of which are handled by the subordinate courts. About 700 public servants work in the court system, 70 percent of whom are employed by the subordinate courts. In addition to those employed directly by the court system, many work for other institutions (government ministries, the bar association, non-governmental organizations and civic organizations) involved with the justice sector.

During the 1970s, when court congestion grew to severely problematic proportions, a number of narrowly focused, independent efforts were made to improve performance. These efforts did little to reduce case backlogs. These piecemeal reforms were primarily procedural and did not address the problem of judicial inefficiency from a long-term perspective. Furthermore, the shortage of judges was an obstacle to increasing the speed of judicial processes.

In 1991 a strategic economic plan, "Towards a Developed Nation," outlined a strategy to promote economic growth and development in Singapore that emphasized the importance of a modernized judiciary for continued economic growth and social welfare. At the same time, there came a change in judicial leadership. In 1990 a new chief justice, Yong Pung How, was appointed head of the Supreme Court. What followed was the adoption of series of judiciary-led reforms, consisting of a mix of management, economic, policy, social, and legal initiatives. The goal was to equip those within the judiciary with the tools necessary to deal with the legal challenges of a nation increasingly subjected to international influences—including those related to global trade, technological advances and the influx of foreign businesses, culture and ideas.

At the outset of the 1990s, a number of hidden barriers to institutional change existed within the judiciary. The most significant were poor coordination across key interfaces, an ineffective top team, unclear strategies and conflicting priorities, top-down or laissez faire management, inadequate leadership skills and development, and poor vertical communication.

In 1993 the Singapore courts developed a plan for implementing a judicial reform strategy that encompassed a wide range of issues and included recommendations from a broad spectrum of stakeholders. For a strategic vision to be successful in practice, it must be able to alter the status quo and be imaginable, desirable, feasible, focused, flexible and communicable. Thus, futures planning exercises among Singapore's judicial leaders included extensive data collection and a review of studies by external experts to assess the feasibility and effectiveness of the proposed strategy.

Reform strategies

The reform improved the judiciary and its value to society increased by removing economic barriers to access, increasing access to the court, extending services, increasing the timeliness of service provision, and increasing transparency. Capacity was enhanced by establishing the skills needed for each member of the judiciary, and by determining how to best meet the challenges of interinstitutional coordination.

The reform initiatives can be grouped into eight strategies that have been used to improve the performance of the subordinate courts in Singapore.

Strategy one: the role of leadership and broad participation. Following the appointment of Chief Justice Yong Pung How in 1990, the Supreme Court set an example for lower courts by improving efficiency and maintaining high professional standards. The leadership of the Supreme Court and a top team of directors at the subordinate court level formulated a vision and strategy that helped them to successfully implement reform measures. Among these were measures to increase judges' salaries, hire clerks to allow judges to give more time to adjudication, and adopting

technologies to speed efficiency. The jurisdiction of subordinate courts was also expanded, lessening the workload of the Supreme Court.

The judiciary recognized early on that it was not enough to set new standards; those standards must be sustainable in the long-term. In order to achieve sustainability, the sector mobilized resources both inside and outside the organization and created linkages with other organizations working in the area of judicial reform. It has also forged relationships with institutions outside of the sector and supported the adoption of good practices used in other countries. Such an inclusive strategy has allowed for the establishment of a broad knowledge base and has created an *esprit de corps* in the judicial branch.

Strategy two: refining models of justice and expanding alternatives. One area of reform has focused on redefining and expanding the jurisdiction, purpose, flexibility, service standards, and accessibility of subordinate courts. Reforms have promoted proactiveness among judicial personnel and adapted strategies to suit local realities; notably, specialized courts have been developed to increase access for the poor. When setting new standards, those involved in the reform process within the judicial branch were able to balance the need for high performance targets with realistic short-term goals.

A dispute resolution scheme that segregates cases based on type and complexity was introduced into Singapore's courts in 1994 and has brought significant savings in time and money. Dispute resolution, along with mediation in quasi-criminal cases, continues to yield positive results and is now a part of Singapore's legal culture.

Strategy three: increasing access. Singapore's judicial reform strategy aims to improve conditions for both direct users of the system (those with direct interests in the outcome of a specific case) as well as indirect users (encompassing most of society, which benefits from the increased economic and social stability provided by an effective judicial system). In order to increase access to judicial services and thus improve conditions for the populace, the sector aimed to reduce barriers related to cost, flexibility, physical distance, and cultural characteristics, among others. Legal aid services were streamlined, free mediation provided, and other legal services offered by NGOs. In addition, regional offices were established to bring judicial services closer to the people. Multidoor courthouses were established, enabling litigants to obtain legal, mediation, conciliation, and small-claims services in one location. Automated kiosks for paying traffic fines and obtaining information about legal services increased user access to the system. And one of the most important elements introduced into Singapore's judiciary is the use of interpreters, which has increased confidence in the courts by users of many ethnic and socioeconomic backgrounds.

The benefits of access are unquestionably long-term and reinforcing. As citizens gain knowledge of court services, they will likely find themselves in trouble with the law less often, and if they do find themselves in trouble they will be better equipped to seek justice. In 1993 a Public Affairs Section was established in the Singaporean government to promote awareness and understanding of the subordinate courts.

Another user of the court system is the business community. The rule of law strongly influences investment decisions by both local and international investors. To increase transparency and efficiency of cases involving business disputes, Singapore is piloting a cross-border mediation program in which international judges participate via video conferencing.

Strategy four: improve court administration and strengthen capacity. To increase the efficiency of Singapore's judiciary, the court administration was completely reorganized. The result was strengthened financial management and budgeting, training to increase capacity, improving

physical infrastructure, and one of the most sophisticated technology infrastructures in the world. Autonomous agency concepts were also introduced, creating an organization with managerial flexibility, allowing judicial institutions to deliver services more efficiently and effectively.

Strategy five: improving human resource management and promoting knowledge sharing. The district court directors focused on improving core competencies, optimizing resource allocation and use, attracting and retaining top talent, and creating incentives and *esprit de corps* needed to create a workforce that was invested in the change process. To attract top talent, the salaries of judges and administrative staff were increased to levels comparable to salaries in the private sector. The strengthening of personnel and infrastructure at all levels meant that lower courts now play an increasingly important role in the legal system. The objective of such changes is to create an institutional culture of efficiency.

Strategy six: creating benchmarks for performance. The courts in Singapore have implemented periodic reviews and set benchmarks against which progress can be monitored. The successful implementation of these measures requires a high level of commitment at the top and the institutional capacity to produce timely, reliable information.

Strategy seven: case management, judges' role and the use of technology. In the face of changing conditions in Singapore, judges have had to be proactive in the administration of justice. Technology has greatly facilitated the ability of judges and their staff to implement case-management techniques, increase transparency and be proactive.

Pretrial conferences encourage amicable settlements between the parties and narrow the issues that are contested in order to reduce court time. The creation of small-claims tribunals for the settlement of minor disputes has also helped to lessen the workload of the courts and thus increase efficiency.

Strategy eight: building bridges and promoting sectorwide reform. In order for judicial reforms to be successful, the participation of many stakeholders and other public institutions is critical. Strategic partnerships, knowledge sharing, and pooling financial and human resources greatly enhance the chances for successful reform.

Because the judicial branch is often perceived as the weakest of the three, the support of the executive and the legislature is important. In Singapore, Parliament has supported the judiciary by amending laws favorable to its reform strategy. Sectoral actors, such as the bar association, law schools, and NGOs, can also play a critical role in reform.

Perceptions, performance, and lessons of experience

Yong Pung How, a non-career judge, saw the courts as analogous to a business that should be accessible, efficient, and client-focused. His strategy was to change the culture of the judiciary, and in doing so alter society's perception of the judicial sector. He also sought to introduce modern management tools and practices (such as the imposition of strict deadlines, simplification of procedural rules, and use of more advanced technology) into the courts to help speed the process of litigation.

While the legal community does not unanimously approve of the reforms that were implemented, overall lawyers are satisfied with the changes made, stating that the delivery of justice has indeed improved. Businesses, which often base investment decisions in part on the quality of the legal infrastructure of a host country, also comment on the positive consequences of the reform process in Singapore.

Users of the courts appreciate the introduction of technology, which has allowed for claims to be filed at any time and be delivered instantaneously to another party anywhere in the world. They also cite increased access, transparency and enhanced competitiveness as benefits of the reform process.

While it is clear that judicial reform in Singapore has had numerous positive benefits, evaluating its success in terms of value for money is difficult; it is hard to put a price tag on the value of judicial services, and it is a tricky task to separate inputs and outputs of judicial reform from those of overall economic activity. Nonetheless, Singapore's case clearance rates in both civil and criminal case are higher than in most of the OECD. Citizen confidence in the judiciary has increased, and the international business community now ranks Singapore's judicial system first in the world. Given these statistics, it appears that investment in reforming the judiciary has returned a high dividend.

Given Singapore's success, what lessons can be applied across countries with different legal cultures, traditions and social and economic levels? Mindful that individual country differences must be taken into account when designing any judicial reform strategy, the following lessons emerge from Singapore's reform experience.

Strategic thinking and business planning are central to institutional success. Any strategy to reform an organization must be holistic and participatory, fostering initiative for the reform process at all levels.

Strong leadership is essential to create and achieve a vision of change. While inclusiveness and teamwork are hallmarks of a successful strategy, any initiative requires a leader to motivate and direct the reform process.

Institutional reform must be tailored for and targeted at those the institution serves. Singapore was successful in its judicial reform effort largely due to its focus on meeting specific user needs (of local users, businesses and the tourist industry alike).

Increasing knowledge and technological innovation are critical components of change. Training judicial personnel and knowledge sharing among judicial institutions is the most effective way to improve the system's efficiency and efficacy. Furthermore, the introduction of Web-based services greatly enhances the knowledge that both judicial personnel and users have access to, helping to speed the process of reform.

Judicial reform is facilitated by a stable economy and an efficient political system. The functioning of the judiciary is closely tied to the tides of political forces (legislation, regulatory policies, the quality of the education system, among others). Singapore's prosperous, stable economy and political system greatly facilitated the success of the country's efforts at judicial reform.

Ukraine: Better Governance in Ukraine through Public Participation—The People's Voice Project

In Ukraine (population 47 million, and per capita income \$770), the decline of the communist system in the 1980s created a gap between the central and local levels of government that has not been adequately filled since. After Independence in 1991, local public services were the subject of growing public dissatisfaction—mainly because of limited budgets, but also because of lack of community development, lack of new policy initiatives, and general apathy toward regional reform. Local bureaucracies remained poorly trained, disoriented, and unresponsive. Corruption was

reportedly rampant, especially in dealings between government and business, and its corrosive effects were widely associated with Ukraine's growing poverty and inequality. Lack of public trust weakened the credibility of reforms and threatened the existence of the new democratic state.

For democracy to develop in Ukraine ordinary citizens need to believe that the politicians they elect to represent them can *and will* address their concerns and best interests in improving the welfare and "quality of life" in their communities. Assisted by the Canadian International Development Agency (CIDA) and the World Bank, the People's Voice project in Ukraine was developed in 1999 to build the public's skill in effectively engaging and influencing local government. In its first three years, the project has improved the capacity of citizens to interface with local government and the capacity of local governments to deliver services. Unlike many programs, which focus either on developing civil society or on reforming public administration, People's Voice focused on both simultaneously. It was implemented at the municipal level, where service delivery issues are an immediate day-to-day concern of citizens. By addressing capacity building and collaborative action with both governments and civil society in a balanced manner, People's Voice achieved benefits even in the short run.

Political context for reform at the local level

When Ukraine achieved independence in 1991, the majority of reform programs being designed in the country (both directly by government and with donor assistance) focused on the development and restructuring of the central government. Local governments (especially municipalities and autonomous provinces) were not directly involved in reform efforts despite the fact that they accounted for more than 40 percent of total public expenditures. By all accounts, local public services were in serious disarray, and public dissatisfaction with the poor quality of services was growing. The bureaucracy continued in its old ways throughout Ukraine, but without its managed economy to at least deliver jobs or services. Even at the best of times, the responsiveness of public agencies to citizens was poor under the former totalitarian system and it often appeared, to a certain extent, that new policies and practices were not being seriously reviewed or reformed prior to implementation, especially at the local level. And corruption was growing to a dangerous level as public confidence plummeted.

Project rationale

The improvement of public services at the central and local levels and control of corruption have remained high-priority areas for Ukrainians over the last decade. It has only been in recent years that new programs have begun to create mechanisms to tackle these issues, with the People's Voice project helping to lead the way. International experience has confirmed, through many examples, the importance of public support for administrative reform, an active civil society, and a willing bureaucracy to sustain the momentum of public sector reform. This process can only be triggered, however, by empowering citizens through information they can use collectively with the support of their own local, grassroots organizations and institutions, including the unbiased involvement of the media. To this end, citizen surveys have become an effective way to systematically gather feedback on public services and corruption and have since made an impact in building public interest and in exposing issues that require more substantive public debate.

This approach has been used in some countries to create opportunities for citizens to communicate with public agencies and to stimulate authorities to listen and be more responsive to citizens. Experience has also suggested that for maximum effect, citizen feedback mechanisms should be combined with the support of public authorities in order to improve the latter's performance. The Public Affairs Centre (PAC) in Bangalore, India implemented one of the first successful projects of this type from 1993 to 1996. The lessons learned from the Bangalore "report card" program were taken as an integral part in the design of People's Voice in Ukraine.

Public engagement, government commitment

The People's Voice project originated in the context of Ukraine's anti-corruption effort, but using an indirect set of methods. To forestall the perception that it was trying to address corruption head on, the project focused on improving transparency and establishing opportunities for service providers to be held accountable. In the process it created pressure to reduce corruption.

People's Voice began by establishing nongovernmental organization (NGO) coalitions in four pilot cities—Ternopil, Ivano Frankivsk, Kupyansk, and Chuguiv. These initiated an engagement between local citizens and their elected officials in community development, monitored municipal service delivery, and work with public officials to address deficiencies raised through various citizen engagement mechanisms (such as public hearings, report cards, and community advisory councils).

The first phase of the project was completed in June 2003 and accomplished a number of significant results, including:

- Greater citizen accessibility to municipal decision-makers through a variety of citizen participation mechanisms--regular public hearings, permanent community advisory councils, and public awareness campaigns
- Increased capacity of NGOs to monitor service delivery, conduct research and surveys, disseminate information on municipal issues to the broader public, and increase public debate on relevant policy issues
- Development of municipal policy initiatives that address deficiencies raised by the local community and which take into account research and public dialogue generated by the NGO community.

In short, as a result of the project, mechanisms and forums now exist in the pilot cities that not only allow for the citizens' voices to be heard, but also provide the basis for more effective policies and programs to be developed that will help to increase the "quality of life" for many citizens. By addressing the problem of corruption indirectly, by bringing transparency and "sunshine" to traditionally secretive government decision-making, a healthy transformation was achieved in both politics and governance.

Scaling up to a new phase

The second phase of the People's Voice project represents an important effort in scaling up the methodology of the project to other regions of Ukraine with an expansion to six new cities, as well as expanding networks of like-minded individuals and community groups. This next phase, with core funding coming from the CIDA in the amount of US \$2.4 million, was approved in August 2003; implementation began in November 2003. During the first few months of the project, a lead local coordinating team has been selected, a competition to determine project cities has been completed, and a baseline survey related to service delivery satisfaction has been designed and will be carried out in each of the project cities. The survey itself will identify trends, concerns, and priorities in each of the cities and--coupled with the input and guidance of stakeholders representing citizens and local authorities--will help to chart a course of dialogue, training, and activities for the next three years of the project. The continuation of the project has an important role to play in the reform process and poverty reduction because its approach is both strategic and practical: it focuses on municipal issues and on further developing methodologies in the area of municipal policy, citizen engagement, and in service delivery monitoring. Most importantly, it takes into account the concerns of local citizens and establishes permanent mechanisms with respect to public consultation.

People's Voice, since it began, has evolved in response, recognizing what works and what doesn't. Also, its implementation was staggered, so the mistakes made early on resulted in proactive corrections as new cities were added and new citizens' groups were formed. Some of the key lessons learned from successful project implementation have been:

- There is need to build capacity and collaborative action with key stakeholders. In this case the stakeholders were municipal governments and civil society.
- Systematic dissemination of tools and processes promoted by the project such as citizen report cards, opinion surveys, and public hearings, in Ukraine and countries in the region has ensured greater legitimacy and acceptance.
- When processes are simple, have wide ranging applications, and have been promoted by city residents, the mechanisms are internalized and will continue to be used.

5

Education

Bangladesh: Access to Education for the Poor and Girls

In the 1990s, Bangladesh succeeded in the difficult task of expanding access to primary and, to some degree secondary, education for the poor and for girls. This success involved massive investment in schools, materials, teachers and administration, and was only possible because resources were mobilized from donors, the public purse, communities and households. Large-scale demand-side interventions helped attract girls and the poor, who needed the extra incentives to make school worth attending. By the end of the 1990s gross enrolment rates were over 100 percent and the gender gap at the primary level was eliminated. The demand for education had been growing through the past century, the result of dramatic social change. These changes have been most marked in gender relations, which coupled with strong signals from the state and other actors about the value of girls' education, have had an impact on public discourse and educational behavior.

Expanding mass education has been a government policy priority since independence. In 1973 the government nationalized all community-based primary schools. Primary enrolments registered a brief sharp rise, before settling down to their pre-nationalization levels where they stayed until the late 1980s. While universal primary education remained a political priority, the development budget allocation remained low through much of the 1980s. Public spending on education increased as a proportion of GDP from 0.9 percent (1973-80) to 2.2 percent (1997-8). Education was also increasingly high priority, rising from about 9 percent of total spending in 1973-80 to 16 per cent (1995-6)

Education in Bangladesh is now highly centralized in policy and planning, yet unusually pluralist in provision. Over the years, policies to permit non-state provision enabled government to capitalize on strong community support and NGO non-formal programs in the primary sector and to foster public-private partnerships in the secondary sector. Plural provision has meant not only more but more innovative policies and providers, although it has not in most cases resulted in effective choice for households. In 2003 there were at least eleven official types of primary schools. About half of all the officially recognized primary schools are managed and resourced directly by government, with much of the remainder highly subsidized and under the national curriculum as registered non-government (24 percent) and madrassah (Islamic religious) schools (5 percent). Around two million children (ten percent) attend NGO schools, which are not registered with the government. Primary education provision in Bangladesh is unusually diverse for a developing country, and this plurality of provision appears to have been critical in enabling the expansion and to reaching poor children and girls.

A critical factor in the success of Bangladesh has been the strength of political commitment to expanding access. The political will to expand education has cut across all political parties and administrations, in part reflecting the national elite consensus on the vital role of basic education for poverty reduction and development. Many of this elite had themselves recently risen from rural

communities to positions of national authority and power, often through access to formal education. Educational charity also appears to be valued among this group. As a result, the national elite had reasonably direct knowledge of the significance of education for social mobility, and were inclined to support expansion efforts. Politicians, senior civil servants, large NGOs and teachers' associations all had incentives to support the expansion. Communities' participation has led to different types of schools: community schools, revived in the 1980s, satellite schools in poorer areas, and private registered non-governmental schools. The variety of schools, particularly NGO-operated, yielded benefits in addition to increasing total access: innovative school design features and direct efforts ensured that BRAC (large domestic NGO) schools, in particular, enrolled mainly girls from poor families. The comparatively late arrival to the primary sector of foreign aid meant that the resources were available at the crucial moment, but that Government still owned the expansion.

Considerable social changes including in the structure of economic opportunities after Independence in 1971 also fuelled the demand for education. The increase in public sector employment opportunity encouraged investment in higher education. Population growth increased pressure on the land, leading to declining farm size and rising landlessness, providing strong incentives for households to invest in their children's education, particularly their sons'. Increased demand for girls' education came more gradually, reflecting the changing nature of patriarchal relations in the strained and crisis-struck economy and the challenge to traditional gender relations. The marked rise in divorce, dowry and desertion among the poor noted through the 1980s may also have reduced the prospect that marriage would ensure women's economic security. From the 1980s, micro-credit meant that poor women had more effect on educational decision-making. Also from the 1980s, women's economic opportunities increased dramatically with the export-oriented garment industry. The need for at least primary education to take advantage of new forms of employment opportunities is likely to have added weight to the incentive to educate girls.

Other factors influencing the increase in effective demand for education were large-scale classroom construction, which also decreased the distance to school for many rural students, teacher recruitment, and efforts to encourage community provision in under-served areas. From as early as 1981, efforts were also underway to increase the proportion of women teachers as a means of attracting more girl students.

Demand-side interventions were established in the early 1990s. The Food for Education (FFE) program, which gave children from selected poor families monthly wheat grants in return for regular school attendance, reached more than two million students by 1999. The Female Stipend programs give scholarships for girls to attend secondary school, providing an incentive for parents to send girls to the primary level. To date, less effort has been expended by the state in expanding access for geographically, ethnically and socially marginal groups—*chor* inhabitants, tribal minorities and urban slum children. There have been recent efforts to improve access for these marginalized groups through innovative forms of schooling mainly via NGOs. This appears to reflect a government preference for NGO school provision to focus more on socially and geographically marginal groups that the state system does not reach, rather than attempting to cover the wider population, which is viewed as more correctly the responsibility of the state.

These remarkable achievements in the expansion of the system cannot hide problems with the quality of the system. The terms of success in primary education in Bangladesh include expanded, near-universal access; success in attracting girls and students from poor families; raised resources going to primary; and in the mix of plural provision and centralized authority over the expansion. Problems of quality and pockets of exclusion persist, however. The quality of education suffers, as reflected in low learning achievements, low completion rates and high dropout rates. This is chiefly because of weakening management at all levels of the education system. The role teachers' play is complex as they are part of the highly centralized central administration and also function as

community-level bureaucrats in poor rural areas. Teachers' collective political power has had clear negative impacts on quality, but may have contributed to the expansion of the system.

Recognizing that improving quality in the education sector is imperative in order to make substantial progress towards achieving the Millennium Development Goals and fulfilling the poverty reduction agenda, considerable attention is focused on this issue in the I-PRSP and the Government has launched several reform measures to address this issue.

China: Universalizing Nine-Year Compulsory Education for Poverty Reduction in Rural China

It is widely agreed that the most effective strategy for eliminating poverty and achieving sustainable development in any country is to expand educational access and improve educational quality. To achieve these goals, the government of China embarked on a program to make nine-year compulsory education universally available, particularly in rural areas where the majority of its population lives and where low economic development has been the norm.

According to the 2000 census, China's rural population is 810 million—64 percent of the country's population. Over 80 percent of primary schools and 64 percent of lower secondary schools are in rural areas. The poor are concentrated in rural areas because of the gap between rural and urban development. The government focused on universalizing nine-year compulsory education to eliminate illiteracy among youth and adults and to upgrade the rural population's quality of life. Its longer-term goals were to eliminate poverty and achieve sustainable social progress.

Since the 1986 passage of its compulsory education law, China has fundamentally achieved the national goal for the "Two Basics," namely, extending universal nine-year compulsory education among the school-aged population and literacy among those less than 20 years old. The average years of schooling have risen from fewer than five in the early 1980s to more than eight now, a gain of three years. Nine-year compulsory education was universalized in the area where 90 percent of the population lives— up from just 40 percent in the early 1990s. In addition, the illiteracy rate for the 15–45 age cohort was reduced to 4.8 percent from 10 percent over the same period. Consequently, the enrollment rates at the primary and lower secondary levels reached 98.6 percent and 90 percent, respectively, in 2002. The "Two Basics" were achieved in 2,598 counties, 90 percent of the total number of counties in China.

At the same time, the quality of education was raised. In the late 1990s, the government formulated objectives for quality education targeting all students and aiming to improve overall educational quality. As part of this process, a new national curriculum was introduced and massive teacher training programs were launched to improve teachers' professionalism.

China's persistent efforts to provide compulsory education resulted in developing strong human resources that, in turn, have helped to yield sustainable economic growth in the past two decades. With regard to rural development, universalizing compulsory education provided the rural population with equal access to education and empowered rural laborers with more skills. The poor population in China was 250 million in 1978; it declined to 80 million in 1995, and further decreased to roughly 30 million by the end of 2000.

Lessons learned

Universalizing compulsory education can be used as a long-term strategy for poverty alleviation and rural human resources development to enhance the rural population's knowledge base and improve laborers' productivity, farmers' living standards and, eventually, sustainable social and economic development. To carry out the strategy, one must "*plan by region, implement by phase, and guide by category,*" taking into account regional economic discrepancies. For example, over time, the central government and provincial government have taken on more responsibility in providing infrastructure services for compulsory education provisions, as government's financial capacity increased.

National policies for and progress in universalizing nine-year compulsory education were disseminated through mass media to those in all walks of life. to create a favorable atmosphere for rural education and to mobilize community support for promoting compulsory education.

It is equally important to promote equity in education. The Chinese government focused on the basic learning needs of the poor rural population groups, especially those residing in remote and minority regions, and other disadvantaged social groups. By relying on community resources and the support of international aid agencies, the government has been able to implement many projects targeting poor rural areas such as the Basic Education Development Project in Poor Areas, National Compulsory Education Program for Poor Areas (NCEP), Rural-Urban Aid Program, Renovation of Dilapidated School Buildings in Poverty Areas, Project of Hope, and Spring Bud Scheme. In these projects, stipends and free textbooks were provided to families with economic difficulties, and special support was offered to allow disabled children access to compulsory education. All these secured the right to compulsory education of school-aged children in poor rural areas and of disadvantaged groups.

To constantly improve results in the nine-year compulsory education program, various levels of the government met regularly to monitor progress and exchange successful experiences. In addition, an inspection and reward system was developed and the results used as a critical indicator of government performance. Best practices of the international community were ushered in, such as project management, learning performance assessments, and gender equality, as well as the involvement of more professional institutions for policy research, intervention, and outcome dissemination.

China's nine-year compulsory education efforts were strengthened by the strong support it received from international agencies including The World Bank, the United Nations Children's Fund, the United Nations Development Programme, the United Nations Educational, Scientific and Cultural Organization, the Asian Development Bank, and Britain's Department for International Development, as well as overseas Chinese. Working jointly with various government offices, they developed cooperative projects to improve educational infrastructure, teacher training, curriculum and pedagogical renewal, upgrade educational quality, build capacity, reform management systems, and develop educational resources.

Remaining challenges and next steps

Despite the government's many achievements, universal compulsory education in rural China still faces many challenges.

- *A wide gap between rural and urban educational status.* Up to 2002, the 372 counties failing to achieve the "Two Basics" goal were all concentrated in the disadvantaged rural western regions.

- *County-based funding and the management system.* Although the Chinese government has made great efforts in mobilizing resources for the compulsory education program, the total investment is still low when compared with international standards. The new administration system that relies mainly on county-based management is facing many difficulties; for example, the basic education provision system appears less functional in poor rural counties because it lacks a fundraising capacity.
- *Gaps in educational quality in poor communities.* The current basic education activities still remain less than equitable in some poor communities. Studies reveal that the equitable distribution of learning opportunities, both quantitatively and qualitatively, and especially in poor rural areas, will be a more demanding challenge.

To cope with these identified challenges, the State Council convened the National Working Meeting on Rural Education in September 2003. The universalization of nine-year compulsory education was at the top of the agenda. As a series of special measures to support the promotion of universal compulsory education in rural areas, the following policy interventions have been proposed:

- Redefine the specified universal compulsory education responsibilities of the government and all parties involved in rural areas to ensure the goals for compulsory education in rural areas are fully met.
- Establish a guarantee mechanism for compulsory education in rural areas and strengthen the obligation of central and provincial financial departments' investment in compulsory education in rural areas.
- Strive to achieve the "Two Basics" in the western regions to ensure nine-year compulsory education attainment in all counties in terms of equitable education.
- Promote quality education through the new national curriculum and massive in-service teacher training programs.
- Initiate the national priority project on rural distance learning in all rural schools (to include a CD-ROM with the curriculum package for each village school or class, a satellite receiver and relay facilities for each complete school, and a computer classroom in each lower secondary school).
- Mobilize more extensive cooperation and partnership with domestic professional institutions and international agencies to generate support and a facilitative environment to upgrade China's performance in extending the compulsory education into rural areas.

Arab Republic of Egypt: Increasing Girls' Enrollment

Egypt's education system is the largest in the Middle East and North Africa and among the largest in the world, with about 16 million students enrolled for the 1999–2000 school year. More than 90 percent of students, from primary through tertiary levels, are in public institutions. The government has declared the development of Egypt's human resources a top national priority, part of a national effort to improve competitiveness and achieve greater integration with the global economy. Egypt's overriding goal has been to provide universal access to basic education, and over the past decade the government has shifted expenditures away from higher education to basic and secondary education.

The context for the Education Enhancement Program

Despite substantial investment in the education sector in the 1980s and 1990s, primary enrollment rates for girls remained low, especially in poor and culturally conservative areas of Upper Egypt. Although improvements in female-to-male ratios occurred in governorates where school construction efforts were greater, especially at the primary level, gender disparities still remained. Furthermore, girls were found to be disproportionately affected by regional differences; in rural areas, girls' enrollment was found to be much lower than that of boys, and this disparity was particularly strong in the region of Upper Egypt. Gender gaps tended to be larger in poorer areas; for example, in the poorest rural areas covered by a 1995 United Nations Children's Education Fund study, girls accounted for only 37 percent of the primary students.

Gender disparities were dismissed as cultural issues until analysis of comprehensive research revealed that they could be traced to practical problems: schools were often too far from students' communities; overcrowded schoolrooms were intimidating; schooling was not thought to be as necessary for girls; and restarting school was very difficult for girls who had to drop out. In 1996, the government of Egypt launched the Education Enhancement Program (EEP), with support from the World Bank and the European Union, to deal directly with those problems by improving the coverage of primary education, the quality of student learning, and the efficiency of the education system. The specific goals of EEP were to:

- Increase the number of schools in remote areas to reduce the distance girls might have to travel to school
- Increase parental demand for girls' education, through community awareness campaigns and a stipend program for qualifying families
- Give a *second chance* to girls who may have dropped out or are too old for primary school.

The shift in spending priorities has allowed the Ministry of Education to address access issues even in the poorest, most remote parts of the country, where girls' enrollment has traditionally been quite low. With massive public investments in new schools, including in deprived rural areas, enrollment in the primary and preparatory education system has grown by about 9 percent a year. Egypt has made significant progress in recent years in raising the primary enrollment rate of girls and in decreasing the enrollment gap with boys. The EEP was initially piloted in four of Egypt's poorest governorates, starting with Fayoum in 1996 and soon extending to Beni-Suef, Menya, and Aswan. By 2003, the program was being implemented in 15 governorates.

Understanding the obstacles to girls' education

Research and the experience of programs elsewhere suggested that to eliminate these gender gaps would require targeted efforts to remove obstacles to girls' education in the poor, rural, culturally conservative areas of the country. A series of studies showed that among the many reasons that discouraged parents from sending their girls to school were practical obstacles (such as few schools within easy walking distance, absence of sanitary facilities, presence of male teachers, and use of corporal punishment by teachers) and cultural obstacles (such as fathers' desire for their daughters' early marriage, large families where boys are accorded priority in receiving education, domestic responsibilities of girls, the possibility of paid jobs for girls, and parents' low educational achievement).

The government also recognized that girls' demand for education depends quite heavily on the quality of education being offered. Egypt's entire education system has suffered from poor

teaching and poor learning outcomes, but the quality of the school environment affects girls' demand for schooling more than boys'. Surveys show that girls are more likely to drop out if there are multiple shifts at school. Girls are less likely to drop out when schools have better facilities; when teachers have received in-service training; when home economics classes have met regularly; and when they can participate in extracurricular activities. Also, parents do value investments in school for rural girls, even if they do not expect girls to seek paid jobs, since a higher level of schooling provides a means of attracting a more educated and financially successful husband. And finally, even though the schools are free, there can be significant auxiliary costs, such as supplies and tutoring.

Implementing improvements: access to schools, parental demand, and learning programs

School construction projects under EEP first targeted the poorest and most rural and culturally conservative governorates in Upper Egypt, areas where girls' enrollment rates had traditionally been lowest. In an important break with traditional and more haphazard approaches to planning, the Ministry of Education and associated agencies used data to plan strategically for school construction and awareness-raising campaigns, targeting the interventions to underprivileged areas within each governorate. They used available data on numbers of schools, educational services, and enrollment and dropout rates. At the same time, since much of the information on local populations and enrollment rates was incomplete, they also undertook community surveys to help select the specific areas for intervention.

The selection criteria for new schools were designed to advance the goal of raising girls' enrollment rates. In rural areas, new schools were to be built in areas where girls' enrollment rates were lower than 45 percent. Walking distance for students in the catchment was not to exceed 1,000 meters for primary and 2,000 meters for preparatory schools. One-classroom schools for girls in remote areas were to be built in areas with girls' enrollment rates of lower than 40 percent; class sizes for one-classroom schools for girls could not exceed 42.

Along with school construction, the EEP provided a mechanism for mobilizing community support for girls' education in poor areas, primarily in Upper Egypt. To raise parental demand, EEP undertook communication campaigns and empowered parent-teacher associations and other community groups, while simultaneously offering subsidies for disadvantaged children so they might remain in school. Implementation of this part of EEP has become a three-step process:

1. Departments of education at the governorate level undertake surveys and collect data in order to select low-enrollment areas.
2. Local and regional officials representing education and social welfare agencies collaborate with local groups to implement community needs assessments and awareness campaigns.
3. Follow-up mechanisms are pursued in each governorate to ensure a continued impact and to provide further assistance. This follow-up is particularly aimed at supporting girls in school, and minimizing dropouts.

These campaigns have had considerable success in mobilizing communities in areas such as in Luxor, Qena, Damietta, Fayoum, and Sohag.

Output and effectiveness of EEP

The progress of EEP has been significant:

- *Expanding access and reducing distance to schools.* In the first years of EEP (1996–2000), 181 schools were constructed, creating an additional 174,000 classrooms, and enrollment targets were reached or exceeded in these areas of intervention. The increase in gross enrollment rates for girls in this period closely parallels the increased number of classrooms constructed under EEP. The construction of these schools, the reduction of overcrowding, and the improved environment in schools have helped to overcome local barriers to education. Overcrowding has been reduced in all governorates, and the double and triple shifts that were common in primary schools have been almost eliminated. The average class size in all governorates is now 41, which is about the world average, according to data from the United Nations Educational, Scientific and Cultural Organization.
- *Reducing dropout rates through community awareness and “second chance” programs.* More than 656 community awareness campaigns were organized between 1999 and 2003, reaching out to disadvantaged areas in 15 governorates and covering about 429 villages and 1,732 hamlets.
- *Subsidies.* The subsidies program provides school uniforms and supplies for economically deprived families at an average per-pupil cost of LE 60 (about \$10). Between 1999 and 2003, nearly 46,000 students benefited from this program; more than 15,000 of them were dropouts who returned to school.
- *Building Parental Demand and Community Awareness.* The EEP awareness-raising campaigns, which were targeted to specific communities, have significantly reduced the number of dropouts. The content of campaigns has been very different in governorates of Upper Egypt from those in Lower Egypt; similarly, messages are adjusted within governorates to reflect local circumstances. This approach is especially important when the need is to address cultural norms that do not value girls’ education. The content focuses largely on raising community awareness of the value of education, including education of girls; informing communities that underprivileged children are eligible for free uniforms, notebooks, and supplies; advocating for *second chance* education for school dropouts, especially if they are above school age; and encouraging real community participation—particularly from women’s groups and mothers—in the management of local education.
- *School Quality.* EEP addressed several specific elements of school quality that appear to matter more for girls than boys in Egypt; these aspects are likely to have played a key role in the program’s success in attracting more girls to school and in keeping them there. EEP has achieved smaller class sizes and lower student teacher ratios, and brought the amount of time that children spend in the classroom more into line with international standards.
- *Improving the Educators.* EEP has also made progress in improving other input variables such as teacher training and the introduction of new curricula and new technology. An aggressive in-service teacher-training program for more than 575,000 trainees was implemented during the period 1996–2000. Gender sensitivity training has been part of that training. Since 1996, the percentage of primary teachers with university degrees has doubled. There has also been a drive to distribute more qualified teachers in primary schools.

Critical success factors

Key factors in EEP's success are:

- The political commitment of the Egyptian government, reflected in rising budget allocations to education and rising allocations within the education budget to the goals of EEP
- Institutional innovation, with EEP breaking with traditional planning approaches in favor of using data and community participation to target new school locations and raise demand through awareness campaigns
- A focus on specific issues that matter more to girls than boys, such as improving physical conditions in schools and improving in-service teacher training
- Good coordination among government, community, and donor efforts to provide the institutional, financial, and operational resources required for the job
- Research, pilot projects, experience in developing other programs, and partnerships with donors that made vitally important contributions to the knowledge base needed for designing and implementing this program.

The results of EEP confirm the effectiveness of targeting interventions where there is low girls' enrollment. They also show that national initiatives take their strength from popular involvement. With equity in access to basic education defined as a national goal, and with active support at the community level, project design and implementation can focus on girls' needs and continue to eliminate gender gaps.

El Salvador's EDUCO: A Community-Managed Education Program in Rural Areas

The smallest country in Central America, El Salvador has the region's second-largest population (6.3 million). Between 1980 and 1992 a 12-year civil war tore the country apart. Peace agreements were reached in 1992 with United Nations mediation and a commitment to help the nation mend its devastated social fabric. Since then, the history of the country has been one of transition from war to peace.

El Salvador's EDUCO Program—Education with Community Participation—actually began during the final period of civil war to serve the poorest and most isolated rural communities. It made families and parents the driving force for educational leadership, providing preschool and basic education in rural areas through joint efforts by the state and local communities. The EDUCO experience has rapidly expanded educational coverage for poor rural children without compromising quality. EDUCO schools now account for about 40 percent of the overall rural enrollment in public preschool and basic education.

Background

During the 1980s, Salvadoran society experienced a deep-rooted crisis due to the effects of the war. The armed conflict generated lack of security, political violence, and deep ideological polarization. The country paid a high cost for war—more than 80,000 dead, severe damage to infrastructure, and heavy migration of the population within the country and abroad. Between 1978 and 1988, the

average income decreased 37 percent in real terms—for the poorest 20 percent of the population the decline was 67 percent.

In education, the 1980s were a lost decade. Illiteracy rates reached 29 percent for the population 16 years of age and older, one of the highest rates in Latin America. Just 70 percent of children aged 7 to 15 were enrolled in basic education (grades 1–9), and only 18 percent of young people aged 16 to 18 were in secondary education (grades 10–12). The figures were even worse in the poorest sectors. One out of two seven-year-olds in the poorest 20 percent of the population was enrolled in school, while nine out of 10 children in the wealthiest 10 percent were in school by that age.

It is important to stress that even before the signing of the peace accords, the government of El Salvador recognized the importance of expanding access to basic education (with special emphasis on rural areas), of promoting decentralization of educational services, and of overcoming the inefficiency of the public sector in education. With growing social consensus and economic recovery in the 1990s, public investment in education grew consistently, and a series of innovative initiatives led to a nationwide educational reform process

Implementation of EDUCO

EDUCO, one of the first of the reform initiatives, was established in 1991 when the Ministry of Education decided to implement a pilot program to channel education funds through parents' organizations, focusing on the poorest rural communities. The program is based on the creation, legalization, and provision of support to parents' organizations at the community level (Asociaciones Comunales para la Educación—ACE), which support the development of new education services in their communities. These organizations were acknowledged by the ministry to have the authority to receive and use public funds from the central education budget to hire teachers and cover the basic operational costs of educational services.

From its initial design, EDUCO has had three goals:

- To expand education services for preschool and basic education in the rural and poorest communities of the country
- To promote community participation in the provision of education services
- To establish a curricular link between preschool and the first grades of basic education.

The pilot program created 263 new classrooms to enroll 8,416 children in grade 1 of basic education. The success of the 1991 experience led the Ministry of Education to institutionalize the program, which gradually became the model for expanding educational access in rural areas. In 2003, enrollment was greater than 362,000 students; more than 2000 ACEs were managing a similar number of rural schools; and more than 7,000 teachers had been hired. The ACEs administered about \$50 million dollars allocated to them in the national budget (approximately 12 percent of the education budget).

Currently, the enrollment in EDUCO schools is about 40 percent of the overall rural enrollment for public preschool and basic education. This represents an installed capacity in the poorest rural areas where, at the beginning of the 1990s, education services were simply not available. It also has built up the social capital of communities. There is evidence that the services provided by the EDUCO program are more efficient than those of the traditional one, and that the quality of education is greater when community participation is effective.

Building capacity

The strategy of the EDUCO program is to set up community organizations for education (Asociaciones Comunales para la Educación—ACEs) whose members use funds from the Ministry of Education to hire teachers and meet other educational expenses. The process of creating an ACE takes no more than three months. At first, EDUCO took advantage of existing local infrastructure (schools, community buildings, or property belonging to community members); in other cases it built new classrooms with community participation.

The ministry ensures that financial resources are available to communities and provides support in the organization, legalization, and training of the community associations. It also helps to select and train teachers and provides teaching materials. For their part, the ACEs are responsible for administering their funds, hiring teachers, and managing the educational services in their communities.

Thus several key processes—hiring, purchasing, acquisition of professional services and materials, and payment for basic services—are now the responsibility of community organizations. For schools within the EDUCO program, the ministry’s role has become one of ensuring financial resources, providing technical assistance and support, and supervising the use of the resources through selective audits.

Achieving sustainability

EDUCO gradually decreased its initial financial reliance on a World Bank loan, and by 1996 the program was fully funded by El Salvador’s national budget. In 2001, the government transferred to the ACEs a total of \$45 million, which represented 2 percent of its total budget and 10.5 percent of the budget of the Ministry of Education. The ministry reports that “ACE members dedicate annually 1,044 hours to various tasks: management training (200 hours), bank account management (16 hours), payment of teacher salaries and social security (96 hours), purchase of school consumable materials (72 hours), advisory consultations with school supervisors and district and regional coordinators (120 hours), community and ACE meeting and assemblies (180 hours), school visits and supervision (360 hours).”

A scalable solution

EDUCO met its original objectives—and did so much faster than previous programs. Meanwhile, it promoted innovation within the education system, with positive effects on quality. The impact of the EDUCO program is seen in terms of efficiency and effectiveness.

Its improvements in efficiency include:

- Greater agility in creating services
- The benefits of decentralized, community-level decision-making
- Improvement in teachers’ attendance rates, leading to an increase in learning time for students
- The tendency to promote at least similar, and sometimes better, academic achievement than in the traditional public schools.

Its effectiveness as an engine of social change is also significant, particularly in terms of meeting the needs of rural children, especially the poorest, and building a mechanism to promote community participation for greater educational quality.

EDUCO enjoyed some important support. Among the driving factors of the program are the leadership and commitment of both the government authorities and the communities; the capacity of institutions to introduce innovative approaches (in the legal, administrative and curricular areas); and the technical and financial support related to loan-funded activities by the World Bank. EDUCO also had the flexibility to make adjustments while implementing the program.

Based on the experience of El Salvador, the governments of Guatemala and Honduras decided to promote similar programs: the Programa Nacional de Auto-Gestión para el Desarrollo Educativo (PRONADE) in Guatemala in 1995, and the Programa Hondureño de Participación Comunitaria (PROHECO) in Honduras in 1999. In 2003, the total number of children enrolled in the three programs was more than 800,000. Approximately 8,000 schools were participating. Community associations with 50,000 parent members had hired more than 22,000 teachers.

EDUCO and similar initiatives have the potential to enhance the capacity of the region's governments to satisfy the education needs of rural areas, help reduce poverty and existing inequities, and support broad economic and social development.

India: A Community-Government Partnership That Gets Millions into School in Madhya Pradesh

The goal of universal elementary education has eluded India for over 50 years. Notwithstanding a wide range of primary education programs, some with donor assistance, many regions of the country continue to report the presence of a large number of out-of-school children. All this changed in a dramatically short time in the state of Madhya Pradesh (MP) in central India. Over the course of the last decade Madhya Pradesh's Education Guarantee Scheme (EGS) dramatically improved access to primary education, especially for children from very poor households and in scattered settlements. The program is built on community demand and participation and guarantees a fast track approach to basic education by linking it with local self-government institutions.

In 1994, MP launched a primary and adult education mission and began shifting accountability for school education to local and district bodies. In 1996 a state-wide house-to-house survey revealed that non-enrolment in primary schools was more severe than had been popularly believed. Only 70 percent of habitations, (6.1 million households and 10 million children) had access to primary schooling. 24.4 percent of boys and 35.2 percent of girls were out of school, of these 19.7 percent and 29.3 percent, respectively, had never been enrolled. The data showed that the inability to access primary schools was serious, especially acute in tribal hamlets with highly dispersed population and in children from socially disadvantaged communities in non-tribal areas. In response, political leaders and administrators in Madhya Pradesh reworked the system to address the twin problem of non-enrolment and lack of access.

The Education Guarantee Scheme (EGS) was initially designed to specifically address the issue of access. After a tentative start, the program went to scale in a brief period. Between July 1997 and July 2000, a staggering 26,571 EGS Schools were created (42 percent of them in Tribal areas) catering to 12,33,052 children (47 percent girls and 44 percent being tribal children) – out of which 91 per cent of children were from Scheduled Caste, Scheduled Tribe and other socially disadvantaged communities. As of June 2003 the program appointed a total of 31,815 *Guruji*s

(teachers) who were identified by the community and trained by the education department of the government. The program guaranteed that on receiving a written request from the Panchayat, (local self-government unit) the EGS program will provide a school within 90 days.

This unique program is acknowledged as a breakthrough in social sector planning: one that was based on community demand and managed by local self-government institutions. EGS is indigenously designed with the government pledging its own resources, not linked to availability of grants from Government of India or foreign donor agencies. In an environment where frequent transfers of officials is often cited as a reason why programs fail to be sustainable, the Government of Madhya Pradesh ensured the continuation of a motivated team of officials for a decade starting from 1993-94. The universal primary education program was complemented through an adult literacy program initiated in 1999. A series of institutional reforms were initiated, culminating in the Madhya Pradesh People's Education Act (2001) and Jan Shikshan Adhiniyam (Statutory Framework for Quality) in 2002.

The most significant impact of EGS is a sharp reduction in the absolute numbers of out-of-school children from 1,315,000 (boys) and 1,604,000 (girls) in 1996 to 346,000 (boys) and 428,000 (girls) in 2002-03. Female literacy increased by 20.93 percent over the decade. Gross enrolment ratios have also increased across the board and exhibit no substantial differences between social groups. The EGS has also been responsible for bringing hitherto deprived groups into the education fold. Institution reforms have created administrative and statutory instruments to devolve powers to local communities and local self-government institutions.

From its outset, EGS was positioned as a large-scale program and not a small innovation. While the approach was certainly experimental, it was evident from the start that the government was determined to cover the entire state. The MP Government allocated adequate financial resources and maintained a steady increase of actual expenditure on elementary education even though there was a noticeable decline in GOI Plan expenditures. Other innovative sources of funding have included the "Fund a School" program in 2000 – whereby anyone can log on to the website and adopt a school which is directly credited into the bank account of the school concerned. Most innovative was the management decision to evolve and fine-tune the program as it went to scale. While the basic blueprint was prepared in 1997, the program adapted and changed as it went to scale.

The Education Guarantee Scheme created institutional structures and statutory mechanisms for inclusion of the excluded (poor rural children who had no access to primary school within 1 kilometer walking distance) by providing a forum for articulation of demand for education through the Panchayat, a mechanism to forward that demand through local-self-government structures, public commitment by the government to establish EGS primary schools and finally mechanisms for continued participation of the community and the Panchayat in management and supervision. Contrary to popular beliefs about the value of education, social resistance to education of girls emerged as a relatively less important reason for non enrolment (only 8.2 percent respondent cited this as a reason in 2002, LSA) while issues of non-availability of schooling facilities, economic compulsions and school related factors got more prominence. Open discussions in the Panchayat as also within the official system not only created a climate for change, but gave the people a mechanism to demand a school for their children.

Another innovation was the government's provision of a unilateral legally cognizable guarantee by pledging to meet its obligation of providing an EGS School within 90 days and provide training and academic support to the teacher identified by the community. Necessary statutory institutions and mechanisms were established to enable the government to respond as well as empower the Panchayats to make decisions and make demands on the administration. The forging of mutually supportive links between the state government, local self-government institutions and civil

society was another breakthrough, ensuring convergence and synergy between the administrative/financial wing and the academic arm of education. Further, making the system responsive and accountable to the Gram Sabha (the entire village – as the basic unit of democratic decentralization) effectively flipped the accountability pyramid. The EGS School is today owned by and accountable to the Parents Teachers Association and the Village Education Committee – who in turn are elected by the Gram Sabha. Funds allocated by the government for the EGS program are managed by the Panchayat and allocations/expenditures are supervised by the Parents Teachers Associations of each school. The government, the Panchayat and the school form three corners of the management pyramid. Other institutional reforms strengthen decentralized management and quality monitoring.

The key message to emerge from the EGS experience is that structural reform in one sector cannot be sustained unless reforms in governance follow. Empowering local self-government institutions (Panchayats) through effective decentralization of development planning and resource allocation are the logical next steps. Future issues that must be addressed include the establishment of forward linkages to make primary education a means to livelihood security, funding sustainability for the poorest communities, and ensuring equal quality of education for all. There is a discussion as to whether EGS can be replicated in other states and even as to its sustainability in MP given the change in government in December 2003.

The EGS program demonstrates that when poor people are confident that their voice will be heard and that they can exert a positive influence – their enthusiasm to participate in local governance goes up. Equally, that decentralization cannot be sustained without appropriate institutional mechanisms and legal instruments. The poor need no incentives when they are confident that universal education will lead to their own empowerment.

Kenya, Lesotho, Malawi and Uganda: Universal Primary Education and Poverty Reduction

In Kenya, Lesotho, Malawi, and Uganda, free primary education (FPE) was viewed as a step toward achieving universal basic education and as part of scaling up poverty reduction. The removal of school fees contributed to poverty reduction by ensuring universal access to basic education, which in turn could help break the cycle of poverty. It is a significant intervention in Sub-Saharan Africa, which is lagging behind in achieving universal primary education (UPE). The four countries represent different stages of the process over time, using different scales, and different approaches under different political, social, and economical contexts.

Universal basic education is largely understood as universal primary schooling. Only after the Jomtien conference on Education for All (EFA) in 1990 was it understood that by making primary education free would it include children from poor families and thereby perhaps become universal. Schooling costs for families are a major constraint to achieving UPE. Direct costs can include general fees, examination fees, salary top-ups, textbooks, materials, uniform, feeding, transportation, sports and culture. Indirect costs are the opportunity cost of labor at home or work. By eliminating direct costs of schooling, families could send their children to primary school, thus increasing demand. On the supply side, very few school systems in Africa were keyed to education for all from the outset, and a strategy combining the elimination of fees together with the reform of the EFA system is needed.

Relevant contextual similarities among the four countries included the fact that all are emergent multiparty democracies. In Malawi, Kenya, and Lesotho, free primary education was the

key election issue on which the new government came to power. All countries have, or have had until recently, high poverty and illiteracy rates and low primary enrollment and completion rates. All four countries were highly centralized and lacked fiscal discipline. Differences among the countries included scale (population size, density, GDP, GDP per capita, foreign debt, and foreign aid) and the FPE starting point (i.e., organization structures, national enrollment rate--NER, institutional capacity, and school ownership). Local social and cultural differences within each country are as great as those among the countries and provided differing FPE contexts.

Malawi was the first of the four countries to start working toward UPE, by abolishing school fees grade by grade in 1991. FPE was launched for all grades by September 1994 after an election campaign where the strategy changed to the “big bang” approach for all grades at the same time. Uganda had a sleeping UPE policy from 1987, but not until relative stability in 1997 was FPE implemented, following the new government’s manifesto. Uganda also used the *big bang* approach. FPE was in the constitution of Lesotho, but instability delayed implementation until 2000, after the 1999 elections. Lesotho adopted a sequential strategy, phasing in from grade 1. The newly elected government of Kenya adopted the *big bang* approach in 2003.

In all four countries, a top-level dynamic political initiative triggered FPE implementation, leaving little time for detailed planning before startup. In some cases, there was little time even to negotiate with stakeholders. In Malawi, a two-day national policy symposium was held and a mass media campaign mobilized the population. In Uganda, the radio was used for dissemination and communication; Lesotho, learning from both countries, used the traditional form of community consultation (*pitsos*) and mass media; in Kenya, a stakeholder forum was created, which set up a task force and reported to the government. What FPE would and would not cover, and how, varied somewhat from country to country owing to contextual differences, especially of school ownership.

Key issues in introducing FPE included maintaining the social contract with the electorate, establishing quality education, and developing the capacity to implement and sustain FPE. Criticism of FPE in all four countries has raised questions about its sustainability, the lack of time for planning, slowness to deliver, and problems in quality education. However, introducing FPE as an urgent task shows what major changes are needed in an educational system to redirect it to EFA. In each country, immediate support from at least one major donor/lending agency was needed to ensure confidence in the process. As part of democratization processes, FPE must not be seen to fail.

The public response to FPE was overwhelming and created *access shock*. Enrollments jumped by 68 percent in the first year in Malawi and Uganda, 75 percent in Lesotho (grade 1 only), and 22 percent in Kenya. This led to overcrowded classrooms; double and triple shifts; and shortages of teachers, textbooks, and materials. Many enrolled are over-age pupils who should have been taking adult education. None of the systems were geared up for the logistical implications of FPE.

Ministries, supported by international agencies, put in place distance in-service teacher and paraprofessional training and retrained teachers for large classes; multigrade teaching in small schools; and in education for all. There was implementation of crash classroom construction programs and, in the case of Lesotho, temporary tents, particularly using community involvement as a lead-in to participation in school management. All four countries want communities to be more involved in school management and saw community involvement in construction as an opportunity. Unfortunately, without proper training and local craftsmen, the results may not be worthwhile.

FPE was implemented concurrently with other reforms: curriculum reform, provision of textbooks and other materials, the use of local languages in education, Poverty Reduction Strategy Papers (PRSPs), Medium-Term Expenditure Frameworks (MTEFs), civil service and local government reforms. These add to the burden of change, but PRSPs/MTEFs together with Heavily

Indebted Poor Countries (HIPC), do ensure a protected resource envelope and increased funding for primary education.

Outcomes

The FPE outcomes so far include, first and foremost, increased access, especially from the poorer quintiles of the population; and increased provision of textbooks, classrooms, and teachers, with a very considerable scale of change in Malawi, Uganda, and Lesotho. Other main outcomes include the realization of UPE's implications, the impact on the electorate, and closer inter-ministerial and donor/lending agency cooperation. Unforeseen outcomes include a possible push-out effect of overcrowding on disabled and weaker pupils and falling survival rates. Other unforeseen outcomes need to be researched.

In all four countries, ministries are trying to meet the concurrent challenges of increased access and demand for quality. The top priority is to extend continuation of FPE to the poorest, most marginalized populations, and to the most remote areas. Domestic household surveys show that school costs remain a problem for the very poor. Planning and projections are improving. Gaps have been identified in legislation and regulations and are being managed. High dropout and poor completion rates need to be addressed, and improving quality throughout remains a major challenge. Surveys have found a variety of reasons for high dropout rates including school costs, the need for labor, pregnancy or early marriage, disability or illness, or a lack of interest in attending school. Complementary or alternative basic education is needed to reach marginalized groups. UPE's implications on the education sector as a whole has stimulated the development of sector-wide approaches.

HIV/AIDS is the biggest short- to medium-term challenge because its impact is being felt across sectors. High prevalence is affecting the efficiency and the supply of teachers, rapidly increasing the number of orphans, affecting girls in particular, and it has financial impacts. Improved planning and administrative and managerial efficiency are needed to ensure that FPE continues and that children affected by HIV/AIDS are not lost to education.

FPE/UPE sustainability remains a question: Under what circumstances will FPE be sustainable, and who has responsibility for those circumstances? Innovative solutions are needed, such as bringing back retired teachers or adding day care centers to school so that young mothers can attend classes. Continued commitment from the government and development partners in both policy and financing remains key to FPE sustainability.

Key factors for success include (i) top-level leadership; (ii) a strong social contract with the electorate; (iii) institutional innovation at all levels; (iv) developing capacity—both the sheer increase in volume and the pace of the increase; (v) learning from previous experience; (vi) the presence of external catalysts; (vii) financial security for primary education; (viii) perhaps decentralization; and (ix) good communication and participation strategies. Other factors need to be identified, including what the consensus threshold is in each country and what parental expectations are.

Conclusions

The study's main conclusions were :

- FPE is a must for achieving EFA and eventually poverty reduction.
- FPE can be implemented, but it is not a straightforward process.
- FPE is a political issue, linked to democratization processes.

- FPE involves a new paradigm of education—education for all—an inclusive system with universal completion and with acceptable levels of learning achievement.
- Learning from experience is important, but adaptation to each context is essential.
- HIV/AIDS is the greatest threat to FPE and has to be addressed through a combination of inter-sectoral strategies.
- Trade-offs are inevitable, whatever strategy is chosen (sequential or big bang).
- There is a need for innovative solutions for quality and access.
- Changing education takes time and depends on each country's contextual and external factors. Only after some years will one know if FPE actually did make the contribution it was supposed to toward education for all.
- A decision needs to be made about the definition of *education for all*. Is it universal nominal attendance in school, universal completion of primary education, or universal completion of primary education with optimal achievement, as stated in the Millennium Development Goals? The meaning of the term must be clarified and agreed upon so that the human and financial resources required and the pace of change needed can be better determined.
- To secure the gains made through FPE, it must be supported until the returns to the household and national economy take effect. Continued commitment from the government and development partners in both policy and financing will be key.
- FPE is not sufficient in itself for poverty reduction. Macroeconomic conditions at the country and international levels must be changed to create employment opportunities, and the impact of HIV/AIDS must be dealt with.

Latin America: Fe y Alegría—A Jesuit Education Movement Supported by AVINA

World Bank Development Dialogue on Values and Ethics

In Latin America some two million students are enrolled in Jesuit education systems. Recognizing the importance and influence of these systems, the Centro Magis program is linking them with business institutions and leaders to enhance their management and systems and build on successful experiences across countries and education sectors—with an implicit focus on reducing poverty and reaching very poor communities. The ultimate goal is to develop partnerships that transfer the best business skills and values to education systems, while conveying to corporate and public sector leaders the insights and commitments emerging from work on education, poverty, and social justice.

Centro Magis, established in 2000 and based in Caracas, Venezuela, aims to provide strategic, sustained support to Jesuit education systems in the region by means of an extended program (at least 10 years), including leadership training and support, new technology, and basic equipment. Because Centro Magis is addressing issues critical to the *scaling-up* challenge—including strengthening information systems, tightening financial management, and sharing experiences and best practices—its efforts stand to help other education institutions and enhance their participation in policy reviews and discussions.

The power of partnership

Centro Magis was established as a result of an unusual partnership with the AVINA Foundation (<http://www.avina.net>), one of the leading foundations in Latin America. This collaboration is an example of creative efforts to break down institutional barriers in addressing the most pressing challenges facing Latin America, and of the potential for new alliances to generate major new insights and achievements. The ultimate goal is to foster—on a large scale—individual leadership, social entrepreneurship, and a framework for social transformation.

Centro Magis has its focus on Fe y Alegría, a primary education system that in 2002 had 935,000 students enrolled in its programs in 15 Latin American countries, in addition to reaching 6 million people indirectly. Fe y Alegría is a remarkable movement that delivers high-quality education to the poorest communities in Latin America. It focuses on teaching practical skills, promoting ethics and values, and basing lessons on the realities of surrounding communities.

The Centro Magis approach

The Centro Magis endeavor focuses on two linked goals and hypotheses. First, that a central impediment to the development and delivery capacity of Latin America's education systems is a set of remediable patterns of weak organization and management and, second, that too many brilliant and dedicated leaders emerging from these education systems achieve meager results because they work in failing societies—without the tools to address the causes of those failures.

Centro Magis's first achievement was to break through policy barriers to formulate the goals for its program. In addition, imaginative structures were used in the governance of both Centro Magis and its partnership with the AVINA Foundation. Similarly, the determination of AVINA leaders to develop a demanding dialogue with the leaders of the Jesuit Order has both ensured commitment to overall goals and high-quality objectives and opened the door to much broader approaches to addressing social challenges in Latin America.

Centro Magis considers several factors crucial to success, including spirituality, social credibility, clear articulation, and strong organization and human resources. It sees its support as part of a continuum that involves action at the level of individuals, groups, institutions, networks, and society. Thus Centro Magis is a catalyst in bringing to bear all these energies—with poverty alleviation and sustainable development as its overarching goals. Centro Magis operates on a project basis, soliciting proposals from national Fe y Alegría offices, and other parts of the Jesuit education system, evaluating them, and approving them after discussions and negotiations, as well as providing strong support during project implementation.

Fe y Alegría in Bolivia

Bolivia contains one-quarter of Fe y Alegría's students in Latin America and is a central part of the strategic plans of both the Fe y Alegría Federation and Centro Magis. Thus Fe y Alegría's activities in Bolivia—where it was founded in 1965—provide a good example of the base on which Centro Magis will build and the challenges it faces. Centro Magis is supporting Fe y Alegría Bolivia in its overall management and strategy development as well as through specific projects such as development of a boarding school model and extension of a radio education network

Fe y Alegría has a complex relationship with the Bolivian government and education system. Fe y Alegría schools and programs are part of the education system (serving, for example, 5 to 7 percent of Bolivia's elementary school students) and teacher salaries and most other funding comes from the government. But Fe y Alegría also secures facilities and support from a variety of other funding sources, including community participation and international fund-raising. Though this

funding setup presents challenges, it has stood the test of time, with Fe y Alegría schools receiving support even during Bolivia's most difficult periods.

Bolivia's Fe y Alegría schools consider themselves pioneers in many areas of education for poor communities—including bilingual education, rural boarding schools, special education (such as for disabled children), and adult education—and each year there are about 50 requests to open new schools (though because of funding constraints, only about 5 are opened each year). Much, but by no means all of this education occurs in the country's poorest communities. Although the values of the Jesuit Order and the Catholic faith figure prominently in Fe y Alegría, the program is not primarily oriented toward faith-based education but toward education for a productive and meaningful life. Schools are open to all, without discrimination based on religious affiliation. The program has a remarkably dynamic focus on poverty and commitment to community participation.

Lessons—and challenges

The success of the Centro Magis experience with education offers several lessons on the importance of:

- Departing from traditional arrangements, including formal policies, when crafting new types of partnerships: AVINA changed its policies to engage directly with a faith-based institution and has brought together unconventional partners from the business and social realms in creative working relationships.
- Establishing long-term visions for change, with partnerships explicitly envisaged as sustained investments that entail mutual responsibilities and long-term financial and personal engagement.
- Building on the strengths of the Fe y Alegría education movement and the centuries-old Jesuit experience in education when seeking to deliver high-quality, relevant education to all citizens.
- Forging new concepts on what constitutes the lessons of business and entrepreneurial experience.
- Recognizing the potential role of faith-based institutions in areas critical for alleviating poverty and attaining the Millennium Development Goals.
- Overcoming challenges, including bringing the Centro Magis and Fe y Alegría experiences more directly to bear in sector development and national poverty activities.

In addition, several factors explain the success of Fe y Alegría at local levels, including the proximity of its leaders to the communities they serve, their promotion of community participation, their vision of social justice as a solution to poverty, their persistence and determination, and their creativity in developing mechanisms for partnerships with different organizations and states. For the Fe y Alegría Federation, success has come from its federated structure—and thus flexibility—its focus on common goals, and its ability to articulate a common, shared vision.

Still, among the many challenges facing Centro Magis, at both regional and national levels, three stand out. The first is complex financing arrangements. The elaborate and unstable financing arrangements that have characterized Fe y Alegría from its inception remain a significant impediment, for example demanding substantial time for negotiating and raising funds for programs, with little certainty even for basic teacher salaries. Second, despite its deep historical roots and

extensive present-day experience, the Jesuit system overall and *Fe y Alegria* more specifically generally play a quite restricted role in the local and national policy dialogue on education. Decentralization can exacerbate this challenge because it increases the number of actors involved. It would be beneficial for all concerned if, among other things, *Fe y Alegria* were to bring its voice and experience more directly and forcefully to the policy table. Third, efforts are needed to identify synergies, enhance communications, and improve quality using different perspectives and experiences where there is a shared goal—better serving the poorest communities. This calls for links with public education generally, but also other with education experts within the *Fe y Alegria* system and internationally.

Turkey's Basic Education Program

During the 1990s the Turkish government felt it needed to address the high inflation, deteriorating standard of living, worsening income distribution, and appearance of a poverty-stricken population. It sought a specific, concrete, cost-effective solution that would directly address the needs and concerns of the least advantaged. There was consensus that education should be one of the first objectives.

Since the early 1970s successive governments of Turkey have sought to extend the amount of compulsory education provided to all children to eight years from five years, and to expand coverage to 100 percent of school-age children. But they experienced difficulty covering the last segment of the target population, children ages 11–13. The breakthrough came with the passage of a law in 1997 that introduced a new eight-year compulsory education system. This law was buttressed by substantial new funding, which financed additional infrastructure and human resources to replace a system consisting of five-year primary schools and three-year lower secondary schools with one consisting of eight-year primary schools.

The government also created incentives to encourage all families to send their children to school, and it carried out a variety of other initiatives to address social, economic, and cultural factors that affect many segments of the public. While many of these efforts succeeded in persuading some parents to comply with the law, others backfired, and some succeeded for unanticipated reasons.

Total annual expenditures to date—including all investment and recurrent costs, plus private donations and loans that directly support primary education—are estimated at more than \$3 billion annually. In the first four years of the program, the government spent nearly \$2 billion more than envisioned in its development plan to accelerate the construction and rehabilitation of school buildings, provide new educational materials and equipment, and recruit additional teachers. As a result, enrollment in grades one through eight increased by over 1.1 million students, raising the net enrollment ratio from 85.63 percent in 1997 to 96.30 percent in 2002. Enrollment of girls in rural areas made particularly impressive gains, increasing by 160 percent in the first year of the program alone in the nine provinces (out of 81) with the greatest gender disparity.

The government's strategy focused heavily on construction. Almost 104,000 new primary classrooms were built, creating additional capacity for more than three million basic education students. Over 70,000 new primary school teachers have been recruited since 1997. In order to improve access for children in rural areas, a variety of special schemes, including bussing, the establishments of boarding schools, consolidation or closure of some village schools, were implemented. Students from low-income families receive free textbooks and school meals.

In order to provide a strong incentive for students to continue their education into sixth, seventh, and eighth grades, the government abolished the traditional diploma that had been awarded

at the end of the fifth grade, replacing it with a diploma for successful completion of the eighth grade. This was a significant move since many students and their families view gaining primary education diplomas as critical to joining the workforce. With the adoption of a uniform eight-year primary education program, the government canceled all vocational and religious electives, a move which upset many religious and poor families. Changing the apprenticeship age from 12 to 15 years not only postponed the child's ability to earn money but also removed other benefits, including legal and insurance security, that had been provided under the student-apprentice program.

The Rapid Coverage for Compulsory Education Program, with its special provisions for poor children, was Turkey's largest poverty alleviation program. The program was designed and implemented during a period of severe economic crises and short-lived coalition governments. Given the economic and political instability, the government chose to take a "big bang" approach to education reform, believing that reform could be overturned or its financing cut if it tried to take the time to build coalitions, develop quality-enhancing components of the program, or undertake complementary steps designed to assuage different interest groups and populations. The rapid approach brought fast action. Moreover, the intensity of the government's effort awakened a spirit of contribution from large segments of the public. The program unexpectedly generated substantial donations from the private sector. Rising enrollment and the construction of long-awaited facilities helped push Turkish education to higher standards. And since education is one of the main instruments of social mobility in Turkish society, it produced important social benefits. Children living in poorer urban suburbs and rural areas, especially girls in rural areas, gained the most, as increased educational opportunities opened the doors to better jobs, higher incomes, and enhanced welfare. In the long run, the positive effect of longer years of education on individual and socioeconomic development and on poverty alleviation will be seen more and more.

In taking a "big bang" approach, however, the government missed opportunities to make incremental changes that could have supported reform. More careful planning for utilization of the additional funds and existing infrastructure could have saved the reform effort from becoming too unidimensional, and could have directed some attention and resources towards addressing qualitative and organizational issues, such as the need for incentives and support for teacher development, reorganization of the central ministry structure and its related general directorates, empowerment of the local authorities and school administrations, curricula revision, and higher quality standards. Today, the new one-party government (elected at the end of 2003), which unlike many other administrations has a broad popular basis, has a tremendous opportunity to transform the Rapid Coverage for Compulsory Education Program into a more democratic, and more comprehensive package of reforms. For the first time, education spending will exceed the defense budget; the Ministry of National Education's budget represent 3.07 percent of GNP.

The lesson from Turkey, in short, is that equity-oriented policy reforms in the education sector can be successfully launched using a bold "big bang" model, but that efforts to achieve social inclusion and involve stakeholders are needed to assure the institutional, social, and economic sustainability of the effort.

6

Health

Cuba: Achievement and Deterioration of Universal Access to Social Services

In 1958, Cuba ranked in the top four Latin American countries in indicators of social well-being, but it suffered severe inequalities and limitations in the access to social services, particularly among the rural and urban-marginal populations where the poor were concentrated. The revolution of 1959 brought radical socioeconomic reform that significantly improved the availability and quality of social services. By 1989, the country was among the top socialist and Latin American and Caribbean countries in achieving access to social services, despite its relatively low gross domestic product per capita.

The collapse of socialism in the Soviet Union and Eastern Europe, however, combined with errors in Cuba's economic policy, led to a severe crisis in 1990–93 that reduced the availability and quality of social services, prompting an adjustment program and some market-oriented reform. Though modest compared to reforms undertaken in other former and current socialist countries, the Cuban reforms did halt the economic decline and generated an oscillating recovery. But the reforms virtually halted in 1996, and there was an economic slowdown in 2001–02. As a result, Cuba still now lags behind the former and current socialist countries in GDP, economic growth, and social performance, though it is ahead of other countries in Latin America and the Caribbean in this regard.

There is no accurate measurement of poverty in Cuba. The Cuban government, which has never published statistics on the incidence of poverty, claims poverty is not extensive because the country provides universal access to free social services and pursues other policies, such as full employment and subsidies to consumer goods, that improve living conditions. While no study provides definitive evidence, abundant information indicates that there is poverty in Cuba and that it became more pervasive in the 1990s as a result of the crisis. Further, it is clear that the gap between the poor and the small but growing population of wealthier people expanded in the 1990s and early 2000s.

Education, health, pensions, and social assistance after the Cuban Revolution

After the 1959 revolution, using its enormous political and economic power, the government gave a high priority to expanding access to social services—focusing particularly on rural and urban-marginal areas where the poor were concentrated. Education, health-care, and pension services were centralized and made available to the entire population at no charge. These policies were designed and implemented from the top, with little participation from below. The government did not allow local experimentation and competition, and social programs were implemented nationally without previous local testing to detect flaws, improve efficiency and cut costs.

Universal access to primary education was virtually achieved by 1970, thanks in part to a free program of day-care centers that helped working mothers and supplied meals to the children. The emphasis shifted next to secondary education, where enrollment jumped from 25 percent of the population 12–17 years old in 1970 to 90 percent in 1990. A program of boarding schools in the countryside considerably contributed to the expansion of rural enrollment. Finally, access to higher education was expanded through free tuition and a scholarship program that provided resources for lodging, food, and other expenses. The number of universities and technical-vocational schools increased four-fold, while university enrollment climbed sharply. There was a successful effort to increase enrollment of girls and women at all levels.

Access to health care services became universal after the revolution, and health standards improved significantly until the crisis. Though facilitated partly by the relatively advanced health care system existing in 1958, the gains resulted mainly from government policies. The government set as a primary goal the expansion of free health care to rural areas and low-income urban groups, which had been virtually excluded. It also put a priority on a massive effort to vaccinate children.

Real per capita expenditures for health care jumped 162 percent between 1976 and 1989. As access became universal and free (with few exceptions), the results were remarkable. The infant mortality rate, the number of children born underweight, maternal mortality, and the mortality rate of the population age 65 and above all fell. Most contagious diseases were either eradicated or sharply reduced, although a few increased (acute diarrhea and respiratory diseases, venereal diseases, hepatitis and chicken pox). Finally, the gap between access to facilities and health personnel and in health standards between urban and rural areas was greatly reduced.

On the other hand, there were several problems and inefficiencies. The health care system was highly dependent on imports of medical equipment, drugs and other essential inputs from the Soviet bloc. The national health service is capital intensive, placing significant emphasis on hospitals, equipment, and physicians. A separate health care system for the military, internal security personnel, and top officials of the government and the party is very expensive. Investment to reduce the infant mortality rate through costly techniques for early detection of fetal congenital problems and special programs for mothers in risk depleted scarce resources that were badly needed to ameliorate other problems, such as the deterioration in the infrastructure needed to provide potable water and sewage.

In 1959–63 the state consolidated Cuba's many pension and social insurance funds into a single system with relatively equal eligibility rules and benefits. A 1979 law expanded coverage to the entire population (coordinating social insurance and assistance) and centralized administration in the ministry of labor and social security. By 1989, Cuba's social insurance and pension system was probably the most extensive and liberal in Latin America and the Caribbean. The system is financed by a payroll contribution charged to state enterprises, farms, and agencies—the state covers the substantial and growing deficit. Modest, means-tested social assistance programs protect destitute people who are not entitled to social insurance pensions.

Social services during the crisis

The collapse of socialism in the Soviet Union and Eastern Europe ended the preferential trade relations and generous aid Cuba enjoyed from those countries. While the USSR and some Eastern European countries made market-oriented reforms in 1986–89, Cuba went in the opposite direction, halting the Soviet-style, timid economic reform of 1970–85 and moving against the market during the “Rectification Process.” That provoked an acute economic crisis. At its worst point, GDP declined by 35 percent in 1993, inflation jumped from 0.5 percent to 26 percent, and the fiscal deficit surged from 7 percent to 34 percent of GDP.

These problems forced an adjustment program as well as a market-oriented reform, though one considerably more timid in scope and depth than that in former communist and current socialist countries. Both programs aimed to stop the GDP decline, promote a recovery, and reduce inflation and the fiscal deficit. Despite positive outcomes, the reform was virtually halted in 1996. As a result, only marginal changes have been implemented, some policies have been reversed and several key measures that were planned have not materialized. That, combined with adverse external factors (the world recession, a decrease in international tourism, and a toughened U.S. embargo), led to a new economic slowdown in 2001–02.

The government allocated considerable resources to avoid a deterioration of social services during the crisis. The cost of social services climbed from 15.8 percent of GDP in 1989 to 20.7 percent in 2000—7.5 percent for education, 6.5 percent for pensions, 6.1 percent for health and 0.6 percent for social assistance.

But declining real expenditures for education between 1989 and 1997 led to a scarcity of supplies, a halt in investment and maintenance of infrastructure, deterioration of equipment due to lack of spare parts, a cut in students' meals and transportation, and a decline in the quality of services. Enrollments declined at all levels. The fall in enrollment at the secondary level is explained in part by lack of incentives to continue into higher education.

Health indicators deteriorated in the first half of the 1990s, and improved in the second half. But as of 2000, several had not recovered to their 1989 levels, particularly in the poorest eastern provinces. The deterioration is explained by several causes. Soviet food imports virtually stopped after 1989, Cuba's hard-currency allocation for imports was halved in 1989–97, and domestic food production sharply decreased. All these problems had an adverse effect on nutrition: the proportion of Cuba's population that was undernourished increased from 5 percent in 1990–92 to 17 percent in 2000.

Real health care expenditures per capita in 1999 were 21 percent below the 1989 level. The cut in real expenditures and in imports led to a severe scarcity of medicine, spare parts for equipment, inputs for tests, anesthesia, hygiene goods, and other essentials. The separate and costly health care scheme that provides better services than the NHS for the military, internal security and top echelons of the government and the party has not been affected by the crisis, making its beneficiaries even more privileged and resented by the population. A new separate scheme that provides services for foreigners who pay in dollars was created and expanded rapidly; it is profitable but also generates irritating inequalities.

Remedial steps have been taken to tackle the most severe problems. Although these policies are appropriate and have led to positive results, they have not solved most of the structural problems in the health care system, and there is no discussion of reforms that would do so.

The problems that the social insurance pension system suffered at the end of the 1980s were aggravated by rising costs, the rapid aging of the population, generous entitlements, and the crisis, which lowered salaries and thus employer contributions. The cost of the separate pension scheme for the armed forces was equal to the entire deficit of the general pension system in 1995; a contribution rate equal to 118 percent of salaries would be needed to finance it. The Latin American Center for Demography projects that, by 2005, 25 percent of the Cuban population will be 65 years and older, making Cuba the oldest country in the region; at that point, there will be only 1.5 active worker per pensioner.

Coverage and benefits have deteriorated. The average real pension shrank 42 percent in 1989–98. The previous safety net has largely vanished due to the reduction in subsidized rationed

goods, the deterioration in health care, increasing tariffs of public utilities and difficulties in transportation.

Challenges to Cuba's social-service policies

Decision-making and administration of social services, particularly education and pensions, are excessively centralized in the Cuban government. Rather than allow institutions to grow in a bottom-up fashion and develop partnerships between the government and civil society, the government designed and implemented policies, and later changed them during the crisis, without open public debate and real participation from below. Unlike countries such as India, Cuba has not encouraged local experimentation and competition. It implemented a homogeneous education program nationally, for instance, allowing little adaptation or individual initiative. Councils at the provincial and local levels manage health-care facilities and social assistance, but their representatives are not freely elected in competitive elections, and key policy decisions are left to the central authorities. The pension system lacks representation from workers in its administration or supervision. In contrast to China, which scaled up successful programs previously tested at provincial and local levels, Cuban programs have been implemented nationally without previous local testing to detect flaws, improve efficiency and cut costs; such approach has led to failures, inefficiencies and high costs.

Free and universal access to social services, regardless of user's income, is increasingly untenable. Social service programs need to increase their income and reduce expenditures in order to be sustainable in the long run. Allowing the private sector to open private schools and clinics would create jobs (reducing employment in the overstuffed state sector), offer high-quality services for high-income users, cut government costs, generate government revenue through taxes on profits, and promote competition and efficiency in the public sector.

India: An Outreach Intervention among Injecting Drug Users and Their Sexual Partners in Manipur

Swedish International Development Cooperation Agency

The seven northeastern states of India, among the nation's poorest and least developed, have long been affected by the high prevalence of drug use and HIV/AIDS. The worst affected is Manipur, which has less than 0.2 percent of the Indian population but accounts for nearly 8 percent of people living with HIV/AIDS, with as much as 72 percent of infection being transmitted by injecting drug users. Spread over 22,327 sq. km, Manipur shares a long border with Myanmar, and almost 67 percent of its geographical area comprises of hills and forests. Its urban areas straddle a national highway that originates in Myanmar and continues on to Nagaland. The quantities of drugs transported via this highway to other parts of the world are small, but they affect the young men who, for want of jobs, interact with the smuggling business along this highway.

Through perseverance, three grassroots organizations, using innovative and unprecedented interventions, have arrested drug use and the transmission of HIV/AIDS, developing an organic and informed leadership of ex-drug users, grassroots organizations, and development experts. They have mainstreamed the initiative by making it an official initiative of the Manipur State AIDS Control Society. And they have scaled up their interventions, geographically across the northeastern states and thematically across all affected and vulnerable sections of society.

By the early 1980s communities and NGOs alike had realized that the drug problem had reached a critical stage and that the issue could be tackled only if communities accepted ownership of the problem and induced behavior change among intravenous drug users (IVUs) and their sexual

partners. What was also obvious was the need for awareness and sensitization programs among young people, who were seen as particularly vulnerable to substance abuse. By then there were an estimated 30–40,000 IDUs in the state. Mild tranquilizers and methaqualone were giving way to injectable morphine and pethidine. By the 1980s heroin, locally known as ‘Number 4’, was the drug of choice of young drug users.

Just one year after the first case of HIV/AIDS in the state was reported on December 1989, HIV prevalence rate among IDUs in Manipur rose from 0 to 50 percent, reaching 80 per cent by 1997. Despite growing drug use among women there were virtually no treatment facilities for women. Social sanction against women drug users was so strong that they had been forced into self-denial and a marginalized existence.

By 1990, international agencies and the Manipur government had also realized the gravity of the problem, but efforts to mobilize were hindered by the growing insurgency in the state, its difficult terrain, and lack of governance mechanisms. In this vacuum, grassroots initiatives were launched by ex-addicts and others.

- One of the earliest was the initiative by the Centre for Social Development (CSD). With financial support from the Ministry of Social Welfare, CAPART, and the government of India, CSD had initiated development activities in 15 villages. The focus was on providing services to enable terrace cultivation, tractors on low rent, low cost housing and latrines, but CSD workers soon realized that the debilitating role of drugs was repeatedly hampering the developmental efforts.
- Meanwhile, Dr. Jayanto Kumar, a practicing doctor, was prompted to launch the Institute for Social Disease (ISD). His community, adjacent to the highway, was becoming extremely susceptible to drug intake and use. Kumar believed that a community-centered response was vital because "unless affected people had a say in the matter, no sustainable solutions would emerge."
- About the same time, a group of seven ex-drug users formed a support group called Lifeline Foundation and began to collectively search for a humane and inclusive process of de-addiction and rehabilitation.

In 1993 a situational assessment done by two consultants for the Swedish International Development Agency (SIDA) noted that the state had not developed any kind of response to HIV/AIDS, that it was unaware of the concept of community centered work, and that it lacked financial resources for development. The assessment also concluded that NGOs involved in the initiative would need to “unlearn before learning” and that the effective training of all organizational staff would help in transforming the way drug users are dealt with in the region.

Subsequent to this report, five NGOs were selected as partners for SIDA’s interventions in the region. Only three—Lifeline, the Institute for Social Disease, and the Centre for Social Development—finally underwent training and participated in the intervention. SIDA and the NGOs decided that the harm-reduction, rather than the prevalent abstinence model, was better oriented toward intervening and preventing the further spread of HIV/AIDS.

By 1995 all three organizations had entered a decisive phase in their interventions. Having identified and witnessed the relentless march of HIV/AIDS in the lives of injecting drug-users, the harm-reduction approach became an indispensable strategy to arrest the transmission of HIV/AIDS. With their intentions clear on why they were using this approach, the three organizations demonstrated its usefulness in intercepting the transmission of the virus. Much of their success can

be attributed to the fact that the three organizations had realized that the principal components of the program must be implemented simultaneously. These included:

- Developing a quality outreach program for injecting drug users by gaining their confidence and providing them integrated and need-based service.
- Educating and sensitizing the community on the linkage between harm-reduction therapy and preventing HIV / AIDS transmission.
- Sensitizing key agencies such as law enforcement personnel and healthcare professionals to engage with the issue in a more informed and sustainable manner.

Perhaps the most difficult task before the three organizations was that of gaining the absolute and total confidence of the injecting drug users. It involved reaching out to and sustaining the interactions with them, which in turn depended on the range of service they were able to offer and deliver to meet the many types of needs and demands of different individuals. When the clients faced problems or a personal crisis the workers did not abandon them.

Given this highly labor-intensive commitment, outreach workers often found themselves drained. Their fatigue and feelings of being overwhelmed by the problem were overcome by facilitating constant interactions among outreach workers and periodically withdrawing them from the field to enable them to interact with each other, revisit the ground situation, and assess their own performance in the field.

Consolidation of the rapport with the community also depended on the capacity to deliver service and more vitally, to motivate the affected individuals to use the service. In the first year of the program, CSD reached over 300 users; ISD worked with over 200 users. This activity was complemented by other initiatives such as bleach distribution, which educated IDUs in the use of bleach sterilization techniques and supplied them with bleach to clean their injecting equipment.

To sustain contacts with injecting drug users, it soon became necessary to provide an environment, free of any form of reprisal, condemnation and pressure, where clients could reinforce their resolve to break free from drugs and obtain services that would minimize the harm of injecting. The CSD, ISD, and Lifeline drop-in-centers enabled users to stay inside, out of harm's way, and to get the information they needed. It also enabled CSD workers to spend time with their clients, to bring about behavioral changes, and persuade them to use safe practices. The IDUs often spoke of how other spaces, such as home, often drove them to acts of desperation.

Mainstreaming the initiative—an official response

So successful were the NGO initiatives that in 1998 the Manipur State AIDS Control Society (MSACS), a state agency, endorsed the harm-reduction approach (the first Indian state to do so), formulated a policy to mandate its statewide implementation, and offered much-needed leadership and commitment from the government. The state's decision confronted MSACS and the three organizations with the challenge of scaling up and mainstreaming.

MSACS launched the Rapid Intervention and Care (RIAC) project on November 7, 1998, in order to use partnerships to cover large areas and respond more effectively in a state-wide initiative. CSD, ISD, and Lifeline, having created a model of intervention that could be replicated and scaled up across the region, participated in this partnership by providing their skills and training to the other NGO partners to implement this approach. This enabled a scaling up of the project from an initial target of 6,000 users to 18,000 by the end of 2002.

Realizing that communities' apprehensions about the harm-reduction approach were hampering the impact of outreach workers, ISD devised measures to convince the community of the benefits of harm reduction. In the process, ISD's approach to information dissemination was altered dramatically. Training programs were designed for community leaders in which just 20 percent focused on information and the rest on development of outreach skills. They hoped thus to transfer the skills of outreach work into the community to ensure sustainability. ISD trained nearly 150 leaders, some of whom later functioned as volunteers and reached out to the community through their youth clubs.

In keeping with this thrust, CSD set up a Forum of People for Co-ordination and Development in 1997 to consolidate local initiatives through 24 member groups representing the community, widow's groups, local groups and community -based organizations, and various people's organizations. Representatives of member organizations underwent an extensive sensitization process on issues of drug use, community responsibility, communication, referrals, and so on. By 2001 the Forum had gained increasing recognition at the village level.

Meanwhile, Lifeline Foundation set up a network for empowering people living with and affected by HIV/AIDS to negotiate for their rights and concerns. The Manipur Network of Positive People (MNP+) set up in 1997 was the first state-level network of people living with HIV/AIDS. Given the stigma attached to HIV/AIDS this network was responsible for providing confidence to many Manipuri youth to "come out in the open" about their status.

In 1998 the North East Network—comprising organizations from Nagaland, Assam Manipur and Arunachal Pradesh—was created to bring the states together on a common platform to address the issues of drug use, HIV/AIDS and other developmental problems that were hindering their progress.

Lessons learned

With ground realities becoming more complex and the community of injecting drug users becoming more vulnerable to the HIV virus, organizations involved in the intervention recognized the need for a strong paradigm shift in strategies. A sharp increase in the incidence of HIV among IDUs and the growing incidence of stigma and discrimination being experienced by them led to the realization among these organizations that these issues needed to be addressed in a concerted manner with the active support of communities and key stakeholders. A key lesson was that the issue of HIV/AIDS was not a stand-alone problem. It had to be situated in the paradigm of development. Intervention should be designed to deal with the root causes of the problem rather than its many manifestations. Effective networking and convergence of organizations with varied backgrounds, track records, skills, and core strengths can provide synergies for a meaningful qualitative response.

Islamic Republic of Iran: Primary Health Care and the Rural Poor

Rural households in Iran have traditionally been the most disadvantaged segment of Iranian society, not only in terms of income and political power but also in accessing basic public services, including health. A major achievement of public policy in Iran over the past 20 years has been the improvement of rural health and the near elimination of health disparities between higher-income urban populations and the rural poor. For example, in 1974 the infant mortality rate was 120 and 62 per thousand live births for rural and urban areas, respectively. By 2000, however, both the level and the differential of infant mortality had declined considerably, to 30 for rural areas and 28 for urban ones.

The primary health care system in Iran

The Iranian primary health care (PHC) system was established to improve access to health care for the disadvantaged and reduce the gap between health outcomes in urban and rural areas. To improve access in remote areas in the face of shortages of human and capital resources, the system has relied on three main components: (1) establishing *health houses* in remote and sparsely populated villages; (2) staffing the health houses with health workers, known as *behvarzan*, recruited from local communities; and (3) developing a simple but well-integrated health information system.

The health house, usually the only health facility accessible to the rural population, is the most basic unit of the Iranian PHC network. Located in individual villages, it is designed to cover a target population of about 1,500; each health house also serves several satellite villages selected with careful attention to their cultural and social compatibility. The distance between the village in which the health house is located and the satellite villages served by it is typically, by design, no more than a one-hour walk.

Tasks performed by the health house include record keeping and data collection; public health education and promotion of community participation; antenatal, perinatal, and postnatal care; care of children under five and of school-age children; family planning services; immunization; and disease control services. The second and third levels in the hierarchy of the rural health network provide backup for the rural health houses, offer diagnostic and treatment services, and refer those needing more specialized care to district health centers or hospitals. There are also urban counterparts of these organizations.

One male and one or more female health workers (*behvarzan*) run each rural health house. The health workers are chosen from among local people familiar with the households in the village. Such a close relationship between the *behvarz* and his or her community facilitates the accurate collection of health information, among other things. *Behvarzan* have had a pivotal role in the success of Iran's PHC network.

Although the primary responsibilities of the health workers are divided along gender lines, with the female *behvarz* generally responsible for tasks performed within a health house and the male *behvarz* for tasks outside the health house, both genders are trained for and expected to cover all duties, as necessary. Training occurs at the district level; students receive free training and financial support throughout the two-year training period. In return, they are formally obliged to remain and serve at the village health house for a minimum of four years after completing their study.

The health information system (HIS) enables the *behvarzan* to collect detailed information on rural communities. The main components of the HIS are the household file (containing demographic and health information), various logbooks in which daily activities are recorded, and monthly report forms.

The impact of the PHC system

If we judge the effectiveness of resources invested in the PHC system by reference to the improvements in the health status of the Iranian population in general, and the rural population in particular, the results are impressive. The PHC system is funded entirely by the national government, and the pattern of public health spending is oriented toward rural public health services—a fact that may partly explain the good performance with respect to rural infant mortality rates. The specific measures taken by the PHC system are almost certainly responsible for reducing infant and child mortality, eliminating major infectious diseases of childhood, and improving the health of mothers. These measures include the promotion of healthy attitudes and behaviors; the universal immunization of children; and encouraging mothers to breastfeed, use iodated salt, and provide appropriate

treatment for children suffering from diarrhea and acute respiratory infections (ARI). A Multiple Indicators Cluster Survey (MICS) conducted in 1997 suggested a narrowing gap between urban and rural areas in terms of basic health interventions, including immunization coverage and infant, child, and maternal health care intervention. Despite these advances, however, some disparities remain, for instance in areas such as health insurance coverage.

The presence of the community-friendly *behvarzan* in the village, with their constant interaction with the community, has helped to ensure that health messages have not gone unheeded. Moreover, the ability of the PHC system to support the health messages by providing easy access to the means needed (vaccines, oral rehydration therapy, essential drugs, and so on) where and when they were required has also helped to bridge the gap often found between knowledge, attitudes, and practice.

The family planning program in existence before the 1979 Revolution was revived in 1989. The program has been extremely successful. By 1996, more than 74 percent of eligible couples were using a contraceptive, and the total fertility rate had dropped from 6.5 to 2.6. The traditional gap between urban and rural areas has also been substantially narrowed. Iran is making good progress toward the Millennium Development Goals, especially Goal 4, which aims to reduce child mortality and Goal 5, which aims to improve maternal health.

Factors for success: political commitment and institutional innovation

Two factors have been critical to the success of the Iranian experience. The first is the political commitment for change after the Revolution, expressed in a Constitutional mandate to provide universal access to basic health services. This political commitment has been combined with institutional innovation and the broader involvement of communities and local governments in rural health system decisions.

These factors have helped Iran to develop a primary health care system distinguished by culturally sensitive and cost-effective service delivery features—rural health houses, the *behvarzan*, and the simple health information monitoring system. Each of these institutional elements has been adapted and implemented in a way that has improved the chances of success. Without the locally recruited *behvarz*, staff turnover, absenteeism, and lack of knowledge about local circumstances could have rendered the physical facilities of the health houses much less effective. Simple health status tracking methods have made it possible to keep up with the evolving health needs of individuals as well as to detect village-level trends and disparities.

Problems to overcome

There are some weaknesses in Iran's PHC system. Most of the improvements seen so far are the result of outstanding efforts of the workers and health houses; other facilities are lagging behind. Also, institutions at the second and third tiers of the system do not support the health houses sufficiently. Urban health centers must tackle even more serious constraints, and the problem of limited building space in cities can be overcome only with increased government support. Finally, there is no transparent policy for collaborating with the private sector, training managers, and providing a sustainable mechanism for improving the quality of services.

Kenya, Tanzania, Uganda: The Madrassah Early Childhood Program—Nurturing Innovations and Seeking Sustainability in Early Childhood Development

World Bank Development Dialogue on Values and Ethics

Putting communities in charge, insisting on quality, and action-based learning are the hallmarks of the Madrassah Early Childhood Program in East Africa, a program that the Aga Khan Foundation (AKF) supports. The objective is to provide a program that marries best practices, communities' preferences, and local values and customs that will have a significant influence on a child's ability to perform well in later her/his school career and in life. The Madrassah preschool program puts parents and community leaders clearly in charge, but also provides them with knowledge, management skills, and mechanisms for long-term financing that can help sustain their efforts.

The program reflects a dynamic and constructive effort to build on local organizations, in this case the Islamic community's traditional educational institutions, with respect for their purpose and integrity, while developing them in harmony with national and other community organizations. (Madrassah is an Arabic word that refers to a place of learning. Initially part of the mosque or linked to it, madrassahs educate children and others about the Muslim faith and the Koran.) The program also brings to bear the best of international and national technical expertise. The focus on education of girls and the engagement of women, as teachers, mothers and administrators, warrants special emphasis.

The Madrassah Early Childhood Program originated as a small pilot initiative in Kenya in the mid-1980s; the AKF developed this pilot in response to specific community requests. Over time, enthusiasm for the approach grew and the AKF helped to establish the first Madrassah Resource Centre (MRC) in Mombasa, Kenya in 1986. The MRC began to institutionalize the program and expanded it into other communities.

The MRCs focus on each community's needs and dynamics. Its success in offering relevant and quality education and the breadth of the educational approach and philosophy it represents—the creation of preschools as a response to desires to improve university level attainment—has contributed to a policy review process in three countries on preschool education's role in the overall education system.

The MRCs are registered non-governmental organizations (NGOs) in Kenya, Tanzania and Uganda. They act as catalysts in helping communities in Mombasa, Zanzibar, and Kampala to establish a series of preschools that are linked to and supported by the MRC. The MRCs provide the curriculum, design materials, and train young women who have been selected by the participating communities to be teachers. Some 40,000 children have benefited from the program to date, and it has drawn visitors from many countries who are interested in its culturally sensitive curriculum and approach. Funding partners include The World Bank, the European Commission, the governments of Canada and Kenya, and four private foundations or trusts.

The MRCs in Kenya, Uganda, and Zanzibar work with disadvantaged urban, peri-urban and rural Muslim communities to help establish community-owned and managed preschools. The existing national early childhood development (ECD) frameworks and/or curricula, the Swahili culture (on the Coast of Kenya and Zanzibar Islands) and largely Luganda culture (in Uganda) as well as the Islamic values and beliefs provide the base for the curriculum and overall ethos. Initial results in a longitudinal tracking study of some 720 students through the end of first grade indicate a statistically significantly improved performance for students coming out of the MRC system.

As of early 2002, the MRCs were working with some 185 communities across East Africa, each of which has its own preschool. The MRCs have built up their organizational and technical capacity and improved their work on the ground.

In the MRC program, special focus is placed on: (a) ensuring that girls make up at least 50 percent of the total enrolment; (b) selecting and training local women (who may not have completed grade 10) to act as teachers and heads in the schools; and (c) promoting and ensuring that women are represented on the management committees. The three MRC directors are all women. It should be noted that many of the girls/women in the participating communities often have very limited opportunities outside the home.

The following organizational and structural characteristics were important to the MRCs' development:

- The MRCs were given flexibility as they developed their program approaches. Emerging needs and issues are discussed and addressed as programs mature. The space to be creative is essential.
- The program's infrastructure, personnel, and management were allowed to develop over time. This process requires vision and a long-term willingness to invest funds in staff development and provide technical support.
- The establishment of a regional office as a coordinating unit provided an overall framework for enabling technical inputs and support to the maturing MRCs.
- The adoption of an ethos centered on high-quality education for children evolved into an MRC service culture, which over time pervaded the entire system. This, in turn, enabled enthusiasm and commitment to deepen and also served as a catalyst for program development.

Successful program elements

Key elements in the MRC program's success were:

- MRC commitment to working with parents and communities and the resulting high levels of trust that have been built within the community;
- Intensive community mobilization and organization through the combined use of community development officers and trainers from the MRC over extended periods of time, which has resulted in an exceptionally high degree of community ownership;
- Development and use of available local resources, including human, material and financial resources.
- Ongoing and systematic training, support and mentoring of schools, communities and parent groups;
- Ongoing adherence to high quality standards that marry best practices, community preferences and local culture, religion and values. School curricula are based on high levels of student interaction and extensive use of pedagogical materials made from locally available materials;

- Attention given to the preschools' long-term financial sustainability; and,
- MRCs' accountability to students, parents, and communities, not just the system, through ongoing program monitoring and assessment.

In the process of scaling up, which began in the mid-1990's, two significant developments occurred. First, government policymakers in all three countries began to consider more thoughtfully and systematically their ECD approaches and policy frameworks. The MRCs have been actively engaged in the dialogue in each country. Second, the creation of a regional forum involving the MRCs from each country has provided a real learning vehicle to share experiences, lessons, disseminate best practices and create a sense of camaraderie and motivation for MRC staff.

Future program development, 2002–06

Since 2001, the AKF and the MRCs have been debating plans for the next phase. This includes continuing to work with disadvantaged Muslim communities, while also offering selected training of trainers and short courses for preschool teachers from a broader range of communities. They are also piloting new areas such as work with parents/caregivers and HIV/AIDS.

In the coming years, the program will undertake partnership and collaborative work with new communities and continue to support existing preschools. This strategy follows from the MRCs' realization that providing support for only two or three years is insufficient to help communities establish preschools, train the requisite numbers of teachers and committee members, and fund raise. Achieving sustainability is now viewed as a longer-term undertaking.

The MRCs will continue to share lessons and disseminate their work more broadly within their respective countries, across the region, and internationally. Each MRC has already been interacting with its country's government, by helping governments develop national curriculum frameworks and guidelines and revising requirements related to the registration of community preschools. Moreover, other NGOs operating in the countries have visited the MRCs and the madrasah preschools and requested assistance with training for ECD and community mobilization and development.

Linked to the dissemination of the program's approach, another area of work will be the provision of training of trainers and of short courses for preschool teachers in response to growing demand from other communities, including non-Muslim communities. The MRCs have developed alternative short training courses for interested preschool teachers on a cost-recovery basis, which have been well received to date, and demand seems to be growing. While the funds generated by offering these types of courses will be limited, the MRCs hope such training will help diversify their sources of income.

Across the three countries, communities that successfully completed the MRC program have developed independent graduate preschool associations to provide ongoing basic support and interaction between the schools. The MRCs are also training lead teachers and local community mobilizers for each school to take over the mentoring and leadership development that the MRCs had previously provided.

Finally, the Regional Office continues to provide and organize technical inputs and professional development for the MRCs and will continue with its research work to gain a deeper understanding of the program's impact, effectiveness, and costs.

Demand for the more preschools linked to the MRC continues to expand, not only in all three East Africa countries, but also as far away as West Africa, a solid testimony of the program's acceptance and success. While reasons for this demand vary, one common issue relates to the desire by governments and donor agencies to effectively link and work with traditional or nonformal education systems to achieve their Education For All targets. On another front, some communities that have graduated from the program have asked the MRCs and AKF for assistance to extend their preschools to include primary education. These and other issues are under review with a view to developing a longer-term strategy.

Nepal's National Tuberculosis Control Program

Japan International Cooperation Agency

Tuberculosis (TB) has been one of the foremost public health problems in Nepal, causing a significant burden of morbidity and mortality. Some 45 percent of the total population of Nepal is infected with TB. Each year, 40,000 people develop active TB, of whom 20,000 have infectious pulmonary disease and are able to spread the disease.

As late as the mid-1990s, the detection and treatment success rate for TB was very low (about 60 percent). Since 1996, however, a Directly Observed Treatment Short-Course (DOTS) strategy has been implemented, initially as a pilot in four districts, integrated with the government's existing health delivery structure. DOTS combines five elements: political commitment, microscopy services, drug supplies, surveillance and monitoring systems, and highly efficacious regimes of direct observation and treatment.

In this context, the National Tuberculosis Control Program (NTP) was implemented in the late 1980s with the establishment of a national tuberculosis center (NTC) as the national focal point for the disease control. DOTS has now been scaled up to all 75 districts, covering 94 percent of the population in 335 treatment centers and 1,407 subcenters. The NTP has quickly achieved internationally set indicators, with a cure rate consistently above 85 percent and a case detection rate of 70 percent. The goal of the NTP is to reduce the mortality, morbidity, and transmission of TB until it is no longer a public health problem. Specific objectives include having all TB patients treated under the DOTS strategy by 2006.

The strategies of the NTP include establishing treatment centers and subcenters at the community level; establishing diagnostic microscopy facilities; collaborating with HIV/AIDS programs for TB/HIV co-infection; and focusing on TB control activities in rural and urban poor communities.

Under NTP policy, the basic units for diagnosis and treatment are the district hospital, primary health care center, and medical colleges. Passive detection by smear microscopy is done in quality-assured laboratories. All centers offering TB treatment must use, with DOTS, the standardized regimens of short course chemotherapy adopted by the NTP. Free treatment is available to all patients with active TB through the basic health services. Treatment is evaluated, and communities are involved in DOTS implementation.

The TB program has received consistently high priority in government policy documents. Nepal has initiated activities to facilitate individual ministries to fine-tune their respective plans and programs in line with Millennium Development Goals (MDGs) and monitor progress. Financial and technical assistance for expanding DOTS and reaching unreached areas are priorities.

Political commitment and institutional coordination

Political commitment to the program is the key factor in attracting both government funding and the involvement of external donor partners. Upgrading the TB program from a “chest clinic” level to a “national center” was critical.

The NTP is fully integrated into existing public health structures. The NTC is the focal point of the program, and provides technical support in many areas. It also has a referral clinic and laboratory. All NTP activities are planned and carried out within the region with the close cooperation and coordination of the Regional Health Services Directorate. The district health officer or the district public health officer is responsible for planning and implementing NTP activities within the district. The basic unit for diagnosis and treatment of patients with tuberculosis is the district hospital and the primary health centers (DOTS centers).

Many national and external development partners and NGOs are involved in the NTP. International NGOs have important roles, including drug supplies. Bilateral and multilateral agencies have contributed through training, microscopy networks, drug supply, system development, physical facilities, and so on. The program’s physical facility, supported by the Japanese International Cooperation Agency, provided a firm basis for the program before implementation of the DOTS strategy. In 1994, a five-year plan based on the WHO framework for TB control was adopted by NTP.

There is strong cooperation between the government and external donors, including international NGOs, for continued funding and technical support. Network and partnership at all levels of the program promote donor collaboration in mutually connected ways, among them system development and human resources management.

DOTS committee formation and the peer review system are results of operational research and pilot activities; learning mechanisms are also built into the DOTS system itself.

Impact

Cost-benefit studies show the strategic value of investment in TB control, which clearly benefits the poor, who are the most vulnerable to the disease. Quality is manifested in the emphasis on quarterly reporting as well the microscopy quality control system. Data are peer-reviewed every four months, fostering ownership of the information and the program as well as promoting quality service.

Seminars, workshops, and network forums have led to better understanding of the issues surrounding TB. Based on standard national policies and guidelines, the implementing partners have adopted locally appropriate management arrangements. A DOTS committee of local people is a key factor, providing accommodation and assistance to poor patients coming from far away. Local institutions also participate in the NTP.

Lessons learned

Several factors indispensable to the successful implementation of the NTP can be extrapolated to other situations. The program’s position was gradually upgraded, securing physical identity and operational mandate, and now has a clearly identified central focal point. There is strong commitment, strong leadership, and a strong team approach; motivation and empowerment of the staff are ensured by a results-based program with local ownership and responsibility. The program also has consistent, high-quality technical support and positive relationships with technical assistance agencies.

Although it has clear national policy, manuals, and guidelines, the NTP encourages local innovation. Technology is simple and appropriate. A recording and reporting system has been established. And international WHO/IUATLD guidelines for DOTS have been adopted for NTP—particularly important for a country where a satisfactory level of health information is rather difficult to obtain.

A strong capacity-building component covers all aspects of the policy package for all levels of staff. Other strong points include multi-tier peer-review and supervision systems; twinning, networking, and partnerships among institutions; and popular participation in the way DOTS committees are recognized and supported. There are also systems to secure quality of service delivery, including the microscopy network and the logistics system used to supply drugs and diagnostic materials.

Philippines: Early Childhood Development Programs—Offsetting the Disadvantages of Poverty

In recent years there has been expanded interest in early childhood development (ECD) in low- and middle-income developing countries, as in developed countries. Increasingly, problems seen in schooling such as high repetition, early dropout rates, and poor learning, as well as poor health of youths and adults, are being traced to malnutrition, poor health, and abuse very early in the lives of children.

Many studies have examined the consequences of child malnutrition and its impact on child schooling decisions and academic achievement; investments in preschool children improve later school success and therefore adult work productivity and incomes. Statistically significant positive associations are found between family background and schooling and child health, and a positive relationship between mother's schooling and child immunization rates has been observed across world regions.

Getting a better start in life

A potentially effective way of alleviating poverty and engendering economic development is through policies that promote better nutrition, health, and skills development in young children. Governments in several countries have introduced preschool programs for improving nutrition and providing children with home and other environments conducive to learning.

In 1999, the Philippine Government launched a five-year Early Child Development (ECD) Project to attain the country's human development goals and to reduce poverty; as an instrument to meet the government's commitment to the international Convention on the Rights of Children; and as a pilot for testing ECD structures and delivery systems. ECD is part of a broader program to promote the development of Filipino children and to address the great risks that children from poor and disadvantaged families face.

In 2002, the government institutionalized the program by legislating the Early Child Care and Development (ECCD) Act, which established governance structures and delivery systems for children ages 0–6 years. It created the Council for the Welfare of Children (CWC) as the highest policymaking body for children's concerns.

The ECCD program's overarching goal is to maximize the survival and developmental potential of children, particularly those most vulnerable and disadvantaged. It aims to minimize the

health risks to very young children; to contribute to the knowledge of parents and the community about child development and encourage their active involvement; to advocate for child-friendly policy and legislation; to improve the ability and attitude of child-related service providers; and to mobilize resources and establish viable financing mechanisms for ECCD projects. The ECCD program set specific quantitative goals, such as decreasing the child mortality rate and increasing the proportion of children immunized.

The program uses health, nutrition, early education, and social services programs that provide for the basic needs of young children. It uses a multitude of instruments, among them a national child surveillance and referral system; investments in essential, child-focused services for parents, caregivers, and service providers; expanded community participation and local ownership to ensure sustainability; and the establishment of ECCD Coordinating Councils at all levels of government to monitor implementation.

The program is an interdepartmental partnership of many national agencies. Each has been assigned functions; representatives are members of a national ECCD Coordinating Council. The program recognized the need for a full partnership with local government units (LGUs) and also with nongovernmental organizations. LGUs could choose a set of investments according to their particular needs and administrative capacity. The national agencies provide counterpart funding for the establishment and expansion of ECCD programs in poor and disadvantaged communities. The ECCD Act explicitly allows resource mobilization from intergovernmental donors and financial institutions for the support of poor areas.

Research, testing, assessment of innovative approaches, and the establishment of service standards are tasks that have been given to the CWC. An evaluation study is assessing the impact of specific interventions included in the service delivery package.

Evaluating impact

Three sets of questions are asked in considering the impact of the program. The first set includes questions about how a municipality has chosen the package of services funded by the project, how it finances its part of the cofinancing scheme, how it disseminates information about the new ECD services, and how it selects project staff. The second set relates to how the project is changing the access to and the quality of service delivery. The third set of questions refers to the impact of the project on its specific goals regarding children's development. Many of the specific project interventions are not new, so these questions concern the impact of additional financial and technical resources and the effectiveness of the integrated form of the project.

Two surveys of the same 5,000 households were conducted in 2000 and again in 2002. The overall response rate for the surveys was high, at 96 percent. The total number of children aged 0–4 years in 2000 was approximately 8,000. The Philippine ECD project is not yet complete, so the evaluation itself remains ongoing. Nonetheless, the selected findings presented suggest that the program is benefiting children in the program areas.

The ECD project has been providing expanded support for existing programs. We focus on three programs: feeding programs meant to supplement the food intake of children; Vitamin A supplementation, where the largest increase in vitamin A supplementation is seen among children 6–12 months; and child immunization. There was virtually no change in the availability of an immunization program, and the program appears to have increased the percentage of children who are fully immunized by 3.6 to 4.8 percent, depending on the age of the child.

The project collected information on a Revised ECD Checklist designed to measure child development in several domains. The data showed a definite positive impact from the program. (Measured weight and height of children ages one to four, however, indicate that the program has not produced gains in this area.)

Evaluation from comparable programs, including four in the United States, have found increases in cognitive test scores, at least over a two-to-three-year interval after the program. Long-term assessments find lasting effects in terms of higher educational attainment, higher earnings, lower welfare participation levels, lower arrest records, and lower out-of-wedlock births. Bolivia's PIDI is an early childhood development program that provides 70 percent of children's nutrient inputs and systematic learning environments for poor children aged 6–72 months in urban areas. That program has had positive effects on child growth and larger, more significant effects on children's psychosocial development. Projecting to adulthood, the effects mean gains in lifetime earnings that suggest fairly high benefit/cost ratios of 1.7 to 3.7.

To scale up the reach of the program, an increase in general public awareness of available ECD-related services is necessary, and significant resources have been allotted for intensive information drives and parental education services. One important innovation is that the program links sectoral policies and integrates multisectoral interventions in center-based and home-based programs. To support this integrated approach, the program trains service providers accordingly.

The results of the program are greater availability and better quality of services at the local levels, increased use of these services by families, and, ultimately, gains in the measures of child development. The evaluation results already point to increased service utilization, and a few ECD indicators already illustrate gains.

Papua New Guinea and Sri Lanka: Scaling Up Health Interventions *Asian Development Bank*

The Papua New Guinea (PNG) and Sri Lanka experiences in some ways provide useful comparisons and hold valuable lessons for developing countries attempting to scale up health sector interventions to achieve their millennium development goals (MDGs). Although there are obvious differences between the two countries, there are common features in the health systems of both. The differences include the nature of the countries, for example: PNG is sparsely populated and the terrain makes communication difficult; Sri Lanka is more densely populated and has better communications infrastructure. Human resources development indicators were higher in Sri Lanka. However, both countries had decentralized health care delivery systems, although PNG started much later and was still in the throes of institutionalizing decentralization in the 1990s. In both cases, initial efforts were to develop the primary health care infrastructure to extend health care coverage to the countryside and rural population; while later the emphasis turned to improving the quality of health care services. Both countries were faced with low financial allocations to the health sector. Although PNG was able to step up allocations significantly in the 1990s, health allocations remained low as a share of GDP and on a per capita basis.

However the outcomes are quite dissimilar. Sri Lanka has reached or is well on its way to reaching the Millennium Development Goal targets in health, while PNG is very far behind. In trying to find the causes of the somewhat unsatisfactory results in the PNG case, a comparison of the two countries' experiences where the Asian Development Bank (ADB) played a significant supporting role provides valuable insights.

An important conclusion is that while funds are obviously important, they are not sufficient to guarantee delivery of services. PNG increased health allocations significantly and yet outcomes remained unsatisfactory. Sri Lanka was able to make do with low allocations and appeared to have delivered health services quite cost-effectively. One must note, however, that the adequacy of expenditures on health depends greatly on country circumstances. Sri Lanka may have been able to make its health expenditures go further in view of better complementary communications infrastructure and human resource development attainments overall. In addition, because of public budgetary constraints, there is growing private sector involvement in Sri Lanka.

The quality of governance is obviously a major determinant. While both countries exhibited strong leadership and political will at the central level, in PNG this did not permeate down to lower decentralized levels to the extent needed. There were very apparent problems in coordination, both among departments and between central and decentralized levels. Inadequate monitoring and supervision has also been cited as a factor in the PNG case. In addition there is the issue of lack of good governance, PNG still needs to address adequately.

A special governance-related matter is the proper implementation of decentralization and its implications for developing countries worldwide. Many developing countries in Asia are still grappling with this problem—including Pakistan, Indonesia, and the Philippines—and there are no easy solutions. Decentralization is essential for public participation but the administrative readiness for delivering basic services at the local levels remains questionable in many cases. This has major implications for achievement of the MDGs and is not a problem related to the health sector alone. The PNG case illustrates the problem very well. Issues that the PNG case highlights, and that need to be addressed, include (i) capacity building at the regional level as well as central level for monitoring, supporting, and coordinating decentralized efforts; (ii) improved fiduciary standards; and (iii) effective personnel policy that provides incentives for performance at all levels.

An important requirement for effective delivery of quality health services is human resources development and management in the health sector and this has been underscored through both the Sri Lanka and PNG cases. In Sri Lanka, the first health project had not focused sufficiently on this issue and the deficiencies became apparent soon. This was effectively rectified in the second project. In PNG, management of human resources remains a major problem in the public sector in general and health services in particular. Much more attention needs to be focused on human resources issues if health services are to be delivered effectively.

While focus on public health services will continue to need attention, support can be provided through alternative means such as the private sector (if that is developed) or nongovernmental organizations (NGOs). While PNG has made attempts to use the services of some NGOs, such as the church, some regional examples hold promise. Cambodia's recent success with contracting out health services to NGOs is an example.

West Africa: Defeating Riverblindness—Success in Scaling Up and Lessons Learned

Riverblindness—an historic scourge affecting most of sub-Saharan Africa—has been successfully attacked by a large international partnership over the last 30 years. The partnership has defeated the disease in large parts of West Africa and is making rapid progress in the remaining endemic countries in West, Central, and Eastern Africa. Before control programs began, tens of millions were infected and hundreds of thousands suffered from the worst symptom: total blindness. In all, 30

countries are infested, ranging from Senegal across to Ethiopia in the north and as far south as Angola and Malawi.

With the program's success in West Africa, productive labor has increased; 600,000 cases of blindness have been prevented, and 25 million hectares of formerly evacuated arable lands have been made safe for settlement and agriculture. These lands have the potential to feed an additional 17 million people per year using indigenous technologies and methods. Increased agricultural production from these lands has transformed the region from aid-dependent to food-exporting. Eighteen million children born in the now-protected areas have been spared the risk of the disease. In West Africa, the program has achieved a 20 percent economic rate of return. Elsewhere in Africa, operations began in 1996 and have achieved a 17 percent economic rate of return while preventing blindness, and eliminating disabling itching and stigmatizing skin disease. Already, these extended operations have added over one million years of productive labor to the economies of participating countries.

The disease

Commonly called riverblindness after its geographic locus—around fast-flowing rivers—and the blindness it causes, onchocerciasis, or *oncho*, has tormented people for centuries. Riverblindness is particularly prevalent in Africa, where more than 99 percent of all cases occur, causing unrelenting itching, physical scars from constant scratching, depigmentation and thickening of the skin, vision reduction, and—after prolonged exposure to the disease—complete blindness.

Riverblindness is a parasitic disease caused by worms. As adults, these worms can measure nearly a meter long and live in coiled mating pairs in nodules under the skin. Reproducing adult females spawn around 2,000 immature worms every day. These tiny juvenile worms migrate throughout the skin and eyes, causing the various disease symptoms. While they are damaging, the immature worms cannot mature to adulthood without being transmitted by a blackfly. Blackflies serve as the so-called intermediate host of the parasite. Flies ingest immature worms when they bite infected people. Living in the fly, the worms mature sexually over the course of a week. When the fly bites a person, the maturing worm enters the human body, where it grows to adulthood. Upon finding mating partners, the adults become encapsulated and produce more immature worms, completing the full transmission cycle.

Riverblindness control is complicated by the adult worm's 10–15 year lifespan. Adult females also remain fertile throughout most of their long lives. Though the immature worms live in the skin for only about two years, their numbers are continually refreshed as long as adult females are alive in the body. Therefore, even with instant and complete transmission control, the disease would not die out naturally for 15 years (the lifespan of adult worms). In practical terms, it means that disease elimination attempts must last at least 20 years.

The program partnership

The partnership to defeat riverblindness as a public health problem in Africa can be traced back to the 1940s, but a comprehensive plan was not formulated until 1968. By 1972, the international development community was mobilizing to fight the disease. Riverblindness control began in 1974 in West Africa as a large regional project. Vector control—treating the breeding sites of disease-transmitting flies with environmentally safe insecticides—was the only available approach. The West African program phase was planned as a regional initiative to overcome epidemiological factors that had undermined village-level efforts—effective control must encompass entire endemic zones. The program systematically expanded over its first few years to achieve full coverage of several river systems in seven countries. Nonetheless, even this ambitious start was not sufficient. The program

subsequently doubled in size to cover 11 countries in all. Vector control was the primary strategy in West Africa, supplemented by drug distribution in 1989–90.

In the mid-1990s, phase two was launched to cover 19 more countries—the remainder of infested Africa. Phase two is based on Mectizan (ivermectin) distribution. Merck & Co developed this drug in the 1980s and now donates it for riverblindness control. Phase two is a more conventional scaling-up story than was phase one. Communities distribute Mectizan; community representatives are trained and supported by riverblindness partners, including international agencies, participating country governments, nongovernmental organizations (NGOs), donor countries, and of course, the communities themselves. Community-directed treatment enabled the campaign to scale up operations dramatically. Phase two was tested and validated on a local basis and has been scaled up by continually launching more projects.

From modest beginnings in 1996, it is estimated that by 2007, 65 million people will be reached annually through this program. The distribution network is also being tested to deliver other interventions. This enticing possibility opens the door to further scaling up and presents the opportunity to deliver other basic health interventions in the riverblindness areas, which are almost exclusively remote, rural, poor, and underserved.

In addition to its broad geographic scope and long duration, the riverblindness partnership has benefited from the breadth of its membership. More than 80 partners are involved, including 26 donors, 30 African countries, a major pharmaceutical firm, and 12 major NGOs, as well as tens of thousands of local communities. This broad coalition, with its mix of different *corporate cultures*, is complex to maintain, but it has created synergies that have yielded enormous advantages. By and large, the partnership's constituents have collaborated remarkably well, pulling the campaign forward toward its well-defined objectives. An international agreement clearly delineated roles for all parties.

The lessons

Over the 30 years, the program has continually scaled up to cover more territory, reach more people, and push back a devastating disease. Riverblindness has been defeated throughout the program area in West Africa, except where operations were delayed by conflict in Sierra Leone. Operations continue there and in the phase-two area, with the goal of eliminating the disease as a public health problem by 2010.

Several major lessons underpin the program's success and could be useful to other development initiatives:

- Continuity and stability among international partners offer valuable synergies and provide the sustainability required to deal with even the most intractable problems. Clearly delineated roles and responsibilities are critical for reaping comparative advantages.
- On the other hand, wide-ranging partnerships are complex to form and maintain. All constituents need to enjoy distinct benefits—altruism is an inadequate base for long-term sustainability.
- Consistent operational research investments can pay large dividends, as anticipated issues can be addressed ahead of time. Having a research mechanism in place is invaluable for reacting quickly to unforeseen problems.
- Flexibility in approach is essential. Over three decades, the program has maintained disease control by adapting from a categorical control initiative to community distribution,

and now to community ownership and empowerment. Each approach has helped the program advance the ultimate goal of health improvement while dealing with changing circumstances and maximizing technological innovations.

- The community-directed approach can be scaled up more with other interventions and also applied to non-oncho areas of Africa, and perhaps to other continents.

7

Rural/Natural Resource Management

China: The Loess Plateau Watershed Rehabilitation Project

Breaking the vicious cycle of environmental deterioration and poverty and realizing nature-friendly development have been challenges for many countries in the world. The successful implementation of China's Loess Plateau Watershed Rehabilitation Project, launched in 1994 and completed in 2002, provides valuable insights on how to meet those challenges. The Loess Plateau covers an area of some 640,000 square kilometers in the upper and middle parts of the drainage basin of the Yellow River. Severe soil erosion from the Loess Plateau produces the vast quantity of sediment carried by the Yellow River and its tributaries. Unsustainable farming practices combined with huge population pressures have led to massive environmental degradation, downstream flooding, and widespread poverty in the Loess Plateau region.

Implementation process

The primary objective of the project was to increase agricultural production and incomes on 1,560,000 hectares of land in the Loess Plateau in nine tributary watersheds of the Yellow River. A secondary objective-- to reduce sediment inflows to the Yellow River--was achieved by locating the project areas in those parts of the basin with severe soil erosion. Factors such as poverty level, strong leadership, commitment at the local government level, and development potential were also considered in the selection of project areas.

Financed by the International Development Association (IDA), the Loess Plateau Watershed Rehabilitation area covers 1,560,000 hectares of the Loess Plateau in 21 counties, 17 of which the government identified as among the poorest in China. Within the project areas there are several distinct types of topography. In Gansu the *gullied plateau* landform is common, where a flat plain with large tracts of level farmland is intersected by deep gullies. In Shanxi, Shaanxi, and parts of Inner Mongolia the *gullied hill* landform is common, where rounded hills several hundred meters high are bounded by deep gullies. Field crops are grown on the plateaus and the upper slopes of the rounded hills. The steeper slopes are uncultivated wasteland. The deeply incised gullies are a major source of the sediment that flows into the Yellow River and its tributaries.

Typical land use in the small watersheds is uncultivated wasteland (40 percent); cropland (40 percent), mostly on low-productivity slopeland; trees and shrubs (10 percent); gullies (5 percent); and roads, villages, and so on (5 percent). Annual precipitation, mostly as rain, ranges from 250 to 550 millimeters. Most of the rain falls in the summer, usually in short, intense storms. Long droughts are common.

The main components of the project were terraces (90,500 ha); forestation (90,900 ha); shrubs (136,000 ha); economic forestation (26,700 ha); orchards (30,890 ha); grasslands (100,140 ha); irrigation (7,100 ha); sediment control dams (149 key dams, 1,140 warping dams, and 1,956

check dams); and institutional support (training centers, vehicles and equipment, computers, and software for GIS and information systems). An IDA credit of \$150 million covered 60 percent of the total project cost of \$250 million; the cost per hectare was about \$160.

Impact analysis

The project aimed to (a) create sustainable crop production on high-yielding level farmland and thereby replace the areas devoted to crops on erosion-prone slope lands; (b) plant the slopelands to a range of trees, shrubs, and grasses for land stabilization and the production of fuel, timber, and fodder; and (c) substantially reduce sediment runoff from slopelands and gullies. These objectives were met and enhanced by a decision by the local authorities to restrict free grazing of sheep and goats, not only in the project areas, but also in large areas outside the project. Farmers have adjusted to grazing bans more readily than expected. Government leaders at all levels have no doubt that the wide acceptance of grazing bans is a direct result of the project, and many believe they are witnessing a revolution in land and livestock management in the Loess Plateau.

The objectives of the project—sustainable and coordinated social, economic, resource and environmental development of small watersheds—are consistent with the poverty reduction strategy of the Chinese government’s Eight-Seven Poverty Reduction Program (to eliminate poverty for 80 million people within seven years, from 1994–2000). The shift from *relief* to *development* in the government’s poverty reduction strategy enhances the capacity of the poverty population to share in the opportunities brought about by economic reforms. By combining the harnessing of small watersheds with economic development and the improvement of people’s living standards, the Loess Plateau project fully reflects the rationale of “sustainable small watershed development.”

The project has turned out to be the largest and most successful water and soil conservancy project in the world. It has convinced planners and farmers that land conservation is compatible with sustainable and productive agriculture and, indeed, that they are mutually reinforcing, an approach now being adopted in other parts of the Loess Plateau. It has brought significant benefits to over 1.2 million farmers in the project area. Thanks to the implementation of the Loess Plateau Watershed Rehabilitation Project and the government’s poverty alleviation policies, the population living under the poverty line in the project area has dropped from 59 percent in 1993 to 27 percent in 2001.

Driving factors and lessons learned

Among the factors driving the project have been a political commitment for change; public participation, including detailed land-use plans prepared in close consultation with villages; and the government’s policy for land tenure. The project worked with China’s public administration and developed existing institutions in it. It was inevitable that problems would be encountered and new approaches developed. The World Bank played an important role in project preparation and implementation. Among the specific lessons learned:

- Soil and water conservation in the Loess Plateau is compatible with sustainable and productive agriculture. The project has convinced planners and farmers that land conservation is compatible with sustainable and productive agriculture.
- Integrated and comprehensive land-use plans must be prepared for all small watersheds in close cooperation with the farm households and village leaders. These should delineate the present situation and the future development plan. Such plans would create sustainable crop production on high-quality terraces, and protect steep slopes with trees and shrubs.
- Farmers should receive long-term land contracts. All land developed under a rehabilitation project should be contracted out to farmer households. New land contracts should

explicitly state the land-use rights and obligations under which farmers' interests will be legally protected. Typically, contracts should be for a minimum of 50 years for slope and waste land, 50 years for forestry plots, and 30 years for orchards, terraces, and warping land. After tree planting, the wasteland should be auctioned to farmers and successful bidders given a long-term contract.

- Costs should be recovered from the beneficiaries. In the IDA project, about 60 percent of the project cost was recovered from the beneficiaries, providing incentives to maintain and develop the land and reduce the burden on public funds.
- Counties should make a detailed physical check of progress and quality; prefectures and provinces should make periodic spot checks. Funds should be disbursed only for work inspected and approved.
- Project management offices should be set up at all levels and staffed with experienced personnel.

Components for future projects

In many villages in the Loess Plateau, villagers have to haul water for domestic use from long distances. Underground water tanks should be a part of future projects. They can be located to collect runoff from the roads and from flat surfaces in the villages and homesteads. More support should be given to farmers to switch from free grazing to pen feeding, especially by introducing improved breeds of sheep and goats and seeds for improved pasture.

China: Reform of the Rural Finance Sector *International Fund for Agricultural Development*

Over the past 25 years China has made remarkable progress in raising the living standards of its people and in achieving sustained economic growth. The number of rural poor people living under the official poverty line fell from 250 million in 1978 to 36 million in 1999, or from 31 percent to 4 percent of the rural population.

In China formal rural finance is provided by the Agricultural Bank of China, the Agricultural Development Bank, and Rural Credit Cooperatives (RCCs). RCCs were established in the 1950s as legally independent entities. Although created at the township level, their presence in villages through branches and offices makes them the financial institution with the widest outreach among rural populations. By the end of 2001 more than 40,500 RCCs were operating, accounting for 11 percent of the banking sector's outstanding loans and 12 percent of deposits.

Improving the performance of RCCs and adding poverty alleviation-oriented financial products to their portfolios are crucial for developing sustainable rural financial services in China. Although ostensibly independent, RCCs served as arms of the Agricultural Bank until 1996, then were brought under the oversight of the People's Bank of China. In 2003 the supervision function of the People's Bank was transferred to the newly established China Banking Regulatory Commission.

Bank reform for the rural poor

In recent years the Chinese government has shown strong commitment to bank reform. The Banking Regulatory Commission is expected to introduce innovations in regulatory methodologies, systems, and technologies to modernize and upgrade financial supervision, while the People's Bank will

maintain its focus on monetary policymaking. Because many RCCs are weak, the People's Bank has been implementing a national program for their capacity building and restructuring, culminating in recent guidelines for RCC operations and management. The International Fund for Agricultural Development (IFAD) has been collaborating with the bank to provide technical and managerial support to RCCs and to supervise and improve their performance.

In 1996, after the government decided to reform rural finance, the IFAD began funding projects that used RCCs to provide credit and other financial services to the rural poor. But whereas the People's Bank welcomed this initiative, local governments were less enthusiastic—partly due to concerns about the solvency and governance structure of RCCs. Following the early experiences of IFAD and a group lending experience of DesJardins International Development, in 1999 the People's Bank introduced a pilot scheme using RCCs as microfinance institutions. Combining these experiences and lessons from IFAD projects, the People's Bank formulated guidelines for microlending by RCCs. A revised set of guidelines was issued in 2001.

IFAD's Rural Finance Sector Program

IFAD's experience with RCCs and its longstanding dialogue with the People's Bank led to the preparation of a Rural Finance Sector Program, financed with an IFAD loan of about \$15 million. The program is in line with the IFAD's main strategic objective—namely, enabling the rural poor to overcome poverty by increasing their access to financial services and markets. It will also enhance the IFAD's catalytic impact by promoting institutions and policies that support the poor. The program will be part of ongoing RCC reforms and will provide opportunities to introduce good practices in microfinance—with a focus on the rural poor. Two major considerations drive the program:

- RCCs are an important source of financial services in rural areas and have the most extensive outreach capacity. But previous operations and current policies have jeopardized the sustainability of RCCs. Thus the government is developing policy reforms for RCCs, and some reforms are already being tested.
- A 2000 IFAD study on rural finance validated the Fund's strategy of providing loans to the rural poor through RCCs. It also recognized that policy changes were needed for RCCs to play important roles in future IFAD projects.

Within the framework of the rural finance reform initiated by the China Banking Regulatory Commission in 2003, the IFAD program supports the government in defining RCC policies—taking into account their impact on both poverty reduction and institutional sustainability. It also aims to demonstrate the usefulness of microfinance for poverty reduction. In supporting policy reforms, the program will focus on lending policies that increase the rural poor's access to RCC lending and on institutional and operational policies that enhance the efficiency of the cooperative bank system—contributing to their financial sustainability.

The implementation of the Rural Finance Sector Program will involve, as much as possible, national and international experts on microfinance. Frequent consultations, including bilateral and multilateral donors, will be held to benefit from available expertise and to disseminate positive results from pilot activities supported by the program. The program will support ongoing and planned policy adjustments, help refine implementation approaches, and address new policies with clear gender and poverty dimensions. In this respect, the program's support will focus on interest rate liberalization, microfinance, group lending, and lending to women. Later, support will be given to develop other new products.

The program will improve households' access to formal rural financial services—especially poor households—and increase the efficiency and sustainability of RCCs. The program will also provide the opportunity to test a number of institutional innovations, including changes in the legal structures of RCCs and RCC unions, and in incentives for staff.

Lessons

Influencing policy in China is an extremely challenging, complicated process. The most practical approach is to undertake pilot interventions that demonstrate good practices and trigger the interests of local and central governments in innovative approaches. Long-term processes require exceptional patience to build up a reiterative approach, whereby experiences are reflected and included in new pilot activities. Finally, collaboration with like minded partners and networking with domestic stakeholders are critical to the success of any project.

Mali, Mauritania, Senegal: The Senegal River Basin Authority

The Senegal basin countries show that regional cooperation—rather than unilateral development of a shared resource—can improve the possibilities for tackling poverty. Driven by the idea of pan-African unity, Guinea, Mali, Mauritania, and Senegal realized that they could get more from the Senegal river by cooperating in its development, and at a lower cost to each country, than they could by proceeding unilaterally. In 1972 Mali, Mauritania and Senegal established the *Organisation pour la Mise en Valeur du fleuve Sénégal* (OMVS), also known as *l'espace OMVS* or a space within which countries could cooperate. Decisions are based on the *Clé de répartition* which espouses the principles of *equity*, or the countries' needs, and *solidarity*, or mutual support in sharing development costs.

By jointly owning and operating the Manantali and Diama dams, the OMVS countries have increased their electricity and water availability. This in turn is supporting economic growth by reducing investment risk and also reducing poverty by increasing income-generating activities across sectors. Though it is too early to quantify the overall economic impact, widespread perceptions of improved services are driving further cooperation within *l'espace OMVS* and beyond. Even though Guinea is not party to OMVS, it is working with the member countries to find ways of jointly developing the basin.

The Senegal basin experience is not only a political success; it is also a success in improving access to basic services. Its achievements have contributed to reducing poverty while moving the countries toward closer regional integration.

Powering development

The jointly-owned Manantali dam and its network of transmission lines covering 1,300 kilometers finally came online in 2002, and has been working at full capacity since May 2003. Together with the Diama dam, this followed improved provision of fresh water for agriculture and municipal uses. The countries believe it is more effective to provide these services jointly rather than unilaterally. This is what they have been working toward for the last 30 years.

Since 2002 electricity, though not sufficient, is at least more reliable and is slowly transforming the economies of the OMVS countries. It is clear that there is a growing confidence in these countries. In Guinea, however, which has not shared in the OMVS countries' benefits, enterprises in both the informal and formal sectors suffer economically from unreliable electricity. For example, in medical facilities across the country, vaccines and medicines already in scarce

supply cannot be stored properly. Guinea's difficulties are linked to a lack of infrastructure and a lost opportunity to share in the basin's joint development.

Focusing on benefits, not allocations

The decision of Mali, Mauritania, and Senegal to cooperate marked a significant shift in how international river basins are developed. By choosing to develop the Senegal River jointly, the three countries focused on generating the services they needed and then sharing them equitably. Referred to as the "principle of benefit sharing," this approach focuses on sharing benefits rather than allocating the water itself. The international donor community is beginning to espouse this approach as the way forward in such situations.

The countries overcame traditional sovereignty concerns to establish strong political commitment to joint management and commonly held works, which then reinforced intra-basin relationships that facilitated economic growth by building trust that the benefits will be shared equitably and that the country hosting common works will respect their joint ownership. The OMVS countries used an economic model that separated the infrastructure's costs from the benefits each country would gain to devise the burden-sharing formula, the *Clé de répartition*. The loans to construct the Diama and Manantali dams were guaranteed equally by Mali, Mauritania, and Senegal. This burden-sharing approach also ensured an equitable allocation of water to different sectors. For example, the expansion in irrigation was divided equitably, with the irrigation area increasing from 20,000 hectares in 1980 to 120,000 hectares, mainly in the valley between Mauritania and Senegal. Agricultural intensification also helped to smooth the unequal balance of payments among OMVS members. Joint infrastructure ownership has meant that the basin countries have a common interest in safeguarding the works and the benefits that flow from them. Soon after the Manantali and Diama dams were completed in 1989, their existence and the relationships under *l'espace OMVS* helped pull back Mauritania and Senegal from armed conflict. In July 1991, Mauritania and Senegal worked out an agreement between themselves, based on recognition of their shared interests in the dams.

Providing infrastructure for basic needs

The OMVS countries created two types of shared infrastructure: physical and institutional. Physical infrastructure included water management works, telecommunications networks, and transportation links. Institutional infrastructure included OMVS and related agencies, which seek to harmonize national planning and legal frameworks to promote development, and trade and labor flows. Both infrastructure types are needed for the basin's development.

Running water has improved people's lives in the three countries. Waterborne diseases diminish after people are connected to the waterworks. The women's burden of water collection disappears and bathing is easier with running water in the household. Having a dependable reliable electricity source eases daily life for households and in small and medium industries. In Mali, the dams decreased electricity costs, increased supply, and reduced fuel imports used to generate electricity.

The Regional Hydropower Project shared across the OMVS countries provided an opportunity for them to introduce efficiencies that extended beyond the energy sector. For example, in connecting Manantali to the three national grids, dual-purpose fiber optic technology was used for the transmission lines, which the telecommunication sector can also use, thus lowering communication costs.

The three countries have also benefited from using their common physical and institutional infrastructure, which includes shared hydrological data collection, to jointly manage extreme events,

such as floods and droughts. A coordinated response was critical in minimizing the loss of life and socioeconomic damage from the 2003 floods to the Senegal basin's economy and the poor.

Evidence is growing that reliable supplies of water and electricity are encouraging income-generating activities, and making investments less risky in the OMVS economies. They have encouraged entrepreneurship at different levels, from new video halls opening in Mauritania to improved irrigation techniques used to grow higher value off-season crops near key markets in Dakar.

By contrast, in Guinea the shortage of reliable electricity and water supplies is seriously handicapping economic activity and pushing the government to seek stronger links with its Senegal basin neighbors, with a view to regional integration. Guinea's participation in basinwide decision-making will open more cost-effective opportunities to augment existing energy supplies and tap the basin's development potential. Against the background of the New Partnership for Africa's Development (NEPAD), the four Senegal basin countries are looking to strengthen their integration through partnerships with each other, the international community, and the private sector.

The four basin countries have already collaborated in preparing the Global Environment Facility's (GEF) project on the Senegal River basin. Significantly, OMVS was designated as the recipient and executor of the GEF grant, not just on behalf of its member countries, but also for Guinea. As an indication of the political commitment to cooperate on all sides, Guinea was invited to Nouakchott to attend the OMVS Heads of State meeting in May 2003, and again for the first basinwide Inter-Ministerial meeting held in April 2004.

Tackling the environmental and social challenges

The Senegal River's regulation also brought problems. The Diama dam changed the ecology and livelihoods of the lower Senegal river in Mauritania and Senegal, and the Manantali dam affected traditional recessional agriculture in Mali. One of the biggest challenges for the countries is the need to tackle the growth of aquatic weeds, such as water hyacinth and typha australis, resulting from the uniform environment induced by the Diama dam.

Work is under way along the river's length to restore livelihoods lost by the drought and the flow's alteration. To restore the valley's ecological diversity and rural livelihoods, Mauritania and Senegal both established the Djoudj and Diawling National Parks in 1971 and 1991, respectively, on their sides of the river. Community-level measures have been particularly effective. For example, market gardening has proved successful in providing an alternative income source for local populations, especially women. The addition of two sluice gates has rekindled local fisheries. The ecosystem's regeneration has also stimulated wildlife. To encourage the public's decision-making role, OMVS is reaching out to stakeholders by inviting their representation in its central advisory bodies such as the *Commission Permanente des Eaux* (CPE). Conflicts among different water users were avoided in the Diawling National Park by working directly with local communities.

What cooperation can do for investment and inclusion

Applying the Shanghai framework to the Senegal basin highlights how the countries' innovative cooperation has created an enabling climate for investments and social inclusion.

- *Commitment and political economy for change.* The countries have repeatedly shown their commitment to change in their policies and declarations. National policies encourage private sector involvement through deregulation, and privatization is under way in the basin's energy sector.

- *Institutional innovation.* The OMVS institutions allowed member countries to give up some sovereignty for the basin's greater good. The countries own the infrastructure jointly; decision-making is based on equality, with the benefits and burdens of development shared equitably.
- *Learning and experimentation.* Since 1963, there have been three different basin organizations, each with mandates that evolved with experience.
- *External catalysts.* The countries captured the political opportunities in the post-independence drive for pan-African unity. The severe droughts of the 1970s were another external catalyst. The 2003 floods prompted the OMVS system to further coordinate its activities with local communities.

Lessons from the Senegal Basin

Cooperative development of the Senegal River has benefited the economies of Mali, Mauritania, and Senegal by increasing the reliability of key inputs such as electricity and water.

- *Grasping opportunities through cooperation.* The group's success in collectively raising external investment shows what can be done if all parties cooperate rather than acting unilaterally.
- *Engaging top political leaders.* Political will was fundamental to engendering trust among basin countries and with key international partners.
- *Sharing a vision for development.* From the outset, the Senegal basin's development was based on an agreed plan that reflected the countries' priorities through a regional approach.
- *Engaging all stakeholders.* To tap regional opportunities, stakeholders at all levels need to participate in identifying and developing opportunities, and then in sharing the benefits.
- *Looking at different scales of development.* Outcomes at the local, national, and regional levels from development must also be assessed.
- *Binding cooperation with legal instruments.* Legal instruments are needed capture the agreements and bind future cooperation.
- *Promoting private sector involvement.* Maintaining a consistent policy for private sector involvement was critical.

Pakistan: Scaling Up Rural Support Programs

Pakistan's Rural Support Program (RSP) movement pioneered bottom-up, community-driven development using a flexible, autonomous, politically neutral approach, which has been replicated successfully. RSPs mobilize and organize communities to stimulate more effective demand for better public goods and services, foster important linkages between the communities and service providers, and at times directly supply services. The establishment of core capital funds provides RSPs with a basis for sustainability and helps them retain autonomy. Over the long run, these programs show a substantial, direct impact on poverty reduction and per capita income growth with indirect

improvement in education and health. RSPs have also had significant influence on approaches to local governance, and the adoption of microfinance and community-owned infrastructure as mainstream development strategies.

The movement began in 1982 in remote, poor, and sparsely populated rural districts and gradually expanded to include larger districts and even some work in poor urban communities. Today the RSPs work with more than 43,000 community organizations that have more than one million member households. Expansion happened not by scaling up the work of a single organization but through setting up autonomous RSPs, working in different geographical areas, that replicated the RSP approach but had the advantages of being smaller and more adaptable to local needs and conditions.

Faced with high poverty levels and inadequate service delivery, especially for the poor, stakeholders in government and civil society began to seek development solutions outside the public domain. In 1982 the Aga Khan Rural Support Program (AKRSP) was established in the Northern Areas of Pakistan. It acted as a catalyst for rural development by organizing communities, working with them to identify development opportunities and promoting the provision of services needed to tackle the specific problems of high mountain regions. Through the combination of direct service delivery and indirect influence on the policies and working of public and private sector players, AKRSP showed remarkable results in a short period of time. AKRSP focused on building up the long-term asset base (physical, human, social, and financial) of rural households on an equitable basis, both directly through its own interventions and indirectly through improving the efforts of government and the private sector. It was through the rapid accumulation and better distribution of such resources that economic growth in the Northern Areas directly translated into reductions in poverty levels and improved the share of the lowest income groups. The demonstrated effectiveness of the approach attracted local and international attention and other rural support programs were established, beginning in 1989. In 1992 the government of Pakistan showed an interest to support the countrywide replication of the RSP model. This culminated in the creation of the National Rural Support Program (NRSP).

The economic impact of the work of RSPs is best captured from the work of the oldest RSP. Data from the districts in which the AKRSP works show that incomes were less than one-third of the national average in 1991, rising to more than half of the national average in 2001. While national economic growth slowed considerably in the 1990s, the Northern Areas economy experienced an impressive growth in per capita income of 84 percent from 1991 to 2001. The incomes of village organization member households were found to be 15-20 percent higher than those of non-members. There is also evidence of significant improvements in health and education outcomes. What the RSPs have been able to do better than any other large-scale development effort has been to organize poor people and enable them to be included in mainstream development opportunities.

The RSP movement has also had an impact on development policies and practices in the country. Today's widespread acceptance of the importance of community-driven development, the growth of community infrastructure as an important means of poverty reduction, and the growth of the microfinance sector were influenced by the RSP model. Much of what the RSPs have tried to do over the past twenty years is reflected in the commitments made by the government in the recently approved Punjab Rural Support Program, Sind Rural Support Organization, and a planned RSP for Azad Jammu and Kashmir.

Several factors have driven the scaling up process. First, the existence of an effective model, developed in the field, that clearly demonstrated effectiveness at a grassroots level made it possible to *sell* the model to government, donors and—importantly—to other poor communities. Second, the RSPs consciously maintained a non-confrontational approach with government and other

stakeholders. Advocacy for change was important, but it was done through demonstrating practical, useful results at the community level. Third, during the 1990s several key opportunities to expand the RSP movement were seized where government provided funding directly to begin a new RSP. The alignment of interests required to do this did not materialize often, but each opportunity was crucial to the growth of the movement. Fourth, although the government was instrumental in supporting the growth of the movement, it did not try to control the RSPs it established and instead set them up as independent, self-governing organizations with control over their own decisions and financial resources. Lastly, while the government initially expected the work of these RSPs to largely complement and help improve the delivery of social sector services, the government did not interfere when RSPs took on roles that went well beyond those initial expectations.

Factors related to institutional innovation and learning also affected the scaling up of the RSP movement. The key to expansion was the social mobilization approach, the antithesis of the top down *blueprint* approach to development that was widely practiced until recently. The RSP approach fosters community organizations able to deal with a wide range of issues, not just one specific problem or sector. Reducing poverty requires the flexibility to adopt a holistic approach using multiple interventions.

The main lessons that emerge from the RSP movement are:

- It was essential to have organizations to support communities in the process of community-driven development, and it works best if these support organizations are autonomous of government and have some independent means of sustaining themselves.
- Complementing and supporting government, private sector, and civil society initiatives to reduce poverty and improving service delivery can leverage limited resources for greater effect.
- Scaling up through a process of replication, rather than expansion, provides advantages in terms of local ownership and support as well as adaptation to local needs and opportunities.
- Impact requires consistent effort over time. In the case of the RSPs this meant at least ten years of concerted effort at the grassroots level before results began to be visible.
- People count. A few people have played key leadership roles in sustaining and spreading the core values of the movement, but it was important from the beginning to allow many opportunities for leadership to emerge, rather than remain dependent on very few people.

8

Access to Water

Albania: Reforming Irrigation and Domestic Water Supply and Sanitation Services to Benefit the Poor

With one in four of its 3.2 million people living in poverty, Albania is one of the poorest countries in Europe. Even today, 40 percent of Albanian households lack basic education, heat, and sanitation; fewer than 50 percent in both rural and urban areas have access to safe and clean drinking water. Yet Albania is blessed with an abundant supply of water resources. Precipitation throughout the country is high. Groundwater is plentiful and of excellent quality, requiring little or no treatment beyond for chlorination. Except in Tirana, where about half of the water supply is treated surface water, the country relies entirely on groundwater for drinking.

Over the last decade Albania has dramatically improved its dilapidated water supply, irrigation, and sanitation facilities through an approach that focuses on the empowerment of local governments; involvement of the private sector in delivering urban services; and use of community-centered approaches for sustainable rural services. The World Bank initiated long-term support for Albania's water projects in 1994. The challenges were to reform, repair, and rebuild the water supply sector; to extend access to good water to the poor in urban and rural areas; and to begin to treat wastewater and sewage. Preliminary results show steady progress.

The context for reform

Albania's water supply infrastructure and services had been deteriorating since the late 1970s. Water supply institutions were weak and unsustainable because of a combination of politically driven low water tariffs, widespread waste by customers, lack of maintenance of equipment and facilities, and poor incentives for performance. These trends were exacerbated by Albania's political isolation and the cessation of Chinese assistance. Over the past decade, most of the water and sanitation infrastructure reached the end of its life, with some being well beyond cost-effective repairs.

At independence in 1990, the country's urban and rural water distribution network was utterly dilapidated. Poor management and lack of planning meant that the urban water network had been poorly maintained and its coverage had not kept pace with rapid urbanization. In rural areas the irrigation system had deteriorated for lack of maintenance and become a bottleneck for agriculture. Sanitation was very poor, where it existed at all.

Meanwhile, Albania's political and economic transformation has brought about increasing demand for water. Urban areas are growing rapidly, and more drinking water is needed. Most industries that were large water consumers before 1990 no longer operate, but new industries and businesses are being established. Advancement of tourism in coastal areas—an important element of Albania's strategy for economic growth and poverty reduction—requires larger amounts of drinking water, but water shortages and the absence of sewage treatment hampers tourist development. In

rural areas, the creation of private family farms as a result of restructuring of state and collective farms has altered and complicated the use of water for irrigation by adding many discrete users.

A distribution problem, not a water problem

Albania faces a water distribution problem, not a water production problem. Studies indicate that available sources of supply could provide more than enough to satisfy the country's overall water demand. In many cities, water availability at the source is about 500 to 700 liters per capita per day, but leaks and waste mean that only a small fraction of the water produced is consumed. (According to official data, about 60 percent of all water produced cannot be accounted for.) Almost everywhere problems of water scarcity can be considerably mitigated through metering, leakage detection and reduction, network improvements, disconnection of illegal connections, and optimization of storage and supply patterns. The distribution problem also has a seasonal aspect: much more water is needed during the summer growing season; when rainfall is scarce, rural drinking water is often misused for irrigation; and the tourist resort areas use large amounts of water. On average, water is available only 3-4 hours per day, with certain areas receiving water only once in three days.

Sanitation presents even more problems than drinking water. Sanitation coverage in urban areas is almost the same as drinking water coverage. Urban areas have mostly combined sewage and storm water collection networks that discharge into nearby surface water bodies. About 40 percent of the urban population has a sewer connection. In rural areas, only a small portion of the areas with piped water supply is equipped with sewer networks. Most rural areas have individual household wastewater collection systems, principally simple pit-latrines with no drainage pipes. Upgrading of sewer networks has not kept pace with the general development of infrastructure, and the materials and technology used have not been improved. Presently, there is no treatment of wastewater in Albania; its discharge in water bodies, especially in coastal tourist areas and delicate ecosystems, is a major environmental concern for the government, the business community, and the public.

Evolution of the water supply sector

The development, decay, and rejuvenation of the water supply sector in Albania over the last few decades can be divided into four phases. The first phase dates back to the 1930s, when Italian companies built the first aqueducts, followed by limited network extensions in the main towns of Albania. Some of these systems are still functioning today, despite their age and inadequate maintenance. The second phase (1950-78) was characterized by a rapid expansion of services, predominantly in urban areas. The third phase (1978-91) saw the gradual deterioration of water supply services, compounded by the central government's management problems and the loss of foreign aid. Water was considered an entitlement, and tariffs were too low to pay for the cost of supplying it. Because it was cheap it was wasted; system maintenance was deferred or ignored, and there were no incentives to improve services. During the fourth phase (1992-2003), most of the water and sanitation infrastructure had reached the end of its useful life, with some of it well beyond the point of cost-effective repairs.

Addressing this cumulative set of political, capital, technical, management, and usage problems required a well-designed, long-term, water supply reform program complemented by supporting investments. This has been the main thrust of the World Bank's program in this sector.

The reform strategy

The government's long-term objective in water supply and sanitation is to achieve sustainable water supply and sanitation services corresponding to EU standards in urban and rural areas. In irrigation, the strategic objectives are to maintain irrigation networks, develop new and sustainable water distribution and maintenance systems, and establish incentives for efficient water use.

These objectives are being pursued through a combination of selective investments supported by reforms in strategic areas in the short and medium term. The current outdated water law is being modified. The reform strategy builds on the entrepreneurship of the Albanian people, with the involvement of the private sector in the delivery of water services (especially in rural areas); on strong vocational skills left over from the socialist system; and on a social structure in the rural areas that assists people who are less fortunate.

For the urban areas, the National Water Supply and Sanitation Strategy is based on the following principles:

- Transfer of responsibilities for water supply and sanitation services from the central government to local governments, but continuing the support from the central government, especially targeted at the poor
- Involvement of the national and international private sector in service delivery, with contractual arrangements to provide adequate service to the poor
- Creation of financially sustainable water utilities supported by a variety of sectoral reform initiatives and assistance from the government, with the objective in the medium term of recovering full operation and maintenance costs, and in the long term of recovering all costs, including a substantial portion of investment costs
- Introduction of wastewater treatment in locations of exceptional ecological value and locations where wastewater treatment is instrumental for economic growth, such as tourist areas.

For the rural areas, the Rural Water Supply and Sanitation Reform Strategy is based on three principles:

- Grassroots participation and empowerment. The decision-making process should involve beneficiary groups (community water associations and communes) so as to ensure that services are demand-driven.
- New institutions to facilitate the community-driven approach to rural water supply. The Rural Water and Sanitation Agency (RWSA) will be governed by an independent board composed of government and civil society representatives with affiliates at the central and regional level. Its main purpose is to assist communities and commune authorities in building and managing their water supply systems.
- Cost recovery and sustainability: Beneficiaries provide up to 25 percent of the capital cost of the investment in infrastructure, with the remainder provided as a loan or grant by the commune through the RWSA.

The Irrigation and Drainage Rehabilitation Program is building a well-functioning irrigation and drainage system, something recognized as vital by international donors, since agricultural growth would have the largest impact on poverty alleviation for at least half of the population. The World Bank and other donors used a two-pronged approach to the irrigation and drainage sector. The first prong emphasized the rehabilitation of critical irrigation and drainage infrastructure; the second, ensuring sustainability of irrigation investments through farmer participation.

The factors driving institutional change

The main driving factors for improving the delivery of water supply and sewerage services to both urban and rural consumers were an enabling institutional and legal framework and political support for institutional change. At the end of July 2000, the government of Albania approved a new law that transferred responsibility for water supply to the communes and municipalities. A major step forward, the law permits private ownership and places the incentive to improve services at the local level. Based on this enabling legislation, the focus has been on empowering local government and involving the private sector in service delivery.

Within the new legal framework, responsibilities for urban water and sanitation have been decentralized to local government, although with some continuing support from the center to benefit poor consumers. Local governments contract with private operators that deliver services; incentives are provided for the latter to serve low-income areas. Responsibility for rural water, for both drinking and irrigation, is being transferred to community groups, with decision-making based on grassroots participation and empowerment. The emphasis is on cost recovery and sustainability, and on creation of an enabling institutional framework.

Some lessons from Albania's experience

Efficient water use requires systematic water resources planning, allocation, and management at the national level to meet competing demands for water for household consumption, irrigation, industry, hydropower, and tourism.

Political support for institutional change and implementation of a legal framework that enables local governments to take full responsibility for water service delivery are both essential. Water consumer associations should be formed to voice consumer demand for service improvements. The creation of sustainable associations is a long-term process requiring intensive support and supervision, especially in the early stages. An effort should be made at the national and local levels to involve the private sector in the management and operations of water utilities. Consensus should be reached at the local level before major investment decisions are made. Customers' willingness to pay should be assessed using appropriate mechanisms. Tariff adjustments to make water utilities financially viable should be accompanied by affordable provision of a minimum level of water service to the poor, which may require targeted subsidies.

China's Rural Water and Sanitation Program—Scaling Up Services for Poor People

Nearly three-quarters of China's population—947 million people (including about 120 million in towns)—lives in rural areas. Historically, rural residents have obtained water from rain, rivers, streams, lakes, ponds, and shallow wells, in some cases having to walk several kilometers to fetch it. Moreover, rural residents often rely on unhygienic open pit latrines for sanitation. As a result, intestinal and endemic diseases are rampant in many poor villages. By 2002, 868 million rural residents—92 percent of the total—had access to improved water supplies. Of these, 57 percent had access to piped water systems, a 43 percent increase over 1985. In addition, 49 percent of rural households had sanitary latrines, 41 percent more than in 1993.

Increasing rural access to safe, conveniently located water and sanitary latrines is a high priority for the Chinese government. Such investments are essential for continued poverty reduction in rural China because they dramatically improve health and living standards and promote social and economic development. The government has set ambitious targets in this regard, aiming for 95

percent of the rural population to have access to improved water supplies, 70 percent to have piped water supplies, and 65 percent to have sanitary latrines by 2010.

Domestic institutions for rural water supply and sanitation

China's campaign to improve rural water supply and sanitation began on a large scale in 1980. Because no single agency or ministry has an overall mandate for rural water supply and sanitation, activities overlap among institutions at the national, provincial, county, and village levels. However, policy directives, design specifications, and engineering standards issued by the central government guide these efforts.

In addition, the National Patriotic Health Campaign Committee is responsible for sector coordination and advocacy at the national, provincial, and county levels. At the same time, provincial and county governments oversee preparation and execution of rural water and sanitation investments. Service implementation and management have been decentralized to township governments and village committees.

The central and local governments, as well as rural residents, also welcome the participation of nongovernmental organizations (NGOs) and private entities in developing rural water supply and sanitation works. NGO projects for rural water supply are jointly organized and managed with local governments. Private investment, which began only in the past few years, occurs either independently or with local governments. Although the number of private investors is small, it is a good start—and has positive impacts on sector development.

Sources of domestic financing

Financing for rural water supplies and sanitary latrines comes from many sources, including users, village committees, and different levels of government, as well as foreign loans and grants. Users, the largest source of financing, are expected to finance a significant share of capital costs and all operation and maintenance costs, including servicing of project loans. These costs are recovered through water tariffs, which are regulated by county price bureaus.

These financing policies, in place for many years, have been extremely effective, not least because of strong political will to enforce the cost recovery policy. For example, the capital costs of World Bank-assisted rural piped water supply projects are typically split between governments (25 percent), users/village committees (25 percent), and the Bank credit/loan (50 percent). Users service the Bank through payment of water tariffs, effectively making the users finance up to 75 percent of the capital costs. For sanitation, capital costs are divided among governments (10 percent), village committees (15 percent), users (70 percent), and others (5 percent).

The role of foreign assistance

Since 1981, aid from the Bank, United Nations Children's Fund, United Nations Development Programme, and other donors has accounted for about 5 percent of investments in rural water supply and sanitation. Although the financial contributions of these agencies are small relative to domestic investments, international assistance is important for building institutions; scaling up initiatives; ensuring their sustainability and financial viability; introducing new technology, management techniques, and approaches to operation and maintenance; and other innovations.

About 80 percent of foreign funding (\$331 million) has come from the Bank. The first Bank-supported project for improving the rural water supply started in 1985 and was followed by three others, with each building on lessons from the previous ones. The four projects involved 72,000 water supply subprojects in 178 counties across 18 provinces, reaching nearly 23 million

beneficiaries. The Bank-supported sanitation projects have built 64,500 sanitary latrines. These projects have also trained a huge number of rural residents about water supply, health care, and hygiene issues. In addition to the benefits that typically accompany expanded water consumption and sanitation coverage, there is evidence that Bank projects have increased local incomes and investments.

Factors for success and lessons of experience

Government programs have dramatically increased awareness of health care and hygiene issues among rural populations. Such progress has greatly improved the lives and health of rural residents and promoted rural economic and social development.

The scaling up and achievements of rural water supply and sanitation in China are closely linked to the country's stable political situation, rapid economic growth, commitment to rural residents, strong capacity to mobilize resources (domestic and foreign), well-developed administrative and management arrangements, strong demand from local governments and rural residents, and political willingness to charge—and users' willingness to pay—cost-covering water tariffs. In addition, innovative mechanisms have been used to deliver services, including decentralized and participatory approaches; cross-sector collaboration; flexible investment and management models; and a scientific, rational approach to design, construction, management, operation, and maintenance.

China's experiences with rural water supply and sanitation offer a range of lessons, including the need for:

- Strong, determined leadership
- Simple, clear rules to enforce accountability
- Coordination between government departments and agencies
- Community participation
- Commitment to recovering costs from users
- Capacity building
- Technical assistance from international organizations
- Sharing experience and knowledge
- Integration of sanitation and health education with rural water supply.

Ghana, Lesotho, and South Africa: Regional Expansion of Water Supply in Rural Areas

Water, sanitation, and hygiene are essential for achieving all the Millennium Development Goals (MDGs) and hence for contributing to poverty eradication globally. This case study contributes to the learning process on scaling up poverty reduction by describing and analyzing three programs in rural water and sanitation in Africa: the national rural water sector reform in Ghana, the national water and

sanitation program in South Africa, and the national sanitation program in Lesotho. These national programs have made significant progress towards poverty elimination through improved water and sanitation. Although they are all different, there are several general conclusions that can validly be drawn from them:

- Top-level political commitment to water and sanitation, sustained consistently over a long time period, is critically important to the success of national sector programs.
- Clear legislation is necessary to give guidance and confidence to all the agencies working in the sector.
- Devolution of authority from national to local government and communities improves the accountability of water and sanitation programs.
- The involvement of a wide range of local institutions—social, economic, civil society, and media—empowers communities and stimulates development at the local scale.
- The sensitive, flexible, and country-specific support of external agencies can add significant momentum to progress in the water and sanitation sector.

Background and context

Over the past decade, the rural water and sanitation sector in *Ghana* has been transformed from a centralized supply-driven model to a system in which local government and communities plan together, communities operate and maintain their own water services, and the private sector is active in providing goods and services. This reform started with an extended dialogue with the major stakeholders in the sector, which led to a new rural water, sanitation, and hygiene education policy. The policy was then implemented in several large pilot projects, and finally the lessons from those projects were incorporated into the national program itself. This reform has accelerated Ghana's progress towards achieving the MDGs, especially for water. The main current challenges are to increase the pace of sanitation, to ensure the poorest people are served, and to improve the capacity of local government to manage the work.

South Africa's national water and sanitation program, which is one of the largest in Africa, aims to fulfill the human right to water and to achieve full sanitation and water supply coverage well in advance of the MDGs. The key elements of the national water and sanitation program include: a clear policy and legislative framework; an implementation program which has provided water infrastructure for over 9 million people in less than 10 years; a policy of free basic water, which aims to ensure that affordability is not a barrier to access to safe water; and the devolution of responsibility from national to local government. The government believes that the program is on course to achieve full coverage of water supply and sanitation by 2010, well in advance of the MDGs, although other observers are less optimistic. The main points of concern in moving forward are the capacity of local government to implement the work and the financial sustainability of the free basic water policy.

Lesotho is one of the few countries that have put sound principles for sanitation into practice at a national scale with a national sanitation program dating back 20 years. The program is a permanent and budgeted part of the government's work, independent of external support agencies. Its financing rules are clear, including zero direct subsidies for building individual household latrines. Instead, householders employ private-sector latrine builders, while the government concentrates on promotion and training. The Lesotho program has been successful in addressing sanitation holistically at a national level, both in urban and rural areas. Rural sanitation coverage has increased

very significantly and should easily exceed the sanitation MDG. The main problems ahead are targeting the poorest people and solving the problem of emptying filled latrine pits.

Analysis of results

In *Ghana*, coverage in rural water and sanitation was, until recently, behind the average for Sub-Saharan Africa but is now being extended at a rate of approximately 200,000 people (over 1 percent of the population) per year and accelerating. In *South Africa* the national program has constructed water supply schemes designed to serve over 9 million people (over 20 percent of the population) in less than 10 years. This has helped to redress the social inequity of the past. In *Lesotho* tens of thousands of new VIP latrines have been built in the rural areas and a similar number of ordinary pit latrines have been upgraded to VIP latrines. This corresponds to an increase in sanitation coverage from 15 percent to over 50 percent in rural areas in 20 years.

Health and Social Impact—Water-related diseases are the single largest cause of human sickness and death in the world, and disproportionately affect poor people. So the main impact of water and sanitation on human development is by improving health. For example, studies from around the world have shown that provision of safe water and basic sanitation accompanied by hygiene promotion can reduce the incidence of diarrheal diseases by as much as 25 percent. Better sanitation also provides greater privacy, convenience, safety, and dignity; these aspects are particularly important for women. Although few studies have been made, the general health and social impacts of water and sanitation should apply in Ghana, South Africa, and Lesotho. For example, research in Lesotho suggested a significant reduction in the incidence of sanitation-related diseases in areas where water and sanitation projects had been implemented. These findings are typical of those from around the world indicating that health impact derives from the combination of improved hygiene, sanitation, and water supply.

Economic Impact—Around the world, poor people themselves give a high priority to drinking water and, albeit to a lesser degree, to sanitation. There is considerable evidence that improved water and sanitation generate substantial economic benefits, mainly through saving large amounts of people's time and energy. For example, fetching even a family's basic water requirement can be time consuming and physically exhausting, a burden that falls disproportionately on women and children. These economic factors make a strong case for government intervention in water and sanitation, either by regulation or investment. In South Africa, job creation is an overt stated benefit of the national water and sanitation program, and DWAF monitors the number of jobs created by it. In Lesotho, the latrines are all built by local private-sector builders, which ensures that people with latrine construction skills have a direct economic incentive to promote improved sanitation.

Key factors for successful implementation

Strong political leadership—The commitment of political leaders has been a strong factor in the success of all three country programs. In *Ghana*, the national mood in the 1980s favored reform and innovation. The rural water sector reform fitted well with the other changes in the country's political economy, although its immediate drivers were more pragmatic considerations. Rural water was neglected, and the sector as a whole was stuck in a downward spiral of inadequate cost recovery and poor service. The politicians made a conscious decision to reverse that trend by increasing tariffs, seeking grants and loans, and separating the rural from the urban sector. Successive governments of different parties have all seen water and sanitation as an important contributor to social and economic development, and it has not been used as a party political issue.

In *South Africa*, the whole concept of the national water and sanitation program derived from the nation's politics as the new post-apartheid government was democratically elected on the promise of "a better life for all." A strong political commitment to programs of service delivery, including the

national water and sanitation program, was part of a shared vision of providing basic needs. Successive ministers of water have given energetic and determined leadership to the sector. In *Lesotho*, the politicians played a different, though still important, leadership role. The original impetus for the sanitation program came from sector professionals and external agencies, which stressed the importance of fitting their work into the mainstream government structure. The politicians for their part recognized this, and for many years have allocated significant sums to sanitation through the government's regular budget.

Clear Legislation—South Africa provides the best example of how legislation plays an important role. Its 1996 Constitution encompassed extensive social, economic, and environmental rights, including the right to basic water and sanitation. The national rural water supply and sanitation program thus became not just a short-term activity by DWAF but an integral element of the whole nation's legislated human rights program. In Ghana there are also clear laws, notably various acts of Parliament dating from 1988 to 1998 that define the policies and the roles of most of the sector agencies. In Lesotho the legal framework evolved as the sanitation program progressed from the pilot stage to a nationwide operation, notably through the formation of the national rural sanitation program in 1987.

Decentralization to local government—The devolution of authority from national to local government is a governance trend that has been widely adopted in developing countries in recent years, and applies much more broadly than just to the water sector. In the water sector all three countries studied here have applied this devolution of authority and recognize many positive benefits, although they have also encountered problems with it. The corollary to the successful transfer of power to local government is the existence of a strong central agency to support local government. This is precisely CWSA's role in Ghana. While it was the implementing agency in the early stages, it is now principally helping and supporting local government to take on this work. In South Africa DWAF is following a similar path, handing over responsibility for implementation to local governments, and it will take on a regulatory and support role. In Lesotho the devolution to local government took place at the start of the program, with district sanitation teams taking the main role in implementing the program, supported by the Rural Sanitation Improvement Team.

Strong communities, civil society, and media – While this case study has consistently emphasized the leadership role of the national governments communities, local civil society organizations, and the mass media have also played important roles. Community management principles have been important in *Ghana and Lesotho*, and in a few aspects (notably sanitation) of the *South African* program. They are crucial to the sustainability of water and sanitation services. One important corollary of community management is that communities cannot manage their water and sanitation services in a vacuum but need long-term technical and professional support from intermediary organizations. In Ghana and Lesotho, small-scale private-sector companies, whose role has not been well documented or acknowledged, largely fill this role. In South Africa this support is provided by government agencies.

9

Infrastructure Strategies and Policies

Asia-Pacific: Infrastructure, Regional Cooperation, and Poverty Reduction: Lessons from the Region

Asian Development Bank

While the contribution of infrastructure to augmenting an economy's productive capacity is well known, its impact on poverty reduction is considered to be mainly indirect, working through the poverty reduction effects of growth. However, a realization is growing that infrastructure can also directly facilitate the access of the poor to basic services and help in increasing the income-generation capacities of the poor. Since the Asian Development Bank (ADB) adopted poverty reduction as its overarching goal in 1999, all aspects of its operations are being geared towards that objective. Infrastructure lending accounts for about a third of ADB's total lending; hence its impact on poverty reduction is a key issue.

The paper draws upon ADB's experience in infrastructure development in the Asia Pacific region, both in the country context as well as the regional cooperation context under which much infrastructure lending is taking place. It draws upon findings from country case studies as well as ADB's impact evaluation studies in roads and electricity. It studies the impact of the Greater Mekong Subregion (GMS) Program as a special case, to illustrate the impact of infrastructure investments in the regional cooperation context.

An important conclusion is that under favorable circumstances, some of which can be influenced by public policy, infrastructure projects can significantly assist in poverty reduction. This conclusion is based on both the country studies on infrastructure provision in general, as well as a large body of ADB project experience in the road transport and energy sectors.

Thus it was found from both studies that road transport and electricity helped reduce income poverty, with road transport improvements having a stronger impact. Access to roads reduced prices under conditions of competitive transport services provision; increased mobility, and reduced labor market imperfections; enabled the poor to find better paying work; and allowed production of higher value cash crops and supply of cheaper agricultural inputs. Rural electrification helped stimulate the rural economy and expanded opportunities for off-farm employment for the poor. Use of television sets led to improved information on crops and contributed to improved farm productivity. Lighting allowed for longer work hours. All rural infrastructure projects also contributed directly to employment of the poor. Infrastructure provision was noted to have generally contributed to increased trade and growth in countries in the regional cooperation context. The impact on non-income poverty was also found to be significant. Roads reduced travel time and provided better access to basic education and health services. Electricity also affected non-income poverty. Better lighting increased the time for studying and years of schooling. It increased safety and security and provided better medical services in rural areas.

However, these favorable results do not have universal applicability and occur only with complementary public actions. Several considerations need to be kept in mind when up-scaling rural infrastructure provision. Strong poverty reduction outcomes from infrastructure projects can come about only if there is a strong pro-poor policy environment. Location of projects in areas of high poverty concentration, designing complementary interventions to increase the poverty reduction impact of infrastructure projects, creating market conditions for competitive reduction of transport prices, attempting to increase the affordability of electricity prices for rural consumers are all indications of this pro-poor direction in policy. In the regional cooperation context, the role of complementary agreements to facilitate cross-border trade, for example, illustrate the importance of complementary policy action for increasing the impact of infrastructure projects.

No discussion of infrastructure can be complete without addressing issues related to the sustainability of infrastructure services. If roads deteriorate and electricity services become erratic, this affects all users, including the poor. Thus developing countries must pay much greater attention to road maintenance than they do now. The sustainability of electricity services requires that the electric companies be financially strong and that policy regarding tariffs be depoliticized. Necessary institutional changes and capacity building are also important actions to ensure sustainability.

Finally, the impact of infrastructure on growth and poverty reduction can be considerably increased in situations that call for regional cooperation by freeing the provision of infrastructure from artificial confinements within national boundaries. The GMS case provides a good illustration of this and is a worthy model for scaling up.

China: Infrastructure, Growth, and Poverty Reduction

China has invested intensively in public infrastructure during the last 20 years. In the transportation sector, such investment has provided access to markets, facilitated domestic market integration, lowered costs of production and transportation, and allowed China to compete both domestically and internationally. Besides contributing to growth, this investment has directly helped reduce poverty by increasing access to services and economic opportunities.

Targeted infrastructure spending also has been part of national poverty-alleviation programs. Since the 1990s—and especially since the tenth five-year plan, with its proactive fiscal policy to spur economic growth and reduce poverty through better transportation—the Chinese government's investment in transportation infrastructure has increased sharply. Great progress has been made in raising both the quantity and the quality of rural highways. Almost all areas in China can accommodate highways, which means that highways are more accessible than other transport modalities and thus play an important role in economic development and poverty reduction in rural areas.

In 1984, the Chinese government began to construct irrigation, water conservation projects, and county and township highways through the *Food-for-Work* program. The Food-for-Work Program supplies necessary infrastructure in poor areas and short-term jobs for poor populations. The central government provides food, cotton, and industrial products at no cost. Those products are used to pay rural highway workers. Local governments are required to provide matching funds to pay for materials and equipment.

During the *8-7 National Poverty Reduction Program* (which aimed to lift 80 million people out of poverty in the seven years from 1994 to 2000), the Chinese government spent 0.92 billion yuan every year building rural highways in 529 poor counties in 21 provinces. During the plan

period, 42,000 kilometers of new rural highways were built each year, and the quality of rural highways improved greatly. In 1998, the Chinese government decided to accelerate construction of infrastructure further, and one of its priorities was county and township highway networks. By the end of 2002, the extent of county and township highways was 1.065 million kilometers—244,000 kilometers more than in 1995.

In 2002, China began to implement a highway construction program to reach counties in the western areas. The new program, an important part of the Chinese government's campaign to improve transportation and promote economic development in the west, covers 17 provinces and 252 construction projects that will result in 26,098 kilometers of roads. The total investment is projected to reach 31 billion yuan—16.7 billion invested by the central government and 14.3 billion by local governments.

In 2003, the Chinese government launched a nationwide inter-county and rural highway construction program. Under the plan, more than 5,300 projects will begin in 2003, representing 78,000 kilometers of construction for a planned investment of 75 billion yuan. In October, the Ministry of Construction (MOC) expanded the plan to 15,500 projects representing 162,000 kilometers of construction at a planned investment of 109.5 billion yuan. This program is an important signal that China will promote rapid development of rural highways in its efforts to eradicate poverty.

The Roads Improvement for Poverty Alleviation (RIPA) program was launched with World Bank support in selected provinces in the mid-1990s. RIPA focuses on linking those rural villages and townships which do not currently have basic all-weather access to the existing road networks. In the case of Henan Province, quantitative analysis resulting from an ex-post evaluation of the RIPA components showed that remote settlements that had been engaged in subsistence farming prior to the program had made markedly better progress in economic development, social development, and poverty alleviation than comparable populations in control areas. The number of vehicles, and passenger and freight transportation developed quickly in the RIPA impact zone. With the improvement of transportation infrastructure and growth of the farmer's income, more and more rural household purchased motors and vehicles to undertake nonagricultural industries or facilitate travel. The improvement of transportation infrastructure has transferred the potential transportation demand into the real demand and boosted the development of passenger and freight transportation.

The positive impacts of transportation infrastructure improvements on economic growth, social progress, and poverty reduction arise from several factors, including:

- China was strongly committed to development-oriented poverty reduction—and it established policy priorities accordingly.
- Those policies, backed by effective institutional mechanisms for program management and funding, involved all levels of government, as well as users. The active participation of rural residents was instrumental in filling financing gaps.
- Lessons were learned from initial experiences. Management adhered strictly to Chinese regulations and international principles, magnifying the impact of poverty-alleviation funds and ensuring the sustainability of poverty-reduction programs.
- Finally, international organizations have played an important role in providing funding and advice on improving rural transportation management and construction.

The 8-7 National Poverty Reduction Program, in place between 1994 and 2000, was the first program of development and poverty alleviation that had specific objectives, targets, measures, and deadlines. The plan clearly stated that manpower, materials, and financial resources would be concentrated, and all social strata mobilized, to solve the problems of feeding and clothing the rural poor population. The program aimed to enhance the ability of poor areas and populations to develop their own capacities.

Lack of funds is the key factor restricting the development of rural transportation. Since the advent of the era of openness and reform, the private sector has developed quickly, along with state-owned and collective-owned agencies, increasing the number of agencies permitted to invest in transportation infrastructure. Reforms of the investment, finance, and taxation systems have increased the financial resources of local governments and the willingness of those governments to invest in transportation infrastructure. To close the funding gap, governments at all levels have been investing more in rural highways, and investment by the governments has increased rapidly. A much-improved legislative and institutional framework since 1998 has smoothed the process of funding, designing, building, and maintaining rural highways.

During the period of the ninth five-year plan, international organizations and foreign governments contributed \$7.6 billion in loans for the highway and water transportation construction—including rural roads. The World Bank was involved in the southwest, Qinba, and western projects covering 9 provinces, 91 poor counties, and more than 8 million poor people. The Japan Bank for International Cooperation (JBIC), the United Nations Development Programme (UNDP), and the Asian Development Bank (ADB) also have cooperated with the Chinese government in poverty reduction and transportation infrastructure construction.

International cooperation has also brought new management ideas and methods to the construction of Chinese transportation infrastructure. Loans from international organizations and foreign governments have strict requirements concerning planning, surveying, design, construction, and maintenance. These not only ensure the quality and benefit of the projects, but also help to improve the management capabilities of local governments and the professional capabilities of technicians.

While much progress has been made, much remains to be done. Some 30 million poor people in the middle and western areas of China still must cope with poor transportation conditions. To quicken the pace of poverty alleviation, the Chinese government has adopted an Outline for Poverty Alleviation and Development of China's Rural Areas (2001–10). The plan document states that the Chinese government will speed up construction of infrastructure in order to further improve the basic production and living conditions of impoverished areas. The government will increase funds for poverty alleviation, expand the scale of the Food-for-Work program, and enhance transfer payments to impoverished areas. The funds invested by the central and local governments will be used mainly to improve the basic production and living conditions and to construct infrastructure.

Lessons learned

The successful implementation of poverty-targeted interventions such as the RIPA projects results from the constructive role of governments at several levels. Provincial, city, and county governments accounted for 66.05 percent of the total investment in RIPA, for example. To deal with funding shortages, local governments granted tax concessions and formulated preferential terms for land, materials, water, electricity, and so on. Management in strict accordance with the relevant regulations and international principles is one of key reasons for the successful implementation of RIPA. After the RIPA projects were completed, scrupulous maintenance ensured sustainability. Measures included establishing township maintenance stations for professional maintenance, implementing

maintenance contests, planting trees to improve the environment of the highways, and formulating regulations to ensure the smooth operation of the highways.

Although the government is the most important source of funds, it alone is not able to afford the total investment of rural highways. The Japan Bank for International Cooperation has supported much-needed infrastructure investments. Loans from international financial organizations are important sources of funds to build rural highways. The period of loans from international financial organizations is comparatively long and the interest rate is lower. Projects financed by international financial organizations can provide funds urgently needed by rural highway construction and, at the same time, bring international practice to the rural areas and make great contributions to raising the ability to manage projects of local transportation sectors. Experience with projects such as RIPA can be introduced into other projects, helping to improve the level of transportation administration of the impoverished areas.

India: Addressing Infrastructure Needs of the Poor—The Tamil Nadu Experience with Public Private Partnerships

Tamil Nadu is one of the most highly urbanized states in India, with 43.86 percent of the population of 62 million living in urban areas. The state is ranked fourth among the major states in terms of per capita income. While 16.5 percent of the urban poor live in slums, the figure for Chennai, the state capital, is around 30 percent. In terms of urban services, Tamil Nadu, together with other states, faces the challenge of providing adequate and efficient infrastructure. The following statistics indicate the scope of the problem:

- The state's urban population in general has access to drinking water; however only 30 percent have adequate quantity. Less than 40 percent of households residing in municipalities have house connections. The figure for panchayats is about 24 percent.
- Only 16 percent of urban local bodies (ULBs) have a sewerage system and even these ULBs cover only a part of the household population. While most solid waste generated is collected, the majority of local authorities do not have organized disposal facilities.
- Less than 50 percent of the roads have storm water drains.

Problems in urban infrastructure

The inclusion of water and sanitation in the millennium goals highlights the significance of basic facilities. Urban infrastructure covers a wide spectrum of services, which contribute to economic development both by increasing productivity and by providing amenities that enhance the quality of life. The key issues in provisioning of urban infrastructure services are largely structural since the government, through its various agencies, has been the sole provider of these services. ULBs that are responsible for their provision are severely constrained in financial and managerial terms. Investments are typically funded either out of tax revenues or through debt finance. Without recourse to imposing commensurate service charges, the ability to expand networks and maintain quality of services has been eroded. In recognition of these constraints, governments have been looking towards involving the private sector to assume part of the burden. While there has been a fair increase in private financing of infrastructure, it is still not considered adequate in terms of the potential. This is because of the persistent risks that developing countries pose, specifically with reference to the water sector. On the other hand, successful projects give policymakers the necessary experience, attract more investors, and build constituencies for further up-scaling.

To address the problem, India has embarked on economic and regulatory reforms over the last decade. Measures include legislative and constitutional amendments to give greater authority to ULBs, together with various incentive-based programs. These initiatives seek to improve the financial and organizational capacities of local bodies, bring about greater certainty and transparency in devolution of funds, and facilitate private sector investments. In Tamil Nadu the reform process started in 1994, with the Conformity Legislation. The principal changes included holding elections to all ULBs in October 1996. This put 14,000 councilors and 750 chairpersons in office, including 3,500 women and 1,000 members of socially-marginalized sections of society. The state has also constituted and received the recommendations of two successive state finance commissions with reference to devolution of funds to ULBs, incentives for reforms, and other matters.

Bold public-private initiatives

Tamil Nadu has led the effort to tackle urban-sector reforms and has established an efficient framework to aid the process. A string of private-sector infrastructure projects are being implemented. These pioneer initiatives will not only bring about the positive outcomes associated with good infrastructure, but in their own way have established the viability of private participation in developing the urban infrastructure sector. Demonstrating the efficacy of this model will be the lasting contribution these pioneer initiatives will make as a testifying legacy for the welfare of future generations.

Tamil Nadu has approached reform with bold innovation. Dynamic institutions have been set up to garner market opportunities and effectively partner with the private sector to boost investments and provide urban services efficiently. Moreover, the initiatives underway are all demand-driven and structured on commercial lines, providing local examples for subsequent scaling-up. Three important umbrella institutions have been set up in partnership with the private sector: Tamil Nadu Water Investment Company, Tamil Nadu Urban Infrastructure Financial Services Ltd. (TNUIFSL), and Tamil Nadu Road Development Company. Each has been innovatively structured, with wide ranging mandates allowing the conception and development of a whole array of projects with private sector participation.

Tamil Nadu Water Investment Company Limited (TWIC), a joint venture between the state government and Infrastructure Leasing and Financial Services (IL&FS), has been set up with the express mandate to develop infrastructure projects with private participation, emphasizing water and sanitation. The path-breaking sanitation project at Tirupur (Western Tamil Nadu), at a cost of \$220 million, is the first private water and sanitation project in the country.

Tamil Nadu Urban Development Project (TNUIFSL) is a state government project with assistance from the World Bank. Part of its strategy is to enhance institutional development by building and strengthening financial and managerial capacities in ULBs. Under this project, the T.N. Urban Development Fund, the first private institutional arrangement in the country, has been established to assist municipalities in raising funds from markets to finance specific infrastructure projects. It also helps local authorities structure and develop infrastructure projects. It has so far successfully implemented three projects with private participation.

Tamil Nadu Road Development Company Ltd (TNRDC) is the third institutional arrangement established as a joint venture between Tamil Nadu Industrial Development Corporation (a government of Tamil Nadu undertaking) and IL&FS for developing road-sector initiatives under the public-private partnership format. Its first project was the 113 kilometer- long tolled East Coast Road (ECR), which has set benchmarks in both quality of construction and maintenance.

Impact of infrastructure

The initiatives described and the institutional arrangements within which they have developed are pioneers in their own distinctive ways. Combined, they account for about \$261 million of private investment in quality urban infrastructure assets. The positive spin-offs are indeed multi-dimensional and will eventually have a positive impact on poverty reduction. The Tirupur water project, for example, is expected to have a profound economic impact in the project area, together with improvements in local health and environmental conditions. The sanitation projects, in turn, will bring health and hygiene benefits to the project area, which includes many poor and marginalized segments of the population. The three road-related projects will help traffic decongestion, facilitate trade, and reduce city pollution. The East Coast Road has helped spawn tourism, leisure entertainment, and eatery businesses. All these have led to increases in economic activity and employment opportunities and will eventually lower local poverty levels.

Another important outcome from these *first-of-its-kind* projects is that they have established the principle that private-sector participation in urban infrastructure supply services can be an unambiguous success. The joint venture model as adopted in the state has proved robust and efficient in meeting objectives, while allaying social concerns over equity, consumer interests, and welfare. All these projects have made clear the high levels of financial leverage that fiscally strapped governments can achieve while promoting investments. The Alandur, Madurai, and Karur projects, in turn, have demonstrated to other ULBs that asset creation is a possibility well within the grasp of local initiative in partnership with the private sector.

Creating an attractive environment for private investment

Tamil Nadu has consistently been among the top destinations of investors. It has been among the front-runners of industrial growth since independence, and in the post-liberalization era of the Indian economy has been one of the preferred destination of foreign direct investment flows as well. This can be attributed to a number of factors. It provides a good macroeconomic environment, above-average social development indicators with respect to education and health, an educated and technically qualified work force that is disciplined and productive, and forward-looking political leadership. While these are necessary conditions for creating an attractive environment for private investment, by themselves they are not necessarily sufficient.

Complementing the above, is the other strength-of the projects in Tamil Nadu—the Public-Private Partnership (PPP) format upon which they have been structured. This is the basis on which risk allocation has been put on a viable track. Regulatory and policy risks are borne by the government, while commercial risks are carried by the private entity. For added attractiveness, the government has also assumed certain contingent liabilities apart from *force majeure* events. These contractual requirements have, in fact, been recognized and incorporated in the related documents in clear terms. The success of up-scaling infrastructure initiatives in Tamil Nadu will rest on the demand-driven nature of the projects and on following the given PPP model. This format has shown itself as vibrant, robust, and dynamic, with an effective risk-sharing contractual structure. These conditions, together with the stable and growing national economy and sector-specific reforms, have created the necessary conditions for attracting private investments in an otherwise difficult sector.

Scaling up

Apart from the above-mentioned projects, the three umbrella institutions are now gearing themselves to develop fresh initiatives totaling \$665 million. These include a \$400 million water project by TWIC. TNRDC is to implement six road-related projects of about \$180 million, covering almost 400 kilometers. Under the TNUDP, 11 more urban jurisdictions will be covered for providing sanitation

systems at an estimated cost of \$95 million. In other words, the initial clutch of investments (\$261 million) will now be scaled up two-and-a-half times, totaling almost \$1 billion.

Tajikistan: Reducing Poverty through Private Infrastructure Services— The Pamir Private Power Project

The Pamir Private Power project is restoring reliable electricity supply to a poor and isolated population in eastern Tajikistan that was substantially cut off from power supplies after the country's independence from the former Soviet Union in 1991. This restoration has been achieved through an innovative combination of private investors and multilateral financial institutions. It has been backed by a donor-funded social protection program to ensure that the electricity remains affordable. At the same time, the government of Tajikistan has undertaken reforms necessary for the new framework to work.

With an estimated per capita income of about \$160, Tajikistan is the poorest country in the former Soviet Union. When it became independent in 1991 it faced the loss of transfers that had amounted to as much as 40 percent of GDP in the late 1980s. A civil war broke out in 1992, paralyzing the adjustment and development process. The warring factions signed peace accords in 1997, and the government, led by President Emomoli Rakhmonov, now has adequate control. Nevertheless, the multi-ethnic population and geographical constraints (both internal and external) pose considerable challenges to political and economic governance.

The Gorno Badakshan Autonomous Oblast (GBAO), where the project is located, is the poorest area in Tajikistan. A two-day drive from the capital, it is cut off during winter from the rest of the country and is underrepresented economically and politically. Regional identities remain strong, helping patronage networks to dominate politics and the economy. GBAO's population is reported to have supported the opposition in the country's civil war, which resulted in virtually no developmental activity in the region. Under the peace accords, the president is committed to ensure as much development activity in GBAO as feasible, and the Pamir Project is a result of such commitment.

Under the former Soviet regime, 60 percent of Tajikistan's energy was provided by diesel generators running on imported diesel fuel. When the country became independent, diesel deliveries ceased—and with them ceased reliable electricity. Citizens now are frequently without power and have resorted to foresting the scarce woodlands in the area for firewood, a practice that poses a severe threat to the environment.

The Pamir Private Power Project contributes to Tajikistan's poverty reduction strategy by providing an efficient and fair provision of basic social services, and indirectly by supporting economic growth in the country. Although it is too early in the project's life to make a full assessment of its impacts, the *ex ante* analyses show an efficient use of resources and that it will help to reduce poverty in spite the increase in tariffs that it entails. Most measures of poverty do not take account of the indirect costs of lack of electricity, and hence the restitution of supply is not easy to relate to the national poverty indicators. But a recent World Bank study determined that in urban areas, linking households to electricity was the only key factor that reduced both the infant mortality rate and the under-five mortality rate, and that the effect is large, significant, and independent of incomes.

Pamir has taken over all existing electricity generation, transmission, and distribution facilities in GBAO through a privately owned special purpose company (Pamir Energy) operating

under a 25-year concession agreement that sets out the legal, regulatory, technical, operational, environmental, and financial framework for the project, as well as the tariff schedule. The project has expanded the Pamir 1 Hydro Power Plant from 14 MW to 28 MW and built a river-regulating structure at the Yashilkul lake to ensure adequate flow in winter. The project is rehabilitating other assets including hydro plants, substations, transmission, and distribution lines at a total cost of \$26 million.

The financing mix was 45 percent through equity and 55 percent debt provided by the International Finance Corporation (IFC) and International Development Association (IDA). IFC provided \$3.5 million in equity financing; the remainder, \$8.2 million, came from the Aga Khan Fund for Economic Development (AKFED), the principal private sector partner in the venture. Active in GBAO since Tajikistan's independence, the Aga Khan Foundation in 1999 approached IFC to help resolve the catastrophic energy situation. This was followed by an initial study that confirmed that the best source of new generation would be an expanded Pamir hydroelectric plant. Environmental impacts were then reviewed, followed by an analysis of consumers' ability to pay.

The primary agreement to be prepared and negotiated was the concession agreement—the asset that the concession company would own, since ownership of the physical assets would remain with the government. The IFC played a key developmental role in mobilizing trust funds to provide, among other things, the services of an international legal counsel to help draft and negotiate the concession agreement with AKFED and IFC. The government established a high-level working group headed by a deputy prime minister and including senior representatives from all relevant ministries and agencies. IDA played a key brokering role clarifying the investors' objectives to the government, while at the same time ensuring that Tajikistan's interests were also considered.

A key aspect of the project is the social protection scheme that ensures that tariffs paid by households remain affordable, while the tariffs received by the investors provide a rate of return commensurate with the risks involved in such a project. Although the government agreed to meet the social protection costs, its limited fiscal resources and weaknesses in public sector financial management created a risk that it might not meet these obligations in full or on time. To address this issue, the funds to meet the social protection costs were mobilized at the same time as the funds for capital expenditures. This did not burden the project because a good part of the social protection funds were obtained from donor sources—in part from the spread between the interest-rate at which the IDA lent to the government and the rate at which the government lent to the private investor.

Even in a high-risk context like Tajikistan, private provision of infrastructure services can be effective and efficient. But because exploratory development expenditures so often come to nothing, the private sector requires early involvement of a multilateral financial institution to provide guarantees, instill confidence, and supply technical assistance and analytical services. Combining IDA and IFC funding in a public/private partnership has had a significant impact on capital cost and radically improves the risk profile—the benefits of which can be captured by consumers in the form of lower tariffs and less steep tariff increases in the early years. World Bank participation offers the additional benefit of involving the government more closely in the venture and providing a venue for donors to participate. Finally, a credible social protection element combined with “payments for results” is required to ensure sustainability of a private investment in a very poor and politically volatile region with little experience with private investment in infrastructure.

The project reports show reasonable progress in implementation of the physical, legal, and financial areas. Even at this early stage, the company operating the concession generated more electricity than was projected and more than the national utility had generated over a comparable period. Revenues from electricity sales for the second quarter of 2003 were 38 percent above budget. A key problem remains, however—how to ensure improved collection of bills. The better-than-

expected revenues were achieved as a result of four measures: increased public relations, disconnections, payment flexibility, and work through village organizations. Of these, the most effective was probably the use of disconnections, which can of course cause hardship. Disconnections were not practiced in winter.

For the government of Tajikistan this project represented a challenge, to which it responded positively. This is the first time that a private concession has been granted for the generation, transmission, and distribution of electricity. Arriving at the concession agreement required the government to recognize the need for a less generous credit policy for electricity and, more importantly, to face up to the need to pay its own electricity bills on time. The agreements on social protection made transparent for the first time the amount of subsidy that was being given and to whom it was being given.

Not all has been smooth in the relationship between the company and the government. During this first year of project implementation, government agencies raised concerns about the verification of the social protection cost payment mechanism, the metering and billing arrangements under the project, as well as the level of electricity tariffs applied to certain consumer categories. All these issues have been duly agreed upon in the various project-related agreements, but the practical implementation has brought up the need for some further refinement.

Questions about the project's sustainability cannot be answered with absolute certainty, but the structural elements of the project, as defined in the concession agreement that came into effect in December 2002, are such that it should be sustainable. Equally important are the key stakeholders involved in the project. The private investor, AKFED, has a real commitment to the country and is unlikely to pull out when problems arise. Likewise the World Bank and IFC have a long-term engagement in the country and a track record of providing support in the face of difficulties. Similarly, the government is quite committed to the project. The first real test will come in 10 years, when the social protection fund is supposed to be wound down. It is expected that by that time economic growth will have reduced the need for such a fund and the government will be in a better position fiscally to cope with any remaining costs. If it is not, it would continue to have access to the income from the interest rate on the on-lent IDA loan.

For a project of this kind, the financial rate of return is probably on the low side. It has been found acceptable, however, because the parties financing the project, including the private partner, have social objectives as well as commercial ones. This is important to bear in mind when seeking to replicate such a project: a purely commercially driven private entity may not be able to provide the partnership needed. The economic rate of return, on the other hand, would be considered reasonable in the present circumstances.

The Pamir Private Power Project has been driven by the need to find innovative ways to provide essential services in countries where public resources are extremely limited and that the private sector is reluctant to enter. Investors have been retreating from emerging markets that attracted private investment in the boom years of the 1990s. In the face of reduced private flows, the World Bank Group has announced its commitment to increase support for infrastructure. One avenue under consideration is public/private partnership. This will require the sort of early collaboration that occurred here. Pilots are already underway in West Africa and an electricity distribution project is being developed in the Kyrgyz Republic along these lines. This approach may offer a vehicle that can attract some new participants and even persuade some others to return to the power (and other infrastructure) sectors of emerging markets.

Some aspects of this project are unique—a development-oriented investor such as AKFED may not be available in every country. Tajikistan is also unique from the poverty and risks

perspective. If the public/private partnership approach outlined here can structure a viable infrastructure project with private sector participation in one of the more challenging countries in the world, it should be applicable elsewhere.

Some of the institutional innovations brought in to the structure of this project included: creation of a full-function regional utility, which meant the monolithic national utility was unbundled in a geographic sense (as opposed to the functional sense of separating generation, transmission, and distribution which was the conventional wisdom at the time); creation of a fully funded social protection mechanism, monitored and administered by a credible third party (in this case the World Bank); and participation of IDA in the financing of a project company in which IFC has a 30 percent equity stake.

Vietnam: The Impact of Infrastructure Development on Rural Poverty Reduction

Public investment has made an enormous contribution to economic growth and poverty reduction in Vietnam. But attempts to scale up this contribution will have to rely on increasing the quality—not the quantity—of investment. At roughly one-third of GDP, Vietnam’s investment rate is among the highest in the world. Attempts to raise it further would reduce growth in consumption, limiting progress in poverty reduction. Economic growth has also made an important contribution to poverty reduction, with higher growth resulting in lower poverty. But growth may become less pro-poor over time, as fast integration with the global economy favors the country’s economic hubs over its remote and mountainous areas. Thus the quality of public investment should be one of the main levers for expediting growth and reducing poverty in the next few years.

Vietnam is well positioned to focus on investment quality. Its recent Comprehensive Poverty Reduction and Growth Strategy, the country’s blueprint for economic development, identifies the main weaknesses of the public investment program. Investment in large-scale infrastructure is a core element of Vietnam’s strategy for reducing poverty and increasing growth, and the strategy emphasizes the importance of tightly linking infrastructure investments to socioeconomic goals, of selecting projects based on their effects over time and across sectors and provinces, and of identifying each project’s poverty reduction impacts and beneficiaries. The main challenge now is translating these principles into operational guidelines capable of guiding infrastructure development.

Rigorously evaluating the public investment program—both its successes and its failures—is an important step in that direction. So far, infrastructure investments have occurred without a systematic appraisal of their socioeconomic impacts.

Assessing the poverty impacts of public investment

Three perspectives can be used to assess the poverty alleviation impacts of public investment in Vietnam. A macroeconomic perspective shows that Vietnam’s incremental capital-output ratio (ICOR) has increased since the mid-1990s, and now compares unfavorably with that of other developing countries. As the ICOR is a crude measure of the *productivity* of capital, its increase over time is a matter of concern. But more refined analyses are needed to identify ways to raise the quality of public investment.

Perspectives based on investment impacts by province and project go beyond the macroeconomic approach and estimate how the public investment program—and each of its main components—contributed to poverty reduction during 1998–2002. However this approach poses

considerable methodological and empirical challenges. Although substantial progress is possible using the provincial perspective, more work is needed on the project perspective.

Bearing this in mind, some patterns emerge from the provincial analysis. First, the public investment program has made a significant contribution to poverty reduction. Every 1 percent of GDP spent on public investment is associated with a 0.5 percent point reduction in the poverty rate. This is less than is suggested by crude estimates, which do not take into account the endogeneity of public investment decisions—that is, the fact that more investment goes to provinces with higher potential for growth and poverty reduction. Still, it is more than the macroeconomic perspective suggests.

Differences across sectors are also revealing. The provincial-level poverty impact of public investment in transportation and, especially, water and sanitation, is much higher than the average impact of the public investment program, which also includes investment in energy. This outcome can be partly explained by the fact that the poverty reduction impact of energy investment is geographically less concentrated. Dams, power plants, and power lines can raise electricity consumption throughout the country, yet have a limited impact on poverty rates in the provinces where they are based. Moreover, public investment in transportation and in water and sanitation appears to be highly progressive—having a higher poverty reduction impact in poorer provinces. Thus such investment could be used to reduce poverty in provinces that are lagging behind.

Overall, investment under the public investment program appears to be progressive, in the sense of having a greater poverty reduction impact on poorer provinces. This is not obvious at a first glance, because of the endogeneity problem mentioned above. There is more public investment in more dynamic provinces, which are also the ones when poverty declines faster. As a result, a spurious relationship arises, whereby public investment seems to contribute more to poverty reduction in richer provinces. But once this bias is removed, it becomes clear that public investment makes a bigger contribution to poverty reduction in poorer provinces.

Deciding where to direct investments—by province

At present, there is more public investment, in relative terms, in richer provinces. This choice can be justified on efficiency grounds, as returns to investment might be low in poorer provinces. Investing in provinces where returns are higher and redistributing through public expenditures to provinces where poverty is higher is, in principle, a sensible approach. But it carries two risks. The first concerns its long-term sustainability. Provinces that receive more resources for investment are bound to grow faster, so the productivity gap between them and their poorer counterparts would increase over time. The bigger the productivity gap between richer and poorer provinces, the bigger would be the transfers needed to more closely align their incomes. For this approach to be sustainable, budget transfers would need to grow over time, both in absolute terms and as a share of GDP.

Over time, richer provinces could be strongly tempted to renege on such an agreement. And without strong political determination to redress inequality across provinces, this approach could simply unravel. Containing the productivity gap between richer and poorer provinces could be necessary to keep transfers manageable and prevent the secession of the rich provinces. From this perspective it would make sense to invest more in poorer provinces—even if the overall poverty alleviation impact is not as high as in richer provinces.

Another risk of concentrating investment in richer provinces is that over time, it could lead to a less inclusive development pattern. Even if large budget transfers were sustainable and income disparities between provinces could be kept under a certain ceiling despite growing productivity disparities, sources of household income in poorer and richer provinces would still become

increasingly different. Wages and profits would be the main source of income in richer provinces, while government transfers would become increasingly important in the poorer provinces. It would not be socially acceptable to have a situation where some people see their well-being improve thanks to job creation, while others depend on handouts. So again, increasing public investment in poorer provinces would be justified even if the poverty alleviation impact were not as high as in richer ones.

Because data work is still under way, it is harder to reach conclusions about poverty alleviation impacts at the project level. Still, two points are worth making. First, a brief survey of existing studies on the social impacts of specific projects suggests that careful project-specific assessments can be a useful complement to broader statistical studies. Such assessments shed valuable light on the ways that public investment can contribute to poverty reduction—which is crucial to improving the design of future projects. Increased reliance on such assessments may require that proper baselines be assembled as part of the project preparation process, taking stock of the situation before a project is implemented.

Second, careful project appraisal may also be extremely useful for public investments not directly related to infrastructure. Although the focus here is on capital spending for transportation, energy, and water and sanitation, a large portion of Vietnam's public investment program supports state enterprises operating in commercial sectors, including paper and steel mills, sugar refineries, and fertilizer plants. If public resources are used to support such investments, their poverty alleviation impact should be commensurate with that of infrastructure investments. And because relative prices are bound to change as a result of economic reforms and, especially, increased integration with the global economy, it is important to ensure that project returns remain high over time.

Improving domestic policies and donor coordination

The analysis of Vietnam's public investment program also has implications for the implementation of investment projects. Disbursement is shown to be much slower for donor-funded infrastructure projects. Although slow disbursement is useful for assessing the poverty alleviation impact of public investments, delaying the implementation of projects with a considerable poverty alleviation impact is not desirable from a development perspective.

Radically simplifying donor procedures—including harmonizing donors' procurement guidelines, resettlement mechanisms, and environmental safeguards—would be one way to expedite project implementation. Improving the operation of Vietnam's guidelines, mechanisms, and safeguards, so that donors could disburse and operate through them with confidence, would be an even better approach.

10

Empowering Poor Women

India's SEWA: Empowerment through Mobilization of Poor Women on a Large Scale

SEWA (the Self-Employed Women's Association) is a membership organization – a *movement* rather than a *program*. Its objective is to empower poor women working in the informal sector so they can achieve secure employment and self-reliance. As a membership organization with firmly democratic procedures and based explicitly on Gandhian principles, all other SEWA activities have emerged and evolved in direct response to members' needs. Members are rural and urban poor women working in the informal sector, who have empowered themselves by organizing into a labor union to struggle for their rights, and into 100 cooperatives to improve their economic security.

SEWA members see themselves first and foremost as workers, and identify their primary need as gainful and secure employment. Large numbers of members have increased their incomes through both the collective pressure that organizing allows them to exert and the creation of alternative employment opportunities. They have gained access to markets through information campaigns, assistance with product improvement, and SEWA-run marketing services; they have gained access to services that are essential to a secure livelihood; and they have gained access to banking facilities that allow them both to save and to borrow in small amounts and on reasonable terms, and so gradually build up assets. At the same time, large numbers of members have achieved self-reliance. By organizing poor women and providing training and capacity building of various kinds, SEWA has developed their leadership abilities, their self-confidence, and their life skills

SEWA's successful efforts have mobilized large numbers of poor self-employed women for empowerment. From small beginnings in 1972, as a group of poor, illiterate women working as casual laborers in the wholesale textile markets, SEWA's membership has grown to 535,000 in its home state of Gujarat, and to around 700,000 throughout India. The annual rate of membership growth has averaged between 25 percent and 35 percent in each of the past three five-year periods.

A structure has evolved that gives SEWA great flexibility to grow and respond to members' needs. Apart from the formal election and governance arrangements, there are three main ways in which members are engaged:

- A *union* with both urban union and rural branches, that helps members in their collective struggle for fair treatment and access to justice, to markets, and to services. The urban branch represent over 70 occupations or trades and has focused on upgrading skills in changing markets and seeking better wages and benefits. The rural branch targets alternative employment creation including handicrafts and some high value crops, reversing a trend toward declining agricultural wages and leading to a noticeable decline in seasonal migration of female agricultural workers.

- *Cooperatives* that help members produce and market the fruits of their labor and build their assets. The largest cooperative is SEWA Bank [deposits total \$13.9 million, \$3 million loans outstanding (average loan size of around \$60)]. The World Bank is a major source of SEWA's strength and achievements and an innovative source of microcredit. The other more than 100 cooperatives help women improve the marketing, quality, and design of the handicraft and woven items to ensure consistency, timely delivery, and salability. Cooperatives also promote new agricultural products, and techniques that add value to traditional products. Other cooperatives include a rural marketing organization and a Trade Facilitation Center.
- *Member services* that are financed partly by user charges, but also in part by donors, and by government departments that have been unsuccessful in providing the services for which they are responsible by statute. SEWA concentrates its member services in the key areas of health care, child care, insurance, and housing.

The main lessons of SEWA's experience in mobilizing and empowering poor self-employed women can be summarized under four headings:

- *Organizing members* (as distinct from offering services at the outset) helps to ensure ownership and having subsequent activities that are based on members' needs, while providing a firm foundation for future growth. In making poor women better informed about their rights, it increases the accountability of various organizations. In helping members articulate their needs, it ensures that SEWA activities are demand-driven. And in identifying potential activists and leaders among new recruits, it lays the ground for SEWA's future growth.
- *Values* at the core of an organization help establish consistency in its purpose, and serve to attract and retain highly motivated staff and members. They also underpin the patience and perseverance needed to influence the policy environment. From its inception, SEWA has been steeped in Gandhian beliefs and practices. Perseverance, egalitarianism, inclusion, and participation are actively incorporated into meetings and organizational practices.
- *Flexibility* in an organization's style and structure encourages experimentation and learning, a willingness to take advantage of partnerships with others, and an ability to recognize crises as opportunities. Flexibility induces innovation and risk-taking; a capacity to grow; a decentralized style that promotes a highly motivated, energetic and committed staff; and a focus on ideology rather than dogma.
- *Leadership* is crucial not only in defining an organization's vision, but also in establishing management and behavioral practices that reduce social distance between corporate management and grassroots members. Moreover, effective leadership skills can be taught to and learned by poor and uneducated women. Ela Bhatt founded and led SEWA for 24 years. Under her leadership, and since her departure seven years ago, there has been a remarkable set of participatory management and behavioral practices that close the social distance between members and managers. This included regular rotation of office holders, highly compressed pay scales, a stable core management cadre, a conscious policy of developing new leaders, and a policy of avoiding entanglements with political parties.

SEWA has overcome many challenges. Initially it encountered great resistance in even registering as a union, since the authorities questioned whether self-employed women were legally entitled to form a trade union. Later the banking authorities were reluctant to sanction a bank that lent

to self-employed women without collateral. In overcoming these and many similar challenges, SEWA has shifted the policy environment in India, and in that way it has had an impact far beyond its membership. The challenges of rapid growth have been successfully met up to now, thanks in part to SEWA's flexible structure, but they are a continuing preoccupation as membership continues to increase. And the long-run financial viability of various enterprises remains a concern: while SEWA has a clear policy that all such activities should be self-sustaining, actually making them so, and deciding when initial subsidies have gone on long enough, is always difficult. Moreover, some of SEWA's newer initiatives, such as insurance, require more financial expertise and discipline than traditional activities.

India: Women's Self-Help Groups in Andhra Pradesh—Participatory Poverty Alleviation in Action

The Indian state of Andhra Pradesh, one of India's poorest, has used development self-help groups (SHGs) extensively as a primary tool of poverty alleviation and empowerment. A SHG is a small group of persons who come together with the intention of finding a solution to a common problem such as medical issues, livelihood generation or watershed management, with a degree of self-sufficiency. However, in Andhra Pradesh, the groups largely are the conduit through which *micro credit* is routed to the poor in the belief that it will serve as a catalyst in helping them to pull out of poverty.

National and state government initiatives, as well as NGO efforts, have used SHGs to implement poverty alleviation programs in Andhra Pradesh since 1979. Self-help groups also empower poor women, more than 4.8 million of whom are mobilized into SHGs. Early programs sought to provide self-employment, empower, and incorporate rural poor women into the development process. Homogenous groups of women would choose and collectively undertake an economic activity suited to their skills and resources, supplemented by state matching grants.

Following on successes in earlier programs, which were modified to make them more meaningful, the state has promoted significant increases in SHGs using a social mobilization approach. The state-sponsored *Velugu* program working in over 860 mandals (sub-district geographical unit) in 22 districts, aims to reach 2.9 million of the poorest of rural poor. Both the number and structure of self-help groups in Andhra Pradesh has been scaled up. The state established an independent support organization to implement poverty elimination projects which aim at social mobilization to enhance livelihoods and employment generation opportunities of the poor. Self-managed grassroots institutions have been federated into village level and sub-district level groups. These groups provide an organizational identity to help SHGs realize the benefits of a larger organization without losing the advantages of small organization. Federations of SHGs are fast becoming powerful voices expressing the social and economic needs of the poor.

Capacity building is an important component in the scaling up of Andhra Pradesh's poverty alleviation initiatives. Training includes participatory training methods, SHG formation and strengthening, book keeping and financial management and also helps members and leaders develop linkages with banks and other institutions. The primary aim of the SHG-Bank linkage program is to integrate informal savings and credit groups with mainstream banking by providing them with credit to enhance their fund base. Once an SHG has demonstrated its capacity to sustain and to absorb outside credit, loans are extended to it from the formal banking structure. Using existing financial infrastructure to meet the needs of micro credit initiatives has saved on duplication and transaction costs and has also been instrumental in changing perceptions about the credit worthiness of the poor.

Andhra Pradesh has chosen social mobilization and inclusiveness as methods of addressing poverty alleviation. The process uses social mobilization as an institutional mechanism to help the poor interact with government machinery so that public resources and services are better accessed. To insure that the 'poor' were adequately identified, and thus included, the community itself prepares a list of its poor people. The participatory methodology of identifying the poor has been very effective in creating a transparent and inclusive methodology for community based targeting for programs.

Besides group mobilization, the programs focus on expanding the assets of the poor and creating economic opportunities connected with people's livelihoods. To reduce, mitigate and manage risk *Velugu* supports the Community Investment Fund which supports investments in sub-projects for the poor and the Comprehensive Insurance Package which seeks to develop a community-based delivery of life and health insurance services. The rice credit line is a unique and pioneering program in India which addresses food security problems of the poor. Another innovation is the value chain analysis of livelihoods. Traded-in and traded-out items, and income and expenditure of the poor are analyzed. This analysis captures the credit system, risk and uncertainties and best practices in each of these livelihoods. Infrastructure gaps, constraints and structural needs are also identified. This process institutionalizes a mechanism that facilitates expression of voice by the poor.

A number of social issues including gender and family, child labor, disability and health related to poverty alleviation need to be addressed in the context of SHGs. SHG formations largely take place around women since women are seen as more credit-worthy than men. But the process of empowerment and poverty alleviation can be more sustainable when all the members of the family are involved. Hence women's groups are taken as an entry point for the formation of men's groups, youth groups, children groups, and groups for the physically challenged. Innovative, action research interventions using folk theatre have addressed family issues related to gender division of labor in the house, son preference and relationships between mothers-in-law and daughters-in-law. *Velugu* addresses child labor and high dropout rates through regular campaigns to sensitize parents—especially mothers, youth, other community members and schoolteachers—about the importance of education and its long-term implications for child welfare and poverty reduction. *Velugu* also aims to directly address the problems of the disabled by organising them into mutual support groups. *Velugu* plans a holistic approach to community based primary health care to empower people and communities to take care of their own health and take responsibility for the community's health.

There is absolutely no doubt that SHGs have led to an expansion in the economic spaces of members. However the composition of the members reveals that the coverage of the poorest-of-the-poor is low, while the coverage of non-poor is considerable. The financial status of households and savings capacities has improved due to improvement in access to formal credit institutions, since SHGs are linked with banks. Access to credit has enabled women to undertake economic activities, which tend to be an expansion or strengthening of existing traditional activities. A smaller proportion of women have taken up new occupations. The diversification of occupation to nonagricultural activities has enhanced the quality of income of the households by reducing the dependency on risk-based agriculture. Increases in income have been spent on better nutrition for the children and on health care for the family. Kitchen gardens have enhanced the overall nutritional status of children, pregnant and lactating mothers.

Social inclusion and participation in the political process are also impacted by SHGs. Gender poverty measured in terms of gender bias with respect to norms of eating, male preference in distribution of food and access to clothing has not declined significantly. But food security of member households improved after participation in groups. There are improvements in school enrolment, attendance, drainage facilities, toilet facilities and access to electricity and gas. The

political process picks up momentum with the SHGs being federated and also establishing links with local self-governing bodies. Further, SHGs have the capacity to voice the needs of the communities. There is tremendous potential in this endeavor if the vision of SHGs is expanded beyond transacting money to include local concerns about the quality of life. Under *Velugu*, as the social mobilization process matures in a village, communities are encouraged to analyze their livelihood situations, which in turn reveal options for the community to act.

There is no doubt of the need for accountability for any program to succeed. The most obvious relationship of accountability and transparency is between the state and the people. Both have to be accountable to each other. This requires a system of communication where intent, need and impact of programs can be conveyed both ways.

In Andhra Pradesh, the linkages between different approaches towards development, poverty reduction and empowerment must be considered. It is not enough to address the economic indicators of poverty. While incomes have to be augmented through livelihood generation interventions, for which credit is an important component, determinants of human poverty in terms of health and education requirements require attention. Likewise, social poverty, which manifests in the presence of corrosive evils like caste taboos, norms of dowry, adherence to vices such as alcohol and drugs have to be woven into empowerment programs. The primary lesson learned from the Andhra experience is that there is value in using self-help groups as a conduit for poverty alleviation initiatives. However one has to understand the limitations of this use and gauge the ways in which these can be surpassed to get more out of such an approach.

- The limitations of micro credit to alleviate poverty or to empower people can be overcome by integrating micro credit with a powerful 'plus' component of social and economic infrastructure.
- Self-help groups' political potential is powerful. Federations form the training ground to make leaders and potential political aspirants. This critical mass has tremendous potential to work for the betterment of the regions they represent.
- The potential of women-only SHGs for women's empowerment depends upon several other supportive measures like education, health, housing and infrastructure.
- Partnerships are fundamental for development. This kind of inclusiveness where institutions and actors both public and private, work in synergy, has considerable potential for poverty alleviation. Market dynamics are not adequate to allocate costs and benefits. It is however difficult to conclusively say what the effect of excluding NGOs will be. In a larger design of partnerships, it may not be advisable to create rifts between actors working towards similar goals
- The linkage between the national, regional and local environment can be made with political will.
- Unless a sense of ownership is infused into any program, participants will not demand accountability or feel accountable. Involving people at every level of decision-making within the program transforms 'beneficiaries' into participants and ultimately everyone benefits.
- A complex mix of methods is needed to solve complicated problems such as poverty. Use of existing structures and the creation of new edifices have to be synchronized. Economic and social issues are equally important if poverty is to be understood.

Kenya: Promoting Women’s Human and Economic Rights—Paralegals in Rural Kenya

Swedish International Development Cooperation Agency

This report covers the struggles, achievements, and lessons learned from an innovative paralegal program that was implemented in a number of districts in rural Kenya. The program’s main objective was to entrench women’s human rights in the communities and ultimately reduce poverty. The program offered an opportunity to improve women’s human rights and economic status. It challenges the root causes of women’s rights violations and economic deprivation. By employing a holistic approach and ensuring the involvement of a cross-section of community members and organizations, the program has elicited socio-political and economic change in rural Kenya. The paralegal program has expanded tremendously. The paralegal program grew from covering only 7 districts with 40 paralegals in 1998, to training and deploying over 477 paralegals (community-based human rights educators) in over 20 districts in about six provinces. Currently, 270 paralegals are active in the program. It continuously replicates success stories, consolidates gains, and implements best practices in new sites.

Background

Women’s economic status in Kenya is limited by socio-cultural traditions and beliefs. Women are the most economically deprived group in Kenya today. Women may have access to land, but it is their male counterparts who control and enjoy the bulk of their income. This economic marginalization is further exacerbated by colonial definitions of land ownership. Discriminatory laws and cultures are compounded by the HIV/AIDS pandemic, and women are suffering disproportionately. For the rural poor to improve their situation, women’s access to justice and gender relations in their communities must be addressed with the utmost urgency.

In Kenya, customs and traditions perpetuate inequality between men and women; men use cultural differences to suppress women, and unequal power relationships are maintained. Women and girls continue to be discriminated against in the ownership of assets and in access to social and economic services; the prevalence of a multitude of “traditional” laws and practices coupled with statutory laws make the identification and enforcement of women’s rights difficult; and statutory laws and customary norms and practices are not compatible. Kenya’s current constitution outlaws discrimination based on sex, but exemptions for discrimination in personal and customary laws eviscerate the nondiscrimination provisions.

HIV/AIDS is the country’s biggest development challenge. There is a vicious circle between HIV/AIDS and poverty. Women and girls in Kenya are dying from HIV/AIDS partly because their second-class status makes them vulnerable to violence and unsafe sex. Protecting women from sexual abuse and ensuring that they enjoy equal rights under law are crucial in the fight against HIV/AIDS. Children are forced to drop out of school and fend for the family where both parents have died of HIV/AIDS-related illnesses, denying them the right to education and bringing another generation of illiterate people. This situation persists even though the government provides free primary education.

Implementation

Against this background, the paralegal project began in a number of districts in Kenya. The paralegal program seeks to:

- Promote the internalization and sustainability of a culture of respect for women’s human rights and their participation in leadership and decision-making while educating the community in basic laws.

- Assist and advise the community in its legal needs and engage institutions of governance, government bodies, and civil society constructively on matters of women's rights.
- Enable women to be active citizens with rights, expectations and responsibilities that empower them to engage in matters affecting them and the development processes that affect their lives.
- Bring people together by educating them on the virtues and the process of organizing to achieve democratic goals.

The implementation phases were: trainee mobilization, recruitment, identification, and training; commissioning the paralegals to work in the community; and paralegal monitoring, assessment and evaluation.

The paralegal program applies a multi-sectoral approach to address identified structural concerns that undermine women's quest for justice and recognition, such as discriminative laws, and to raise awareness around women's rights. Office personnel also have their technical and legal skills sharpened to implement the program effectively. Ultimately, the program will transfer program ownership to communities through the establishment of Legal and Human Rights Community Resource Centres.

Impact analysis

There is a continuing need at the community level for basic information on women's rights and human rights in general. The human rights awareness created thus far has elicited an overwhelming response by the communities for more knowledge and for greater paralegal services in pursuit of justice for violation of human rights and other community human rights demands.

Where paralegals have been able to reach their communities, more women are aware of when their rights are violated and the appropriate remedies they can take. Concurrently, perpetrators of human rights violations are increasingly aware that the rule of law is catching up with them. The program has empowered women by providing legal services for women and community members on cases, offering paralegal advice, and referring cases to lawyers and relevant organizations.

The integration of paralegal work with education for women and the community continues to build their capacities and power in a bid to increase women's control over their lives. Owing to the community recognition of the paralegals' work, the paralegals have increasingly been involved in negotiations and alternative dispute resolution of civil cases at the grassroots level. The paralegal program is contributing to real political and social change, judging by the growing number of requests to assist with human rights violation cases. The program has built on existing networks of paralegals and other trained community educators. This groundwork is particularly vital during a period that has, unfortunately, been marked by violence and a total lack of respect for voters' and citizen's rights and limited political participation.

The paralegal program runs a schools human rights program. This project provides training for teachers, head teachers, and education officials, who, in turn, establish, manage and coordinate human rights clubs, while the education officials guarantee support for club activities. It aims at the early sensitization of human rights values by school pupils. During club activities, children learn and share knowledge and experiences on human, women, and children's rights from the trained teachers, paralegals or invited resource persons. A merit awards program involves other corporate and media organizations.

The paralegal program alleviates poverty in the broader sense of strengthening the participation of the poor, especially women, in decisions affecting their lives. As a result, people have been able to understand and influence the local government and institutions regarding their rights, needs and priority issues. This has been successful in situations where citizens have been organized and acted together. Examples include protests, court proceedings, and demonstrations for violations of individual rights and the community. The result has been that the persons implicated are being brought to justice or the authorities have given in to the communities' demands.

Through the Sacco, or microfinance scheme, women who have been members of the organization for at least six months have access to "soft loans" that can be used for business or family expenses. In some districts, the paralegals submitted proposals from women's groups and, with the organization's assistance, they were able to raise funds to implement their proposals.

Driving factors

The driving factors that have made the Paralegal Program a success include:

- Commitment and political economy for change: Continued commitment from the civil society organizations and the change in the governing regime have been quite instrumental in bringing in a climate of change. There is new hope for partnering more and more with the government.
- Institutional innovations such as radio programs on women's human rights issues, training village elders in national laws, and the Paralegal Support Network (PASUNET) have had positive impacts.
- Learning and experimentation: The program has expanded the skills taught to include communication skills, report writing, and counseling; mapped the paralegals' locations for program impact; and linked the paralegals to groups that offer development assistance to communities.
- External catalysts include the government, civil society and international organizations, the media, PASUNET, and donor funding.

Lessons learned

- Formally incorporating human rights studies in the school curriculum would be more effective and would have far reaching effects than the current process.
- More control and increased transparency are needed of both the paralegal's monthly report and the district team monitor's overall report to ensure veracity.
- There are additional challenges in the program's exit strategy through the establishment of Community Resource Centres.
- Increased paralegal liaising is needed in the districts to encourage them to work more closely with the local state administrators.
- Institute monthly monitoring reports and involve the local community in evaluating the reports to gauge the level of awareness that the paralegals have created.
- Additional, more frequent paralegal training is needed to more fully inform the paralegals and update them on new statutes.

- Publicize Sacco, using members as advocates to increase poor women's access to loans.
- Programmatic reforms and initiatives: Implement a continuous, year-round radio program to reach the rural areas and an awareness campaigns on women's property rights. Distribute materials in the local languages about inheritance rights and HIV/AIDS.
- Legal reforms: Lobby for gender sensitive statutes that prohibit gender-based discrimination and promote women's equal property rights.

Community-Driven Development/Social Funds

Brazil: Community-Driven Development in Rural Communities of the Northeast

Community-driven approaches to development offer enormous potential for reducing poverty and improving lives, as shown by the Rural Poverty Reduction Program in northeast Brazil. The program has done a remarkable job of delivering basic infrastructure and services, supporting 55,000 small-scale investments—including 10,000 investments in water supply and 8,000 in electrification—in a region that contains Latin America’s largest concentration of poor rural people. Just as important have been the program’s effects on empowering communities, building social capital, improving governance, and reducing corruption. The program works directly with poor rural communities while leveraging the involvement of an increasingly broad range of public and private partners—including municipal governments, no-governmental organizations (NGOs), public and private service providers, and churches, to expand coverage, exploit special skills, and build constituencies.

The evolution and outcomes of today’s approach

Community-driven development efforts began in northeast Brazil in 1985 as a test component of 10 World Bank-supported projects in as many northeast states under the Northeast Rural Development Program (NRDP). The component’s striking success, and the high costs and limited success of the more traditional activities in this program, prompted a bold reformulation of the NRDP in 1993, with all elements not involving community-driven development dropped and those remaining scaled up and further refined. The Reformulated NRDP was followed by the Rural Poverty Alleviation Program and then by the current Rural Poverty Reduction Program. Since 1993 the program has sponsored 24 community-driven development projects, with another three awaiting negotiation or presentation to the board.

The program is guided by several principles. Most important, decision-making is decentralized to community associations, which make their voices heard through representative, project-created municipal councils. Communities, with appropriate assistance or training, are involved in all stages of the investment process, including priority-setting. The program uses simple, explicit, and verifiable poverty targeting mechanisms and is administratively simple. Funds are transferred directly to the community associations for approved investments, and the program relies on state (not federal) loans and significant local cost sharing. Finally, decision-making is transparent for all processes, at all levels of the program.

Community-driven development efforts have been scaled up in several ways. First, the numbers of loans and beneficiaries have been increased and geographic coverage broadened using financing from the Bank and from borrower and beneficiary cost-sharing. Even more significant, northeast state and local governments are now allocating and transferring funds under other state and federal programs for poor rural populations, as well as integrating programs across sectors to increase

the impact on poverty reduction; they are using the same principles, mechanisms, and practices established and refined under the Bank-supported community-based program.

The core institutional mechanism is the community associations; they define, execute, operate, and maintain the investments from which they benefit, acting through decentralized, participatory municipal councils in which 80 percent of voting power for approval of proposed investments rests with community representatives. These councils are approaching blanket coverage in many northeastern states. Their growing collaboration with municipal governments on local development planning and resource allocation is boosting overall efficiency as well as the long-term institutional sustainability of the approach itself.

Evaluations have shown that community-driven development projects increase community well-being, employment, incomes, and economic and social capital. Using Bank and borrower funding of \$1.2 billion (with more than \$800 million in Bank loans), the program's investments in basic infrastructure and productive and social facilities have benefited about 7.5 million poor rural people, organized in some 36,000 community associations in nearly 1,500 of the 1,650 municipalities in northeast Brazil. At least 90 percent of loan resources reach beneficiaries directly, compared with 40 percent before 1993, with the balance financing technical assistance, program evaluation, and administration.

Lessons

Brazil's experience with community-driven development offers a rich cache of lessons. Among them:

- When given sufficient funding and assistance and working through representative councils, poor rural communities *are* capable of setting their priorities and preparing, executing, operating, and maintaining their investments.
- Community-driven development requires a longer-term commitment to reap its full social and economic benefits—depending on the severity of poverty conditions—and relies on an integrated vision of subnational development that values local knowledge.
- Decentralizing fiscal and investment decision-making and implementation to states and localities, including community organizations, increases efficiency and accountability, builds social capital, and achieves better overall results.
- Community-driven development reinforces accountability for project performance by reducing the distance between decision-makers and beneficiaries. Indeed, the two are often the same.
- Matching grant-based investments are a legitimate, effective tool for launching capital accumulation by rural poor people, contributing to sustainable development when complemented by community cost sharing, operation and maintenance support, and user fees.
- Poverty targeting mechanisms must be simple, verifiable, and based on objective criteria to promote transparency, minimize political interference in resource allocations, and ensure that funds reach intended populations.

- Standardized project documents, technical designs, and unit costs can simplify project preparation and evaluation, improve quality, facilitate procurement, cut costs, and prevent overly complicated designs.
- Representative municipal councils have proven advantages for targeting, sustainability, and nurturing social capital in poor rural communities. When properly trained and linked to local governments, councils can integrate local rural development efforts for greater impact.
- Learning and innovation are aided when best practices are disseminated through exchanges of information in local, national, and regional seminars, workshops, and study tours.
- Successful scaling up of pilot projects extends well beyond quantitative steps, involving geographic, political, and organizational aspects, as well as proper sequencing.
- Local governments are essential partners for effective, sustainable community-driven development, but the heart of such programs lies in empowering community partners and institutionalizing mechanisms for participatory governance.
- The sustainability of community-driven development efforts has three elements: (1) institutional sustainability is achieved by assigning greater responsibility to local civil society organizations and forging mutually beneficial links between municipal councils and local and state authorities; (2) financial sustainability is achieved by promoting local cost recovery; and (3) physical sustainability is achieved by ensuring significant community participation, commitment, and contributions (labor, materials, cash).

World Bank involvement and future challenges

Continued Bank engagement with Brazil's community-driven development program is intended to consolidate its medium- and long-term financial and methodological sustainability. But, as the program matures, the strategic focus of the Bank's involvement is changing. Although core project activities will continue in response to massive unsatisfied demand for basic socioeconomic investments, longer-term sustainability is increasingly predicated on:

- Using the municipal councils to allocate nonproject resources and expanding their use of information technology for marketing and transparency purposes
- Relying on social capital to generate income, leverage funds not previously available to poor communities, and access international markets
- Scaling up community-driven development governance mechanisms to secure funding from a wide range of public programs
- Using the community-driven development approach to strengthen cross-sector integration—strategic and operational—at the local and regional levels, for greater impact
- Strengthening environmental oversight by forming partnerships with related agencies, training communities, and councils as well as applying agro-ecological zoning to project design and execution where necessary
- Establishing strategic partnerships to achieve program objectives.

Bosnia-Herzegovina: Citizen-Driven Decision-Making

Citizen-driven decision-making can be chaotic and time consuming. But if managed well, it can result in the effective installation and maintenance of municipal infrastructure while laying a foundation for effective self-governance.

In Bosnia and Herzegovina, where years of authoritarian rule had left citizens unaccustomed to a high degree of participation in governance, the Community Development Project (CDP) has helped citizens gain a voice in shaping municipal financing priorities for investments in water supply networks, central heating systems in schools, school playgrounds, sewage systems, youth centers, local roads, bus shelters, radio stations, and ambulatory facilities. Besides restoring important social services and infrastructure, the project's success has deepened the institutional development of municipalities and strengthened ties between local governments and citizens of all ethnicities. It also has built inter-ethnic and inter-entity alliances at the citizens' level by creating conditions for joint decision-making, dialogue, and negotiations within communities.

The immediate postwar Emergency Public Works Project in Bosnia and Herzegovina focused on emergency reconstruction and on providing temporary wage-earning opportunities. The follow-on CDP deepened the institutional development of municipalities and their linkages with citizens of all ethnicities in decision-making for municipal investments. The project narrowed the previous focus from nationwide coverage to those municipalities that remained hardest hit by conflict and underserved by development assistance and government financing.

A social fund, CDP finances non-revenue-generating social infrastructure projects through performance grants. It has fostered transparent and open financing decisions, as well as self-reliance, since communities and the municipalities contribute to the financing of the CDP-supported projects. Such financing can be as high as 80 percent of the project costs. But even if it is 10 percent, the expectation that communities will participate is a crucial element in creating a sense of ownership and involvement by citizens for the projects.

Social funds have the advantage of being adaptable to different emergency situations, a particularly important capacity in cases where a state's ability to deliver has been reduced. They are especially well suited to postconflict situations, where the immediate needs are reconstruction of destroyed infrastructure, generation of employment, and infusion of stability and hope at the household, neighborhood, village, and town level. The features that enable social funds to play such a role include their procedures for identifying local needs; the manner in which they encourage participation of beneficiaries in decision-making; and their transparent processes for allocating resources. Social fund decision-making processes provide a framework and a forum for citizens to start participating again in decision-making, which usually breaks down during conflict at the community level. They also provide for the repair of a sense of empowerment and stability.

CDP financing has a ceiling of \$50,000 per project. Based on performance, municipalities can be eligible for additional financing. Each grant can either finance one investment or support several for which funding has been mobilized but is insufficient. The project focuses on the poorest municipalities in the country. A major goal is to continue the process of creating conditions for return by rebuilding roads and repairing infrastructure.

Observers of the process of discussion and negotiations within communities in municipalities over "performance grants" say the most durable and lasting product of the project is the decision-making process it has instituted, which they describe as democracy at its best, with a high level of citizen participation. In a country that not long ago was bitterly and violently torn by war and marked by the inability of citizens to resolve their differences, this is a tangible development outcome.

Some of the lessons learned in the implementation of CDP were:

- Social funds are well suited to post-conflict situations, where the immediate needs are reconstruction of destroyed infrastructure, generation of employment, and infusion of stability and hope at the household, neighborhood, village and town level.
- Social fund decision-making processes provide a framework and a forum for citizens to again start participating in decision-making, following a period of conflict.
- Citizen-driven community development projects deepen the institutional development of municipalities and their linkages with citizens of all ethnicities, thus increasing social cohesion.

Bulgaria, Hungary, Romania, and the Slovak Republic: Combating Socioeconomic Exclusion among Roma (Gypsies) in Central and Eastern Europe—The Pakiv European Roma Fund Initiative

The Roma (Gypsies) number around seven to nine million in Europe, representing the largest minority in the region, with the most significant representation in Central and Eastern European (CEE) countries. In general, the Roma in the CEE region are the main poverty risk group in Europe, suffering from low educational attainment, high unemployment, lack of steady income, lower life expectancies, higher birth rates, and unequal access to services and opportunities owing to everyday discrimination from the majority populations. The large Romani groups now confronted with unemployment and social exclusion are part of a social stratum that has been integrated, in recent decades, into the mainstream economy and social structures as unskilled industrial and agricultural workers and service providers. Even when Roma are qualified for jobs, widespread discrimination leads to preference for non-Romani applicants. Also, many Roma either have not been eligible or have been treated unfairly in the distribution of land and other production assets in the privatization process. A limited number of Roma are educated and socially mobile, and have thus entered the middle-class. Although still extremely small, a growing number of Romani now work in professional occupations, the government, as successful businesspersons, and in the civil sector.

As Europe is expanding to include former Eastern Bloc countries, the need to improve the situation of the Romani minority in the region has gained significant attention on the part of governmental and nongovernmental institutions. With support from the EU and other international donors, governments in the region have launched national strategies to improve the situation of the Roma. Strategies are generally comprehensive—embracing discrimination, education, social, economic, and health components, along with the crosscutting theme of Romani participation and the creation of new governmental commissions and offices.

Most Romani groups not only suffer from a lack of sustainable income and opportunities, but also from insufficient self-organization, negotiating skills, and confidence to build consensus with key actors. From the side of public institutions, there is often a lack of trust in the ability of the Roma to organize, and many hold the belief that the Roma are unable and unwilling to change their conditions.

The Pakiv European Roma Fund is a civic organization, operating in four countries, that promotes the development of Roma civil society and intercultural understanding in the context of democratic, social, and economic rights. (*Pakiv* means trust, respect, and confidence in the Romani language.) In late 2000, Pakiv launched an initiative with the following objectives: (1) building the

capacity of young Romani community facilitators who share their skills and knowledge with grassroots Romani groups, (2) supporting local income-generating and employment-related activities, (3) converting support from the program's development fund into several local revolving funds of the participating Romani communities, and (4) creating national and international networks for discussions, learning, and advocacy for policy and public attitude change.

Pakiv is developing a network of young Romani leaders able to activate their communities, stimulate local development processes (and thereby greater individual and group self-reliance), and use local experiences to influence public policy. Stressing a value-driven vision of work and responsibility, Pakiv aims to sow the seeds of a new kind of civic organizing and institution building for social change in the CEE region. Pakiv invests in intensive leadership and community development training courses for a core group of young Roma at the international level. The training takes place in the CEE region and in at least one Western European country, thus providing the participants with a perspective on Western European standards of living, culture, and society. In an international training environment, participants undergo an intensive learning experience involving the following topics: intensive English language study, personal development, communication and presentation skills, team building, leadership, human rights, conflict management, needs assessment, programming, management and evaluation techniques, fundraising, computer literacy, advocacy and campaigning, and grassroots experiences with income-generating projects. In addition to the theoretical training, participants also follow a mentored process of community facilitation of small community actions aimed at strengthening local capacities and combating socioeconomic exclusion.

Facilitators also work together to train and mentor local Romani groups, predominantly youth. Training themes include communication skills; team building; strengths, weaknesses, opportunities, and threats (SWOT) analyses; human rights awareness raising; Romani history and identity; and strategy building. In this way, the skills and knowledge of former PAKIV trainees are being multiplied among local Roma in each of the countries.

As a regional organization, the Pakiv European Roma Fund also organizes international networking and communication, through the organization of training workshops, self-evaluation, and strategizing among its international network of facilitators.

The creation of microcredit lending mechanisms, such as community banks and associations in Romani neighborhoods, has been one way to facilitate both self-organization, management, and the introduction of a new source of income for local families. A development fund helps to stimulate start-up initiatives for income-generation and employment, which are promoted, planned, and realized by local Romani communities in favor of common group interests and needs. The types of activities supported so far include farming, vocational training and small business start-up, job orientation for marginalized youth, and town maintenance.

With the investment of capacities and skills in the community group, there is an opportunity to form a reliable unit to manage a community-based revolving fund. The resources generated from the supported income-generation initiatives are accumulated in local funds and provide the basis for a sustainable resource for the benefit of the community. This direction of the program's evolution becomes particularly important given the goal of phasing out external support.

These local revolving funds, created and managed by the Romani communities, respond primarily to the needs of the community. Being the guarantor of the funds, the community gives priority to projects of common benefit. The parallel function of the funds is to mobilize additional internal resources of the community—for example, local social funds and saving programs—thereby making an effective and responsible use of the imported resource.

The program has is meeting its objectives. The social capital represented by Pakiv trainees has been considerably enhanced. Formal training, followed by learning together with communities, has made trainees more mature, self-confident, and professional over the course of two years. All consider learning-by-doing to be most useful in their training. The invaluable experience of “the community-work university” has helped trainees translate what they had been studying into real life.

With training, participants increased their ability to analyze what works and what doesn't in community facilitation—to increase and maintain motivation, to cultivate trust in the community, to work effectively with traditional leaders and culture, to deal with existing internal discrimination, and to avoid pitfalls in community organizing.

In the first year of providing support to local community projects, Pakiv supported 15 communities, all of which were facilitated by Pakiv trainees. Projects were chosen in the first half of 2002 based on a community feasibility study and intensive work by each Pakiv trainee with community initiative groups and organizations, as well as site visits by Pakiv staff for on-the-spot assessment of the potential of proposed initiatives.

The projects are different in regard to scope, duration, and type of activity and number of participants. The duration varies from three to 12 months, with support ranging between \$3,000 and \$14,000. With two exceptions (related to education), the projects have an income-generating component (vocational training, revolving fund for start-up business, stock breeding, opportunities for self-employment, youth employment, and the like). What the projects have in common, however, are guiding principles related to creating a new type of relationship of self-reliance rather than dependency between the facilitator and the local group, and between the local group and the broader community.

Almost all supported projects served their role as a development tool by helping communities better understand their choices, be more positive in their thinking, and recognize their own abilities to change their lives for the better. All increased local capacities and began the process of community empowerment.

The effects of Pakiv training and community development experiences can also be seen in other activities in which former trainees are using their new skills. Trainees have started to fill human resource gaps in the Romani community. Since completing the training graduates have served as researchers, trainers, program coordinators, advisors, consultants, and representatives to donors and policymakers.

Key factors contributing to success include the use of social guarantees related to inner community peer pressure and accountability, along with careful balancing of individual and group interests, especially by ensuring the strategic participation of beneficiaries in making decisions. The sustainability of efforts to combat exclusion among the Roma requires that the Roma themselves become effective organizers, managers, negotiators, decision makers, fundraisers, and advocates. Small production facilities, identified on the basis of community decisions, provide the necessary perspective for pursuing the private interests in a sustainable way. The group responsibility and inner community control serve as a social “guarantee” for carrying out the plans and also the eventual reinvestment into new activities for the benefit of the group.

Cambodia's Seila Program: A Decentralized Approach to Rural Development and Poverty Reduction

The Seila Program of the Royal Government of Cambodia is an aid mobilization and coordination framework to support the country's decentralization and "deconcentration" reforms. It was launched in 1996 as a government experiment in poverty alleviation in rural areas. *Seila* means "foundation stone" in Khmer Sanskrit.

In the early 1990s Cambodia emerged as a socially and politically fragmented country with an acute need for reconstruction and reconciliation. It was marked by the legacies of prolonged and extreme violence, deep and widespread poverty, lack of social trust, and deep suspicions with respect to government intentions. It had experienced a systematic destruction of human capital; rural society suffered from both deficits of credible political ideas and of respected local leaders. In general the rural population avoided engagement with the state. There was thus a crucial need for a development program that could simultaneously address social fragmentation at the local level while increasing the legitimacy of local administration.

Implementation process

Immediately following the democratic elections in 1993, high levels of aid were programmed for Cambodia. In 1994, the UNDP Cambodia Reintegration and Rehabilitation (CARERE) project began to confront the inherent unsustainability of direct implementation and the long-term dimensions of governance capacity development. In agreement with provincial authorities, pilot activities commenced with a focus on governance, participation, and new systems for planning, financing, and implementing local development. These were seen as prerequisites for shifting responsibilities to Cambodians themselves.

Based on early pilots, the Seila Program was launched in 1996, supported by a redesigned second phase of the CARERE project (CARERE2). It was introduced as a government experiment in poverty alleviation in rural areas through the design, implementation, and continuous strengthening of decentralized systems for planning, financing, and implementation of local development at the province and commune levels. Seila is a complex program consisting of many related dimensions that address both nonmaterial and material aspects of poverty.

During the first five-years of implementation, 1996–2000, Seila piloted and continuously strengthened new systems for decentralized and deconcentrated planning, financing, and implementation in one-third of the country's provinces and communes. In this first phase, considerable emphasis was placed on the village level and the election of Village Development Committees (VDCs). These VDCs were different from the previous political/administrative, top-down appointed village leadership. Special attention was taken to ensuring the inclusion of women as well as men through a quota system.

Under Seila's second five-year phase (2001–05), the program continues to support the design and implementation of the decentralization policies that were under formulation. In addition, it has been tasked with mobilizing and coordinating external development assistance in support of the national decentralization and deconcentration policies—the commune level Local Development Fund (LDF) and the Provincial Investment Fund (PIF). By 2003, the government was managing Seila through appointed government committees at national, provincial, and district levels, and through elected members at commune level.

Impact analysis

Seila/CARERE2 seems to have struck the right balance between introducing and piloting new ideas and additional resources, and creating the conditions for broad-based participation among local and subnational authorities—all without posing threats to the central government.

The most common types of small-scale public investments financed through the local development funds have been rural roads, schools, water supply schemes, and irrigation. First, assessments undertaken in five provinces verify that economic benefits have been spread across socioeconomic groups in the communities where projects are focused. Some, such as road improvements, are general, while others benefit specific groups, such as students, well users, and farmers. The investments show a high rate of economic return.

Second, there has been a notable attitudinal change among some local officials. After five years of Seila's operation, the civil administration has been transformed from one uninterested in development and plagued by inefficiency to one staffed by decently educated technocrats concerned with administering bottom-up processes and good governance. Local democratic practices are slowly emerging at all levels of administration throughout Cambodia.

Third, Seila may also have had a profound and long-term impact on public administration and development in Cambodia with respect to the design of the national decentralization policy. Through Seila, for the first time, bottom-up processes for development planning and implementation were made a cornerstone of a government program.

External catalysts

International finance and development partners have to some extent influenced societal change in Cambodia since the UN operation in 1992–93. In a country such as Cambodia—with its comparatively weak political and administrative structure and lack of self-generated funds—the role of donors and their influence on the scope and approach to development is strong. International development trends have thus pervaded Cambodian society. It is fortuitous then that the emerging development trends of the mid-1990s focused on poverty alleviation, decentralization, and local governance. This provided the right compromise between the need to “bring the state back in” on the one hand and the “participation revolution” on the other. Other ideological positions could have led the project in entirely different directions.

Lessons learned

Seila was designed to be a process-oriented experiment in integrated decentralized planning and financing with a learning-by-doing approach to capacity building. The key operational device has been to constantly assess, learn, reflect, revise, and adapt to the issues and challenges that emerge.

The initial program document was therefore visionary in its character and rather vague on the practical details. It was rather unclear with respect to the relationship between various activities and the development objectives, and was not based on a logical framework analysis. Such an approach broke with both the typical management culture within international development organizations and with the perception of typical management and political practices of Cambodian state authorities. Being experimental and adaptive, however, necessitated a reflexive approach to changing strategies and policies. At times “change fatigue” set in, but the experimental approach would not have been credible and probably not successful without constant change.

Seila/CARERE2 had to live with failures as an integral part of the implementation process. The program management frequently faced critical decisions about how to proceed in light of

inadequate or nonfunctional processes. It was only by acknowledging previous failures that these decisions could have been taken. One obvious example was the acknowledgement that CARERE had failed in terms of participation and sustainability. This led to the redesigned Seila/CARERE2 approach, which has been a success.

Indonesia's Kecamatan Development Program: A Large-Scale Use of Community Development to Reduce Poverty

Indonesia's Kecamatan Development Program (KDP) provides a new tool in the fight against poverty. The community-based planning process provides a powerful and efficient way to build large amounts of simple productive infrastructure using mechanisms that mobilize and develop the capacities of rural communities themselves. As community capacities develop, they can also take a more active role in improving the quality of other social services.

KDP's growth has been explosive, expanding from a small pilot operation in 25 villages in 1997 to more than 28,000 villages in 2003. KDP and its urban counterpart UPP, now form a main pillar of the government's national poverty reduction strategy and both projects will eventually cover all of the rural and urban villages in Indonesia. KDP's scale-up took place in the context of institutional collapse, major economic crisis, and one of the world's largest decentralization programs.

The historical and social context

KDP's development in a major institutional transition is undoubtedly the single most important contextual reason for the project's success. Prior to the transition Indonesia had an effective but extremely centralized, top-down development strategy. This worked as long as the center could provide high quality oversight, planning, and support. Once the center collapsed, the development delivery system collapsed with it. Public disenchantment with the New Order development state was clear. As the government recovered some stability there was a generalized awareness that more popular and populist programs such as KDP were needed.

KDP's flexible structure, which gives power to communities by placing funds and the planning and decision-making process directly in the hands of the villagers, provided a strikingly robust way to deliver resources to the rural poor. Even though KDP is in fact highly centralized at the level of policy, it is highly decentralized at the level of execution. It is able to adapt to local requests in ways that standard projects cannot. Its decentralized nature gave it considerable operational strength, allowing KDP to continue operating when regional conflicts severely disrupted normal government operations. In several provinces KDP became the only operating government development project.

Organizing a scale-up

Six design features have been critical in KDP's successful rapid scale-up. The first is the project's disbursement system. It provides a direct transfer to the end user, and is also modular. That is, funds are released directly to a uniquely coded subdistrict account. In practice this means that no one subdistrict depends on any other subdistrict. Whereas most projects are held back by their weakest link, in KDP the project simply moves on around the problem villages and subdistricts. Another important feature of KDP's disbursement system is that Kecamatan grants are physically transferred to the provincial treasury virtually at the start of the planning cycle. There they are blocked for release until the final signoffs are approved. In practice, sending the money to the locations at the

beginning of the cycle gives the government several months of leeway to correct the inevitable mistakes and delays.

The second is that KDP's internal architecture builds on nearly ten years of Bank and government community development project designs, of which the Village Infrastructure Project and the Program for Poor Villages are the most important. Most of KDP's core elements had already been field-tested and were familiar to the administrators and consultants who later scaled up the project. More importantly, although the project introduces a broad range of design reforms to Indonesia's bottom-up planning system, the fact that it built on the government's pre-existing planning structure gives the project a framework that is likely to promote a sustainable outcome even after international support for the project ends.

The third key to the scale-up was the ability to push down most management functions from the center to regional management units as the project got larger. This kind of decentralization is normally resisted during project scale-ups—nobody wants to surrender control easily. But the overall push towards decentralization in Indonesia was so strong that the initial decision did not encounter much resistance, although there has been some further on. Decentralized, autonomous decision-making is essential for a project the size of KDP.

The fourth key has been that KDP provides both incentives and sanctions for local government involvement. Initially KDP did not allow local governments to meddle much in the project. The risks of misguided government takeovers were too high. But as the reform movement moves forward, the desirability and opportunities for local government involvement increase. Local governments themselves say they needed time to understand KDP's rules and functioning. Because there was a phased involvement, local governments can now contribute significant resources and technical support.

Fifth, KDP outsources all technical functions to individual consultants and firms. This is a major source of controversy, even within the World Bank. However, all technical, managerial and social services in KDP are purchased on national and local markets, not from civil servants. Among its other advantages, using private providers lets KDP scale-up a lot more quickly than if existing government employees needed to be redeployed or retrained.

Finally, KDP's high level of transparency and long participatory planning cycle are also keys to its success. Indonesia's weak regulatory environment means that development projects must rely for now on social oversight to limit corruption and other distortions. The long planning cycle serves to limit local elite capture – and is undoubtedly the most important factor behind KDP's high level of local contribution. It is worth noting that both transparency and participatory planning came under pressure during the project's scale-up.

Other factors in the scale-up success have been Bank flexibility and strict enforcement of sanctions. Both the government and the Bank have taken a hard, activist line on corruption. Nongovernmental organizations (NGOs) and the media have been used as independent monitors. KDP's openness and the independence of its oversight also lead to substantially less loss from leakage. The Bank's flexibility allowed village participation, which averages 17 percent across the program, to count as part of overall Indonesian resource contribution; the government of Indonesia itself does not have much difficulty coming up with the remainder in counterpart funds. Also, KDP disburses against plans rather than actuals, which provides more breathing space for fixing problems during the scale-up period.

Challenges

KDP has gone through a number of transformations over its five-year implementation period. Some of these reflect lessons learned from experience in implementing such a large, ambitious project, but others reflect adjustments to the limits and opportunities posed by working through the Bank and government agency institutions.

Two limitations of the KDP model are particularly worth underscoring since they can to some extent be overcome. The first is that technically difficult activities or activities that involve recurrent costs are not easily addressed through the KDP system as it is currently designed. Examples of such necessary activities include large-scale health provision, providing teachers for schools, or any kind of infrastructure network planning.

Finding a solution to this limitation is important if the project is to provide more than a very large number of very small investments, important as any one of these microprojects may be. The problem does not appear to be insurmountable. The Indonesian government is working with the Bank to prepare a linked project where communities work with technical specialists and line agencies to identify needs and desired outcomes, but a more differentiated review process decides which needs get addressed locally through standard KDP mechanisms, and which involve referral to more technical agencies and service providers for a response.

The second problematic area has been how the project can approach microcredit. When the project began, the country was going through both a protracted financial crisis and a countrywide drought. At that time, KDP rules allowed communities to use the grant for private goods and village revolving funds. Interest was set at commercial rates. Reviews showed that the money was usually invested well and in many cases it reached the poor and near poor, with attendant multiplier effects through employment. However, repayment rates were relatively low, well below sustainability levels, and the credit option was closed at the end of KDP1.

Overcoming internal World Bank constraints

Scaling up KDP required overcoming several constraints in Bank and government procedures, and the lessons from these experiences are relevant for scaling up efforts elsewhere. On the Bank's side, the most important challenge was to devise a fiduciary system that provided adequate controls but did not introduce extensive delays into the project.

KDPs fiduciary structure represents a fairly radical departure from standard business practice for Indonesia. The project involves minimal prior review, with only the first two large investments in each province requiring prior review (which in effect means none at all). Receipts are retained in the subdistrict where the project takes place, not aggregated, and sent to provincial or national accounting offices. Project disbursements take place against agreed plans that have been verified by the subdistrict project manager, not against actual receipts. Villages procure and manage their own technical assistance for projects from lists of pre-qualified service providers; at this level, KDP experiences none of the lengthy procurement delays that often delay other projects.

For the government, accepting KDP's system of direct transfers and disbursing against subdistrict and village developments plan also required big shifts to standard procedures. KDP's transfer system allows for very little discretion by officials; project proposals either meet the criteria and get funded, or they do not, in which case they must be rejected. The cost of this system may in fact be some loss of technical oversight, but the benefits have been much higher release rates and much higher rates of end user satisfaction.

KDP replication

Within Indonesia, KDP's fundamental design is being scaled up in ways that go substantially beyond making the KDP program itself ever larger. Two of these variants are of particular interest. Direct transfers to support participatory planning is now spreading *horizontally* to primary education, health, and natural resource management, with similarly positive results. The Bank and government are also working to introduce *vertical* reforms to district administrations that replicate the same core principles underlying KDP, but which are adapted to the rules and procedures for formal administrations.

Preliminary evidence suggests that KDP's core design works well in other environments, particularly in conflict and transitional countries. In East Timor, Afghanistan, and the Philippines, projects which copy many of the KDP's core features have had some success and are being expanded. A longer-term issue for sustainability and replication is the political evolution in post conflict and transitional countries. Stronger government institutions will succeed weak or uncertain government institutions. Strong line agencies and decentralized area administrations usually do not look kindly on direct community transfers. Careful strategizing is needed to integrate the KDP-kind of planning into line agency and government structures.

Also at issue is how to increase government ownership while maintaining the community's ability to make decisions and manage funds. This is the challenge that both Afghanistan and KDP itself currently face. At present, it is rather clear that Bank and central government oversight are still needed to make sure that locally-owned versions of KDP do not also end up eliminating too much direct community management of money and decision-making. Consolidating KDP's overall progress now requires assigning the program a legal and statutory basis, and on working through long-term funding sources.

Malawi and Zambia: Using Social Funds to Expand Infrastructure

The Malawi Social Action Fund (MASAF) and the Zambian Social Investment Fund (ZAMSIF) emerged during the 1990s in a volatile economic environment. When the post independence economic bubble burst in the 1980s, both countries experienced economic decline and an increase in poverty. In 1990, 60 percent of the rural and periurban populations in Malawi lived in poverty. In 1991 poverty in Zambia stood at 63 percent; by 1996 it had risen to 69 percent. Structural adjustment programs in both countries brought some stability, but few gains for the rural poor. Popular dissatisfaction with one-party rule eventually led to changes. The new multiparty governments sought to address the poverty situation, enshrining poverty reduction as a major political goal.

ZAMSIF and MASAF are government-supported development projects, financed by loans from the International Development Association. Both are engaged in development activities at the district and community levels. MASAF's main thrust has been community development using a bottom-up approach, through its community subprojects (CSP) component. The two other main components are the Public Works Program (PWP), which brings relief through cash transfer to specially targeted areas, and Sponsored Projects (SSP), which target vulnerable and marginalized community groups. ZAMSIF also adopts a bottom-up approach through its Community Investment Fund and strongly supports capacity building and other funding activities at the district level through the District Investment Fund (DIF).

Both MASAF and ZAMSIF have demonstrated, beyond any shadow of doubt, the ability of communities with limited literacy, numeracy, and exposure to formal systems, to deliver certain

kinds of infrastructure and services more effectively than top-down centralized systems. Moreover, the scale of these achievements has been substantial: between them, the two funds constructed or rehabilitated nearly 9,000 classrooms, 3,500 teachers houses, more than 450 health centers and maternity wards, 5,000 water points, 16,000 latrines, nearly 11,000 kilometers of rural roads, and more than 1,000 bridges and culverts. Beneficiary assessment indicators show a high level of satisfaction with the benefits of MASAF and ZAMSIF projects. Beneficiary gains include increased enrollments in education, better school and community sanitation, improved health-care facilities, and improved health conditions, thanks to better water supplies and improved infrastructure. Construction and rehabilitation of access roads and bridges have created stronger economic links between communities and better access to social services. Social safety nets employed in specially targeted areas have made a difference to many poor households.

Both funds achieved strong outputs in education. School infrastructure projects were demand driven, financed directly and managed by the communities themselves. Increased access to education and learning was facilitated through classroom construction and rehabilitation, improved teacher morale, better sanitation and health facilities, and road and bridge construction.

The outputs in the health sector differed by program. ZAMSIF's focus was on the construction and rehabilitation of medical wards and maternity wards. MASAF focused mainly on the construction of new health centers. The funds also improved water and sanitation facilities—vital elements in the health sector package. Boreholes, wells, water points, and latrines have made a significant contribution to ensuring that beneficiary communities have potable water and good sanitary facilities.

Construction, rehabilitation, and maintenance of infrastructure in rural and periurban areas have been a major thrust of MASAF. Economic infrastructure facilitates socioeconomic activities. Bridges and roads provide access to social services, economic opportunities, and necessities. MASAF's PWP uses work for cash projects to directly alleviate poverty. In 390 PWP projects, more than \$4 million was paid out in wages to 338,983 beneficiaries, 48 percent of whom were women.

Successful implementation in both funds has depended on numerous factors. Flexibility has been used to great effect in the face of delays in implementation because of inadequate capacities or overly rigorous procedures. Both governments have given strong political support and commitment to their respective funds, although areas requiring much stronger collaboration still remain. Both funds were semi-autonomous and both were placed outside of the civil service structure, which helped them maintain a high degree of political neutrality. Learning by doing and experimentation have been successful approaches to implementation, particularly in the areas of direct funding, a key element in the bottom-up approach to community development.

The success of the two funds at the community level is creating pressures for increased fiscal and administrative decentralization. The response of the funds has been different. In Malawi, the decentralization policy introduced in 1998 was not implemented until 2000. MASAF's role in decentralization was undefined and limited in practice. In Zambia the decentralization policy has not yet been implemented. However, ZAMSIF has initiated significant devolution of responsibility to stakeholders at the district level. Both funds provide capacity building through training at the subproject level, so committee members learn how to manage project; practice accountability and transparency; keep project accounts; acquire reporting and procurement skills; and, when appropriate, training to maintain projects. ZAMSIF now disburses DIF funds to local governments for capacity building. MASAF works with district staff but does not provide formal capacity building.

Appropriate lessons for scaling up, drawn from the implementation experiences, emerge from the study. *Direct funding* to communities effectively increases downward accountability, confidence, and capacity, as each project community handles its own funds. MASAF and ZAMSIF have laid the groundwork for funding communities directly on a large scale. No other direct funding efforts have been undertaken on this scale by any development agency in either country.

Partnership and collaboration have featured strongly in ZAMSIF and MASAF. Both funds work with government on national and district levels and with external agencies. Both funds benefited from lessons in gender participation learned from earlier experiences. For women to have *public voices*, cultural attitudes have to be changed—a difficult undertaking that calls for strategic intervention through information, education, and communication strategies.

Philippines: The KALAHI–CIDSS Project

Early in 2003, implementation of the KALAHI (Linking Arms against Poverty) Project began with a focus on only six villages. One year later, this number has increased to 1,505. To date, more than 700 villages have received KALAHI funding.

Using a competitive process, villagers select projects from an open menu and prioritize them for funding. The projects currently being implemented have estimated economic rates of return ranging from 17 to 53 percent, very high for social development projects and indicating the responsiveness of the projects. The KALAHI provides services that villagers have often needed for decades—access to: roads, clean drinking water, schools, health facilities, day care centers, and electricity. These services result in improved access to neighboring villages, local markets, schools, and other public facilities; decreased travel time and transport costs; reduced cost of buying water from vendors; improved health conditions; decreased school drop-out rates; and enhanced connectivity.

Local cost sharing in this project appears to be the highest among official development assistance (ODA-funded projects in the country. The total cost of community projects funded to date is just over \$ 8 million. Villagers and their local governments contribute about 40 percent of the cost, demonstrating the project's ability to trigger high local resource mobilization. The community projects appear to save both time and money in providing basic services to the poor. Construction of KALAHI infrastructure takes from two to six months, with construction costs an estimated 25 to 30 percent lower than costs for the same infrastructure through national government agencies and private contractors. The projects also generate paid employment in construction for the villagers. The KALAHI has trained thousands of villagers in project planning, technical design, and financial management and procurement, thus building a cadre of future leaders at the local level. Most important, the project provides villagers with structured opportunities for accessing information, expressing their opinions, and influencing local governance.

Disbursement is on schedule, which is noteworthy given the serious disbursement problems \ ODA projects faced in the Philippines, especially during early implementation. A combination of good fortune and good design explain the KALAHI's early achievements.

Good fortune

Planted in fertile ground, the KALAHI seed has been nurtured by a team with extensive Filipino and cross-national, community-driven development (CDD) experience. Benefiting from a dozen years of

decentralization in the Philippines, it is receiving strong support from the highest levels in government and from civil society.

Homegrown. For many decades in the Philippines, community workers, nongovernmental organizations (NGOs), academics, and government bureaucrats have pioneered and practiced participatory approaches. The KALAHI is benefiting and building on this local knowledge and experience. The KALAHI uses many of the core elements of the CIDSS (Comprehensive and Integrated Delivery of Social Services), a 10-year-old national CDD program successfully implemented by the Department of Social Welfare and Development (DSWD). A decade of learning-by-doing CDD means that DSWD is well equipped to be the KALAHI's executing agency.

South–South learning. Using a series of cross visits and video conferences, the project learned from the experience of the World Bank–supported Kecamatan Development Program in Indonesia. Because decentralized government is more established in the Philippines than it is in Indonesia, working with existing local government structures in the Philippines is easier.

Local government code. The 1991 decentralization law is state of the art—at least on paper. With the goal of *bottom-up planning and budgeting*, the law mandates elected village officials and councils to elicit people's inputs through village meetings. Within this framework, the KALAHI takes good advantage of the many mechanisms related to citizen participation in order to integrate effectively with local governments.

Project champions. The project enjoys strong national ownership and support within the Philippines. Prepared following a face-to-face agreement between Philippine President Arroyo and Bank President Wolfensohn, it is the only ODA project in the country to have a government minister—Secretary “Dinky” Soliman, a former community organizer and NGO leader—leading the implementation team. Her leadership has been critical in establishing the KALAHI as the government's flagship antipoverty program and in building civil society partnerships.

Good design

Building on these favorable conditions, a number of strategic design choices were made for the KALAHI. Like all good choices, these involved challenges as well as substantial benefits. To address these challenges, the KALAHI prepared a robust risk management framework that identified potentially vulnerable areas and possible mitigation measures. The KALAHI implementation experience confirms that the most important risk management strategies are strong supervision, structured learning, and the flexibility to adjust actions to fit experience.

Learning by doing. Instead of undertaking precise, long-term planning at entry, the KALAHI uses a gradual learning-by-doing approach. To this end, DSWD implements the project in three phases: pilot, demonstration, and scaling up. The pilot, which was kept deliberately small, included only six villages in a single municipality. It tested the participatory subproject process and provided vital information about what worked and what did not. The process was reworked and operation manuals were revised. Then the project was expanded to 201 villages in 11 representative municipalities across the country. During the demonstration phase, DSWD fine-tuned project mechanisms, established that the risks incurred are manageable, and confirmed that the project is likely to have a satisfactory impact. Sufficient experience was gained to start a nationwide roll out of the project in 1,304 villages in 56 municipalities. This expansion has been successful, and includes the following features: strict but broad poverty targeting; participatory, direct, and modular funding; balanced local and technical knowledge; horizontal integration; and institutionalization.

Strict but broad poverty targeting. Using well-defined and transparent poverty criteria, the KALAHI systematically targets the poorest municipalities in the poorest provinces. This reduces the risk of political targeting. Because individual poor households are not targeted, the focus of the KALAHI's organizing unit is shifted away from individuals to villages and communities. Broad community engagement and collective support is required to influence local governance. However, if the poorest of the poor are not engaged through special measures, they are sometimes not able to participate fully in the KALAHI.

Participatory, direct, and modular funding. The KALAHI disburses community grants against approved plans rather than actual expenditures, which poor villagers can ill afford up front. Local people, not project staff or government officials, approve funding proposals, subject to process requirements. DSWD then directly transfers funds from its special account to the end users, usually about two weeks after receiving approved village proposals. Disbursements are not channeled through intermediary accounts or through local governments. The flow of direct funds in the KALAHI is much faster than in traditional projects; it is also less prone to leakage. Direct funding has built downward accountability and increases the confidence and capacity of villagers to handle their own funds. In addition, KALAHI funding is modular. This allows the project to move around problem villages and municipalities without affecting good performers. Thus, project implementation is not *all or nothing*, but can be adjusted in real time.

Balanced local and technical knowledge. Although villagers undeniably have local knowledge, they are not technical experts in hydrology, medical science, or civil engineering. Thus, CDD projects often suffer from poor technical design, inferior construction quality, and inadequate operation and maintenance. To address this in the KALAHI, links are established between villagers and technical providers. Local people have easy access to technical assistance from KALAHI engineers, local government staff, local universities, and the private sector. They receive a technical-assistance fund to buy expertise, if required. Villagers receive regular training so they can understand technical options better and make informed choices. The challenges are to strike the appropriate balance between local and technical knowledge, and to ensure that the costs of technical expertise are offset by the gains in quality and sustainability of KALAHI infrastructure.

Horizontal integration. Sustainability is also strengthened by ensuring that complementary software accompanies KALAHI hardware. For example, KALAHI-funded school buildings have textbooks, blackboards, and teachers; and health centers have medicines, midwives, and doctors. This happens through the municipal interagency committee (MIAC), an active interdepartmental coordination mechanism that was tested and refined in the CIDSS. In every KALAHI municipality, the MIAC is chaired by the mayor and comprises the heads of all local government departments. Local representatives of national agencies, NGOs, and donor institutions operating in the municipality also participate. The MIAC meets every two weeks to discuss KALAHI progress and determine and track the contributions of each department/agency to KALAHI projects, including staff, salaries, and other recurrent costs. This horizontal integration is necessary for community investments that require interdepartmental coordination. Before approval of KALAHI funding, the mayor formalizes the MIAC commitment to supply the software for a community project through an official letter.

Institutionalization. In each municipality, the KALAHI will be implemented for three years. At the end of three years, it is hoped that local government will use *the KALAHI way* to make and implement more and more development decisions. To realize this objective, the KALAHI uses an intensive integration approach—more so than do traditional CDD projects—with the local government, at entry. The KALAHI cycle in each municipality is synchronized, to the extent possible, with the local government planning and budgeting cycle. Thus community plans prepared in the KALAHI way are better integrated with official village and municipal development plans. This

facilitates deployment of local government development funds for KALAHÍ investments. Each KALAHÍ municipality is also assisted to prepare a two-year plan detailing how it will institutionalize KALAHÍ processes. A concrete result of the institutionalization plan is local legislation adopting KALAHÍ processes as a planning and resource allocation tool.

Good future?

Although KALAHÍ stands on its feet, it is still a young project. Early achievements need to be strengthened and sustained over time. This is being done through strict adherence to KALAHÍ rules and ongoing constituency-building efforts. The results will be measured through a rigorous impact assessment.

Adhere to rules of the game. The early success of the project has partly been the result of strict adherence to agreed-upon rules, such as objective poverty targeting, the use of the *common fund* concept, and open competition. These practices reduce the risk of elite capture. For example, all cash contributions to the project are deposited in a single bank account managed by the community, subject to regular KALAHÍ procedures. This limits the ability of local elites to distort decision-making by controlling resources. More such practices are needed in the future.

Strengthen stakeholder networks. KALAHÍ field staff and village volunteers have been key to the success of the project. They have performed their tasks commendably under challenging conditions. Although local officials do not control KALAHÍ decisions and funds, they do play strong roles in project implementation. Thus, networks among three major stakeholders—village volunteers, field staff, and local government executives—are being established to enhance grassroots support for the project. As a first step, DSWD organized a series of regional workshops, followed by a national workshop that brought key stakeholders together to share experiences and develop mechanisms for future networking. These networks are expected to keep the project going even as officialdom changes.

Broaden internal constituency. Secretary Soliman and her management team are continuing to expand ownership of the KALAHÍ among DSWD staff, as the project is a mainstreamed program rather than an adjunct operation. She has personally traveled to all regional offices and most field sites to explain and build support for the KALAHÍ. She has reinforced the prominence of the project as a core DSWD task in the annual performance contracts of managers and staff. She has started a management succession process that will prepare second-line staff members to assume leadership roles in the future and has hired a change management consultant to recommend ways to enhance the mainstreaming agenda in DSWD.

Continue impact assessment. DSWD is committed to a careful evaluation of the KALAHÍ, which determines its impact on community empowerment, local governance, and poverty reduction. This impact evaluation collects *with-without* data in a representative sample of both treatment groups and matched control groups. As a source of ex-ante information for the KALAHÍ, in 2003 a quantitative baseline survey was implemented in municipalities where the project had not yet started. This served as the first round of a panel survey that will also track 2,400 households in 132 villages during and after project implementation. Over time, the results will confirm whether or not the KALAHÍ has lived up to its early promise.

The South Asia Program for Poverty Alleviation *United Nations Development Programme*

The challenge

The South Asia region has had the largest concentration of income-poor in the world, numbering between 330 and 440 million in 1991, when they accounted for some 40 percent of those living on incomes of less than one dollar per day. Recent progress in poverty reduction has been impressive in some countries, or regions within countries. At the same time, other parts of South Asia remain stagnant or are facing reversals in poverty, rather than progress. Another challenge for South Asia is a category of people who constitute the *hard core* poor, who do not seem to be helped by economic growth.

According to the report commissioned under the auspices of the SAARC Heads of State (SAARC—the South Asia Association for Regional Cooperation—the regional grouping of the seven countries of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, & Sri Lanka), the poor had benefited too little from previous macro interventions for poverty reduction, and a radical departure was needed. This would draw lessons from a spectrum of successful grassroots initiatives to address poverty, undertaken by a number of community-based organizations and nongovernmental organizations from across the South Asia region.

The predominant common factor behind their success was judged to be *social mobilization, building organizations of the poor*, so that the poor themselves would take the lead in finding solutions, and then formulate and manage action programs that addressed their needs. The South Asia Programme for Poverty Alleviation (SAPAP) was a direct response to the call by SAARC to test the potential for such a bottom-up approach to be scaled upwards.

The intervention

SAPAP has thus been an unusual case of a regional, multicountry effort to address poverty from a particular diagnosis and perspective. All of the SAARC countries, with the exception of Bhutan, came together to participate in SAPAP. The United Nations Development Programme (UNDP) supported its funding with US \$ 11.5 million and management through a regional project located in Katmandu, Nepal. The five years from 1996 to 2000 saw the ground-level activities of SAPAP being implemented throughout the region's selected locations in the six countries, while training, policy support, and monitoring continued until the project came to a close in early 2003.

The principal objective was to use social mobilization to combat rural poverty. Resources thus mobilized included their own leadership and technical cadres; savings accumulated; funds obtained through income-generation activities; the building of physical productive infrastructure (PPI) such as irrigation facilities and roads; and regular access to bank finance, donors, and government public services.

The achievements

Over 132,000 rural households out of 358,000 in the area participated in the program. Women represented about two-thirds of the total, ranging from 39 percent in Pakistan to 90 percent in India. Nearly 7,000 Community Organizations had been built up and over 90,000 of their members had received training, along with some 11,000-village specialists. The credit disbursed from all sources amounted to \$26.8 million, of which the SAPAP seed capital was only 5.4 percent. The credit disbursed from group savings alone came to \$13.2 million, a quadrupling of the \$3.2 million accumulated by them.

In Andhra Pradesh, India, with the help of the Australian and Norwegian aid agencies, SAPAP was able to make a serious dent on the problem of child labor, with some 53,000 school-age boys and girls being able to attend special bridging courses that would enable them to go to regular schools. The smallest of the participating countries – the Maldives – undertook a quantitative survey of the disadvantaged population in the project area, Noonu Atoll, which showed that in three years, the proportion of those meeting basic needs had risen from 25 percent to 67 percent, that unemployment had fallen from 39 percent to 16 percent, and that their proportionate numbers making savings on a regular basis had increased from 17 percent to 75 percent. In Bangladesh, another survey showed that members' incomes had risen by 50 percent over four years.

Four key success factors in implementation

Four features of the implementation framework appear to be particularly significant, as part of the lessons learnt from SAPAP. The first was institutional innovation. While the organizational model for social mobilization that SAPAP adopted from the Aga Khan Rural Support Programme experience in the North-West Frontier region of Pakistan was used through most of the program area, creative institutional adaptation brought dynamism to the process. In Sri Lanka and the Maldives the preceding structures were left in place. At the base are the Village or Community Organizations, which make decisions about the various development activities. A yet higher tier at the district level has some government representation. In practice, the model has proved to be genuinely participatory, transparent, and inclusive, and women have felt free to voice their opinions. In Andhra, the women's Self-Help Groups have federated into village organizations and then into Mandal Mahila Samakhya.

The second lesson has been experimentation and learning. The design of SAPAP from the outset, and the functions of its regional office, as well as the establishment of two Social Mobilization Experimentation and Learning Centers were meant to promote a continuous process of trying out small changes and learning from them, including from the cross-country fertilization inherent in a regional program.

The third vital ingredient was government commitment and leadership: SAARC sponsorship of SAPAP was intended to ensure government support at the highest central levels. In general, deputed government officials have led and staffed SAPAP in most cases, facilitating close cooperation between the program and the government apparatus. Finally, external catalysts played a dynamic, supportive role in the process. The role of the UNDP at the outset of SAPAP proved necessary since SAARC did not play a cross-country inspirational and coordinating function. As scaling up of social mobilization has taken a much larger dimension, the role of foreign donors has continued to be strong—the World Bank in India; the UK's Department for International Development and UNDP in Pakistan; UNDP with the government in Nepal. Only in the Maldives has the expansion been a primarily national affair.

Building on SAPAP for future scaling up

While SAPAP formally came to an end in 2003, the program's success is reflected in current efforts at scaling up. Andhra Pradesh, India continues to see the greatest expansion of SAPAP, after the World Bank contribution of \$485 million helped to extend and adapt the model, giving greater emphasis to livelihood and income-generation activities. The District Poverty Initiatives Project has expanded the model to two other states in India: Madhya Pradesh and Rajasthan.

In Nepal, the initial SAPAP focus on seven village development committees (VDCs) in Syangja District has been extended to as many as 600 VDCs throughout the country. The Pakistan case is unique in the sense that its social mobilization efforts had served as the inspiration for SAPAP. Current efforts are aimed at further scaling up of activities. In the Maldives the president of the country had taken a personal interest in the success of SAPAP in Noonu Atoll, deciding to extend

the model first to three other atolls and then throughout the archipelago, primarily through national resources.

Tajikistan's National Social Investment Fund

Tajikistan, the poorest of the former Soviet republics, emerged from the postwar conflict with the enormous challenge of rebuilding the country's long neglected infrastructure and repairing its economy and system of governance. The majority of the Tajik population is extremely poor and has only limited access to basic services. In this context, effective poverty reduction strategies need to assist the poor and vulnerable by improving the coverage, access, and quality of social services, targeting assistance to the poorest groups through a series of community-based and demand-driven interventions, and enhancing institutional capacity.

The National Social Investment Fund of Tajikistan (NSIFT) was established in 1997 under the World Bank-funded pilot Poverty Alleviation Project (PPAP) to address widespread poverty by increasing the incomes of the poor on a sustainable basis. Its secondary aim is to increase the nation's capacity to design, carry out, and evaluate community-based projects. NSIFT's mandate is consistent with the Tajik government's Poverty Reduction Strategy Paper (PRSP), which was approved in June 2002, and more broadly with the Millennium Development Goals (MDGs).

Program description

NSIFT microprojects are community-based activities that adhere to the core operating principles of community-driven development. These include (i) extensive work with communities before, during, and after project completion; (ii) partnerships with other relevant actors, such as local and international nongovernmental organizations (NGOs); and (iii) networking with other communities and projects for maximum information-sharing and transparency. NSIFT provides two kinds of grants—for community microprojects and for sponsored microprojects. Community microproject grants range in value from \$5,000 to \$150,000. The average is \$30,000. A project grant typically includes a budget for civil works, provision of goods and equipment, and services and training.

The fund, initially known as the Tajikistan Social Investment Fund, entered its second phase in September 2002 under the Second Poverty Alleviation Project (SPAP), also funded by the Bank. In addition to its headquarters in Dushanbe, NSIFT has regional offices in Kulyab, Khojand, Khorog, Kurgan-Tyube, and Gharm. It has approximately 60 staff members, most of whom work in the head office.

In the five years ending in June 2002, NSIFT implemented a total of 184 microprojects reaching approximately 600,000 beneficiaries—more than twice the planned number of beneficiaries (250,000). Initially NSIFT targeted small infrastructure projects such as school and health-clinic rehabilitation, power supply, sanitation, and irrigation. More recently its mandate has broadened to include social and economic development projects. With this broadening came greater flexibility in determining project eligibility and implementation. Under the SPAP, NSIFT is beginning to work in new parts of the country, including the postconflict region of Karategin Valley. It is expected that 340 microprojects will be implemented under SPAP (2002–06), reaching between 400,000 and 700,000 additional beneficiaries.

Impact analysis

Complex issues of governance, corruption, and skepticism severely test the Tajik government's ability to combat poverty. NSIFT is a particularly important vehicle for addressing the needs of the

poor at the community level, but since it is implementing a large number of diverse projects, it is difficult to quantify program outcomes according to specific indicators. Assessing the impact of NSIFT microprojects on “capability poverty” (as measured by indicators of health, nutrition, and educational attainment) is more readily accomplished than is evaluating their impact on material (or income) poverty.

In 2000, NSIFT conducted a beneficiary assessment of 56 microprojects. The conclusions pointed to their strongly positive impact on local communities as measured by high community satisfaction. In addition, it was found that community cost-sharing contributions were high, ranging between 10 and 50 percent of project cost. Although data are not available on cost ratios, NSIFT may have a relatively higher cost ratio than other social funds, since it must maintain six regional offices to ensure it has access to all projects in a country with harsh climatic and geographic conditions.

While NSIFT’s work is in line with the objectives laid out in the PRSP and, more broadly, the MDGs, it is difficult to measure NSIFT’s contribution to achieving these goals. The first MDG (to eradicate extreme poverty) is in fact the general aim of all microprojects. NSIFT contributes to the third MDG (promoting gender equality and women’s empowerment) by engaging women in the community implementation phase of microprojects. NSIFT’s health projects contribute to MDGs 4 and 5 (reduction in child mortality and improved maternal health) by providing communities with increased access to health facilities. School rehabilitation, for example, will clearly help achieve the second MDG of universal primary education.

However, given the long years of neglect, the only MDG that could potentially be realized in Tajikistan by 2015 is MDG 7—to halve the number of people who lack sustainable access to drinking water. NSIFT’s contribution to this goal is clear, as 37 percent of its microprojects implemented under the PPAP involved the provision of safe drinking water to communities. All this suggests that while NSIFT was not designed specifically to meet MDG objectives, its work supports the achievement of these goals.

Lessons learned

Analysis of the microproject portfolio under PPAP indicated a tendency in NSIFT to concentrate on the infrastructure elements of the process, often to the exclusion of other important aspects. Accordingly, the SPAP, from July 2002 onwards, began implementing community and social development microprojects directed toward underserved, vulnerable groups. However, it was recognized that in order to shift NSIFT’s focus toward the social aspects of microprojects, additional training for staff was needed. In particular, more staff (including women) with experience in community development were needed in regional offices. Some progress has been made in this area, and a grant from the British Department for International Development will address some of these concerns. Thus far new projects under SPAP have included income generation for widows and the blind, small business development, and the provision of social services for at-risk groups such as the elderly and the disabled. In addition, NSIFT is providing enhanced post-implementation support not provided by comparable organizations in Tajikistan.

Second, given NSIFT’s goal of implementing microprojects at relatively low costs and with local resources, there is a risk that some microprojects, such as rehabilitation of schools or health clinics, may not meet international norms and standards for construction. In the past, some schools have been rehabilitated using inferior materials or methods, with the result that they needed repair after only three or four years.

NSIFT recognizes that it should take a more comprehensive approach to civil works in general, particularly with respect to education and health facilities, and that coordination with the

relevant ministries could improve the overall process. New methods have begun to be adopted and efforts are being made, where appropriate, to include representatives from various ministries in the implementation of certain microprojects. With this in mind, the NSIFT executive board has granted observer status to senior representatives from the ministries of education and health.

Finally, at the village level, NSIFT has faced several obstacles, including suspicion over use of funds, distrust of local authorities, lack of understanding regarding service provision by donors and NGOs, and—having become accustomed to receiving humanitarian assistance—a reluctance by many to contribute to microprojects. In order to overcome these obstacles, NSIFT recognized the need for skilled and trained community-outreach workers. Staff spends considerable time working with communities to provide information on NSIFT's processes and methods and on training in community-development processes. NSIFT has demonstrated that with sustained application of resources, these types of microproject activities can succeed.

Vietnam: Participatory Rural Development and Poverty Reduction *International Fund for Agricultural Development*

Over the past decade Vietnam has achieved impressive results with rural poverty reduction interventions using a participatory, community-driven approach. Participatory initiatives started in the early 1990s have been adapted and scaled up through partnerships with the government, donors, and civil society—contributing to the eighth Millennium Development Goal, which calls for stronger international partnerships for development.

Community- and demand-driven development projects have been supported by a national focus on poverty reduction and commitment to economic reforms introduced in the mid-1980s, which emphasized shifting to a market economy, strengthening individual and private property rights, and decentralizing decision-making and development authority from central authorities to provinces, communes, villages, households, and ultimately individuals—enhancing transparency, governance, and social inclusion. Across Vietnam, the share of people living in poverty fell from 58 percent in 1992 to 29 percent in 2002.

Project approaches

The International Fund for Agricultural Development (IFAD) and World Bank have played a crucial role in supporting rural development projects that take a participatory, bottom-up approach. The most important first generation project, the Participatory Resources Management Project, was designed in 1993. It recognized that with Vietnam's economic transition, most development resources were flowing to high-potential, high-productivity areas with strong demand—at the cost of poorer, less productive provinces with weaker demand—and that poor households were much less likely to benefit from demand-driven access to development resources.

The project sought to redress this bias, ensuring equitable access to all development planning with the full participation of communities in the province of Tuyen Quang, one of the poorest in the country. The project introduced new approaches to poverty reduction, including decentralization and promotion of provincial autonomy, to promote food security, build management capacity at the community level, and introduce participatory, demand-driven approaches in institutions providing rural support services. Second generation initiatives—including the Rural Income Diversification Project, Community Based Rural Infrastructure Project, and Northern Mountains Poverty Reduction Project—have built on the success of the Participatory Resources Management Project and scaled up decentralization and community-driven development in Vietnam's poorest areas.

These projects have done a good job of targeting poor people, and decentralization and participation have empowered rural people to identify, plan, implement, and evaluate interventions, giving them a greater stake in development efforts. In scaling up, the projects have relied on different actors and mechanisms, and adapted to reflect past lessons and emerging experiences. Over time the projects have generally adopted simpler designs—covering fewer sectors, involving fewer institutions, and delegating authority to lower levels—but covered more provinces.

Investments and outcomes

The first and second generation projects have involved \$328 million in investment and reached 2.6 million direct beneficiaries. Investments rose from \$25 million for the Participatory Resources Management Project to about \$125 million for later projects, but the cost per beneficiary fell from \$543 for that first project to \$88–132 for the later ones.

Efforts to target the poorest Vietnamese through participatory processes and enabling institutions have been effective at reducing poverty, with increases in rural credit, infrastructure, and agricultural production, diversification, and value added. Stronger participation and ownership have also increased the likelihood of sustainability and of more effective, efficient use of public funds. Provincial institutions are better able to respond to development needs, and collaborative partnerships are continually being formed between communities, local institutions, and mass organizations such as the Vietnam's Women's Union. The projects have also promoted good governance and made public institutions more responsive to local priorities.

Data on outcomes are available only for the Participatory Resources Management Project, because later projects are still under way. During the project period the number of poor households fell 12 percent in 51 communes in Tuyen Quang province, while poverty dropped 10 percent in Thuy district in Quang Binh province. In addition, an expansion in rural infrastructure helped diversify rural production—reducing farmers' vulnerability to shocks—and narrowed the gap between the poor and the less poor in some localities. Agricultural production and forest cover also increased. Moreover, households became much more market oriented, with an estimated 70 percent of farm output now being sold (up from 48 percent in the early 1990s). Yet food security and nutritional intake improved as well.

Although the slow pace of disbursement in some second-generation initiatives is a concern, scaling up is a complex process. And overall, it has played an important role in Vietnam's success in reducing poverty and making progress toward the Millennium Development Goals.

Lessons

Vietnam's bottom-up approach to poverty reduction offers several lessons:

- *Political will drove the process.* Without the government's strong commitment to economic reforms and to reducing poverty through growth, literacy, and social equity, it is unlikely that the first or second generation projects would have been as effective. The unique nature of this drive, however, suggests that the process cannot be readily replicated in other countries, because political processes and other preconditions require indigenous momentum and local mechanisms.
- *External catalysts were central in scaling up.* Sustained economic growth was the foundation for and main external variable in Vietnam's poverty reduction strategy, including community-driven development. The country has enjoyed impressive growth over the past decade, generating impressive results in improving livelihoods and dramatically reducing the number of poor people. In addition, the United Nations Food

and Agriculture Organization played a valuable catalytic role in sharing experiences and lessons from the Participatory Resources Management Project with the World Bank and other donors, initiating a dialogue that helped in scaling up second generation projects. Similarly, that project's early emphasis on involving key actors, starting at the village level, provided an important sense of ownership that drove scaled-up programs.

- *Ongoing policy dialogue increased effectiveness.* Discussions between donors, government authorities, and various other actors—including beneficiaries—improved the design of future activities and made donor assistance more effective.
- *The process of scaling up needs to be dynamic and evolving.* No blueprint exists for replicating and expanding best practices. Issues related to project locations and contexts need to be addressed when adapting designs, and learning from experiences—both positive and negative—must be ingrained in the process.
- *Community-driven development in Vietnam offers lessons for future interventions.* These include the need to keep project designs simple and flexible, ensure strong links between donor and government initiatives, explicitly integrate gender and ethnic concerns into project designs to ensure a pro-poor focus, and develop exit strategies to ensure post-project sustainability.

Yemen's Social Fund for Development

With annual per capita income of barely \$450 and with 42 percent of its 18 million population estimated to be living in poverty, Yemen is among the poorest countries in the world. Its social indicators reflect its income poverty. Life expectancy at birth is 56 years; the infant mortality rate is 76 per 1,000 live births; 46 percent of children under five are malnourished; and 52 percent of the population aged 15 and older are illiterate.

Poverty is pervasive in rural areas. Children and women living in rural areas without access to education and health services rank highest among the vulnerable. Public expenditures in social sectors (education and health) are mildly pro-poor, but they do not adequately address the magnitude of rural-urban and gender gaps. Almost all social programs are urban-oriented and tend to benefit the better-off. Benefit-incidence analysis of safety nets shows that (i) their coverage is limited; (ii) they fail to address short-term downturns and vulnerability of the able-bodied poor; and (iii) they fail to reach the poorest and most needy, especially children. The extent and distribution of poverty has also been affected by such events as the return of almost one million Yemenis who worked in Saudi Arabia before the Gulf war, the civil conflict in 1994, and the decline in foreign assistance following the end of the Cold War.

The Social Fund for Development (SFD) is a major tool being used by the government of Yemen to alleviate poverty. It was established in 1997, in the wake of a period of macroeconomic difficulties, to provide support for long-term development opportunities for the poor, and to encourage innovative and participatory approaches to delivering demand-driven social services.

Objectives and approach

The SFD's objectives include mobilizing communities to help themselves; building the capacity of communities, nongovernmental organizations (NGOs), and local governments to take key roles in local development; and supporting income-generating and microenterprise activities. Even when

financing public works in connection with the community development program, the SFD first mobilizes communities to prioritize investments and to make contributions to investments and recurrent costs. In essence, its focus is more on helping the poor help themselves, rather than simply providing assistance. It was designed to broaden the base of beneficiaries from economic change, on the understanding that growth alone will not reduce poverty, unless the more disadvantaged sections of the population have the tools to access the benefits of growth.

The SFD's approach to poverty reduction relies on three principal components:

- Community development projects for small scale labor-intensive infrastructure works (water supply, sanitation, and feeder roads) and delivery of basic social services (education and health).
Project selection is transparent and based on efficient use of resources and sustainability, measured as the ability to recover the costs of operation and maintenance costs. Intermediary organizations, including NGOs and local governments, are to assist communities in preparing and implementing projects identified by those poor communities as priorities. SFD's autonomy from the government bureaucracy has allowed it considerable flexibility in disbursement and operational procedures.
- Microenterprise development through technical assistance, training, and access to credit. Initially, the focus was on capacity building of intermediaries to deliver credit, savings, and other services to the economically active poor. The microenterprise activities deliver credit, technical assistance, and training to microenterprises through NGOs.
- Capacity building to assist NGOs, local communities, and the private sector in identifying, implementing, and operating SFD projects. Capacity building helps local associations and groups develop and execute projects; enhances the ability to execute sustainable microenterprise program; and provides technical assistance to small contractors and consulting firms on engineering and construction standards, bids, and small works projects. It also provides for nationwide poverty monitoring.

Impact

The above-mentioned activities have had a major impact. In a very difficult work environment, the first two years of the SFD were a period of intensive learning and experimenting, which set the stage for a highly productive operation. The new demand-driven concept proved successful. The community-developed infrastructure is of good quality and is provided cheaper and faster than similar works provided by line agencies.

The SFD has been functioning as a source of innovation in Yemen, with successful new approaches in different sectors being applied on a larger scale by the line agencies. SFD continuously adjusts its coverage and approach based on changes in demand and lessons learned. Moreover, the demonstration impact of the SFD is remarkable—it offers a good model of an efficient and cost-effective public agency that works entirely with Yemeni staff. Income generation has been improved through additional temporary and permanent employment provided by community works projects, as well as through microenterprise development activities channeled through NGOs.

The autonomous setup and a flexible, demand-driven approach to service delivery also allowed the SFD to successfully scale up its operations, as financing increased from \$80 million for the first phase to \$175 million in the second phase, and to about \$340 million in the third phase, starting in 2004. In scaling up operations, the SFD built on experience acquired through the first phase by weeding out unsuccessful components (such as the small-enterprise promotion program),

modifying ineffective practices (such as building new clinics that could not be maintained), introducing new activities in the investment menu (such as special programs for vulnerable groups and cluster-type projects) and expanding coverage of activities prioritized by local communities—particularly education, water supply, and health.

The evidence points to SFD's success in reaching poor and disadvantaged groups. With almost 57 percent of total investments allocated to education projects (and representing almost 20 percent of the country's total investment expenditures in education), girls' enrollment rates and net enrollment rates in primary education increased substantially. Investments in health facilities led to an increase in access to, and availability of, health services. A total of 284 water supply projects led to an increase in the proportion of households with in-house tap water and a rise in per capita consumption and supply of water, while feeder roads projects considerably reduced travel times and costs to local markets. In terms of microcredit, the SFD was instrumental in developing the foundations for an otherwise nonexistent microenterprise industry, with the United Nations Capital Development Fund selecting it as a partner for the implementation of its renowned Micro Start program in Yemen. Finally, capacity-building activities helped disseminate the community-based approach of the SFD and strengthen community participation and ownership of proposed projects. Capacity building extended to SFD staff as well, ensuring a gender focus in SFD projects and improving its poverty targeting and resource allocation criteria.

Success factors

Several factors have contributed to SFD's success:

- (1) Political commitment of the president and senior leadership, which ensured SFD's autonomy and enabled it to recruit qualified and experienced staff
- Learning and experimentation, building on the experience and best practice of other social funds and the ability to experiment with new approaches and adjust existing practices
- Institutional innovation, including the use of a demand-driven approach to service delivery, the contracting of well-paid staff on fixed appointments, the use of a variety of intermediaries (especially NGOs and local small-scale contractors), and the involvement of all stakeholders in policy and operational decisions
- Funding and technical assistance from well-coordinated external donors.

The SFD is playing a critically important role in helping alleviate Yemen's major social problems. Through its demand-driven approach, it has introduced new concepts in community participation—among them the involvement of women. It has contributed much to improving access to priority social and economic infrastructure and microcredit, and used NGOs and other intermediaries to the maximum extent. In the process, it has helped build up the implementation capacity of the poor beneficiary communities, NGOs, contractors, and government agencies. With recent developments in decentralization in the country, SFD will now have to also ensure the participation of local governments and councils in the process of local development.

The SFD has rapidly adjusted to new needs in the past, and its highly experienced and professional management and staff can be expected to continue to do that. It has proved to be a useful adjunct to existing line agencies in a range of poverty-relevant areas. Indeed, some of the approaches to service delivery that it has pioneered in the Yemeni context could have positive spillover or demonstration effects on other government agencies.

12

Transportation

Morocco: Rural Roads and Poverty Alleviation

About half of Morocco's 30 million people, and more than 70 percent of the poor, live in rural areas. Through investments in rural roads and other infrastructure and social programs, the government is making efforts to improve the lot of the rural population.

Until the mid-1990s, the focus of highway planning and investment was on the main roads that connect large cities and carry the heaviest traffic. This approach responded to clear economic priorities and represented a sound allocation of resources. However, the increase in rural poverty in the 1990s and the limited progress in improving rural accessibility indicated the need for a strategy to address these two issues simultaneously.

Dimensions of rural poverty in Morocco

The rural poor in Morocco have an illiteracy rate of 67 percent, compared with 34 percent in urban areas. They live disproportionately in isolated areas; more than half the villages lack access to all-weather roads. Rural households derive their income from multiple sources within the rural economy, and women are disproportionately affected by poverty, as reflected by the fact that 9 out of 10 rural women are illiterate.

Rural Morocco is underserved with respect to infrastructure. Access to water and sanitation and to electric power is limited to about 40 percent of the rural population. Year-round and relatively easy access to rural roads is confined to only about 43 percent of all villages; the remainder have either difficult access and are subject to seasonal isolation (35 percent) or are completely inaccessible to motorized vehicles at all times (22 percent). Rural road accessibility in Morocco can take different forms; it is made especially difficult by frequent floods that cut roads to traffic for hours or days at a time, and by severe mountainous topography.

Scaling up access to rural roads—the National Rural Roads Program

The first National Rural Roads Program (NRRP-1) was launched in 1995. The program was intended to upgrade a selected group of roads to all-weather condition. Due to be completed in 2005, the NRRP-1 has brought construction or improvement of more than 11,000 kilometers of roads—about 20 percent of the country's roads.

The criteria for defining priorities for the country's rural road strategy were economic efficiency, degree of accessibility of the areas served by the road, the importance of the road in serving social and administrative centers, and the agricultural potential of the road's area of influence. Contribution to financing by the local communities has also influenced selection of priorities in a few areas.

A second phase of the program, NRRP-2, will scale up these efforts in three major ways. First, the objectives will be defined in terms of the population served rather than the kilometers of roads built, with the aim of increasing the percentage of rural population given access to all-weather roads. Second, the process will be altered to substantially increase and formalize the level of participation by the local government. Finally, the pace of construction and improvement will be accelerated, so that the works will be completed in five rather than ten years.

The poverty impact of rural road investments

The key effects of investment in rural roads are found in four main areas. In transport, improved roads mean less time to reach markets and services, reduced costs, and increased quality and frequency of services. In agriculture, they mean increased overall levels of agricultural activity and a land-use shift by farmers from low-value cereals toward higher-value fruits and orchards. In health and education, improved roads have resulted in doubled enrollment in primary education over ten years and a significant increase in visits to primary health care facilities and clinics. The quality of education and health services also improved, as greater accessibility made it easier to recruit teachers and medical staff. Improved roads also have an effect on gender inequality: enrollment of girls in primary education increased significantly more than that for boys; women gained the most in the increased number of visits to health services; and the welfare of women has improved from the introduction of butane gas for cooking made possible by better roads (which allowed them to stop the daily two-hour chore of collecting firewood) and from increased employment opportunities.

Beneficiaries of the improved roads are the users of services, especially villagers accessing clinics and other health services, students attending schools, and people accessing community services. Providers of services benefit because they can introduce new services, save in operating costs, and increase frequency of services. Producers, especially farmers, benefit both from better access to fertilizers, pesticides, and extension services, and from better conditions for the marketing of their produce. Providers of social services, notably health and education, benefit because better accessibility makes it easier to recruit and retain personnel (nurses, doctors, and teachers) and to get supplies of medicines and school materials. Nonusers also benefit: the transformation of the agricultural economy, together with improved supply of domestic inputs such as butane, allow the rural population, especially women, to make better use of time, including obtaining on-farm and off-farm employment.

A survey carried out in 2002 among key stakeholders of a sample of improved rural roads found responses consistent with the impacts described above. Survey responses regarding the positive effects of the rural road construction and of rural road improvements (the negative responses were negligible), gave the highest ratings to improvement of transport services, better access to schools, better access to health services, and improved supply of foodstuffs and other basic necessities.

Government commitment to rural roads programs

Until the launching of the NRRP, government funding to develop rural infrastructure was very limited. Annual road construction during the 1988–94 period was on average 280 kilometers per year. To launch the NRRP, the government increased the resources of the Road Fund (itself replenished from gasoline and other user charges) allocated to rural roads. It also modified the text of the Road Fund to allow it to reimburse loans contracted by entities such as the *Agence du Nord*, which is developing rural roads in the North. At the same time, the government has increased the resources available for transfer to the local governments, making it possible to increase local contribution to the financing of rural roads in their jurisdictions.

Surveys and studies by the highway agency of the impact of rural roads, and the dissemination of their findings, have likely been influential in expanding the public understanding of the benefits of improving rural roads. For example, a socioeconomic impact study carried out in 1998 of two roads improved under the NRRP showed an interesting result: one of the roads produced mainly economic benefits, while the other generated mainly social benefits. Some of the more striking impacts, achieved in at least one of the two roads, include doubling the frequency of service of public transport, doubling the number of visitors to the local market, and reducing the transport cost to the main social services by more than 33 percent.

Institutional innovation

The government's emphasis on improving accessibility to rural infrastructure has also encouraged the highway agency to make innovations in the way it sets the objectives of its rural roads programs. While the NRRP-1 program aimed to achieve physical targets, the follow-on program, NRRP-2, will set targets based on the number of people that will benefit from improved accessibility to reliable roads. This represents a profound change in the thinking of the highway agency that will certainly influence how highway staff plan future developments of the sector.

On the institutional side, in addition to adopting accessibility as a target, the NRRP-2 is expected to (i) strengthen participation by the provinces and communes in the planning of rural roads, which will elicit a stronger commitment to maintenance; (ii) strengthen management capacity by the local communities of their roads, supported by a new system of agreements between the ministry responsible for roads and the provinces for the financing and maintenance of local roads; and (iii) monitor and disseminate at the provincial level rural roads programs that will make planning and executing these programs more transparent and will allow better integration of rural road programs with other sectors and activities planned at the local level.

The role of local governments and rural communities

Planning and constructing rural roads until 1994 involved very little participation by local governments. Participation improved radically during the preparation of the NRRP. Since the 1990s, local governments at various levels have contributed financially to the rural roads programs; the participatory process will be further strengthened under the NRRP-2 program, which foresees a stronger and more formalized contribution at the local level in the financing of the improvement and maintenance of the rural roads. It is expected that agreements will be signed between the highway agencies and the provincial governments (with all municipalities represented) as well as between the highway agency and the central government agency responsible for local governments.

External catalysts

The need to develop Morocco's rural road network and to better understand the benefits of rural roads has been recognized by external financiers. For example, a World Bank highway project with a component of rural roads has recently been completed, and a follow-up project to support the NRRP-2 program is in preparation.

The Bank is also providing technical analysis and assistance through such means as the 1996 study of the impact of the rural roads and a follow-up workshop on the study. These have been instrumental in understanding the impact of rural roads and in helping gain support for better-targeted road sector interventions. Morocco's highway agency has incorporated the use of surveys to assess the impact of their works and extended the conventional ex-post analysis to cover the social and economic effects of such investments.

Two other international agencies, the European Investment Bank and the French agency for international cooperation, are helping to develop Morocco's rural roads. These two agencies are working with Morocco's Northern Development Agency.

Main lessons learned

The first lesson is that the impact of rural roads is broad and touches a variety of sectors and services. Although many impacts can be predicted, others are more difficult to anticipate and are very dependent on local conditions. This was the case in Morocco, with two unsuspected but positive effects: a sharp increase in school enrollment, especially for girls; and a dramatic effect of freeing women from the daily chore of collecting firewood for cooking, a result of the introduction of butane, itself made possible by a sharp drop in transport costs and improved accessibility.

The next lesson is that changing objectives from road construction to improved accessibility for the rural population allows the program to better target the rural poor. The strategic shift toward accessibility rather than physical outputs makes it more likely that road services will be made available for the less-accessible populations, which normally include a higher proportion of the poor.

A third lesson is that local governments can participate effectively in the planning process for rural roads programs even if responsibility for developing and implementing the program is vested with the national highway agency.

Vietnam: Impact Assessment of Large-Scale Transport Infrastructure in Northern Vietnam

Japan Bank for International Cooperation

Highway No. 5 is a trunk road of 100 kilometers connecting the national capital of Hanoi with the country's gateway port city of Haiphong. The highway has been a main road for transporting raw materials, components, and final products that are produced, processed, and consumed in northern Vietnam. In this sense, the highway is the most important road for maintaining the economic and social activities in the region. Projects to improve Highway No. 5 and rehabilitate Haiphong Port were agreed upon between the Vietnamese and Japanese governments soon after the resumption of the Japanese Official Development Assistance (ODA) loan to Vietnam in 1992. The two projects were intended to meet the needs of the rapidly increasing road traffic in the Red River Delta of northern Vietnam and to strengthen the capacity of Haiphong Port.

Six paths for sustainable growth and poverty reduction

This study identified six paths through which poverty reduction and economic growth in the region could be realized. These paths are (1) the creation of factory employment by newly invested foreign and local enterprises along the upgraded highway; (2) the expansion of newly created micro business beside the industrial complex along the highway; (3) the development of industrial links between local and foreign enterprises; (4) fiscal contribution by newly invested foreign enterprises; (5) the expansion of high-value agricultural production for urban markets; and (6) improved access to higher education and advanced medical services. The impact of the two transport projects are described as follows, and refer to these six paths.

At the household level, the impact of these two transport improvement projects can be seen from a variety of perspectives in the following examples:

- In 1996, only 12.5 percent of the foreign investment in Vietnam was registered in the provinces in the Red River Delta; this ratio increased to 27.8 percent during 1998 and 2001.
- Foreign enterprises in Hanoi contributed to 15 percent of the GRP (Gross Regional Product) and 32 percent of industrial gross output in 2001. Those in Haiphong produced 16 percent of the GRP and 45 percent of the industrial output. In Hung Yen Province, where state industrial investment remained limited, 71 percent of the gross industrial output was generated by foreign enterprises in 2000.
- A total of 14,000 workers were employed at the four major industrial parks in Hanoi and Haiphong in 2003. It is estimated that around 40,000 jobs were generated by new investment along the highway by 2003. Factory income is considered a very significant source of income for the employees' household, since many of them are fresh graduates of either secondary or vocational schools in the provinces, without any job experience.
- Micro business has been expanding rapidly in the two provinces along the highway. In 1999, no private enterprises received loans from the Hung Yen and Hai Duong branches of the bank of agriculture. In the next year, private enterprises obtained 2 percent of the bank's lending, a share that increased to 13 percent in 2003.
- High-value agriculture, such as highly profitable fishery production, has been expanding as well. The growth rates of fishery production from 1995 to 2001 in the Hung Yen and Hai Duong Provinces were 312 percent and 200 percent respectively, much higher than the national average of 101 percent.
- The source of income for households has become greatly diversified. Although the farming income of the surveyed households showed the relatively modest increase of 138 percent between 1997 and 2002, their income from livestock and fishery increased by 204 percent and 314 percent, respectively.
- The Agricultural Extension Centers in the Hung Yen and Hai Duong Provinces now provide a variety of training courses for local farmers, in response to their growing demand for upgrading and diversifying agricultural production. The number of participants to these courses increased fourfold, and the number of model farms rose fivefold from 1998 to 2003. The government, both provincial and central, expanded the budget for the centers more than fourfold to cope with this increasing demand.

At the regional level, the impact of the projects to improve Highway No. 5 and rehabilitate Haiphong Port are as follows:

- A comparison of the share of poor households in 2002 among communes in Hung Yen Province shows that many of the communes located on Highway No. 5 have lower shares (less than 3 percent) of poor households while others tend to have higher ones.
- The comparison of the growth rate of per capita GRP of the provinces in the Red River Delta between 1995 and 2000 shows that all of the five fastest-growing provinces are located along Highway No. 5 or Highway No.18, another major highway.
- The data on the rate of reduction in the number of poor households by province from 1998 to 2000 show that three of the five provinces that reduced the number of poor households

by more than 75 percent have good access to Hanoi and Haiphong Port via either Highway No. 5 or Highway No. 18.

The role of infrastructure and institutional capacity building

The main role of large-scale transport infrastructure should be to promote economic growth by stimulating investment and/or trade. The improvement of Highway No. 5 and Haiphong Port has caused a large inflow of foreign direct investment (FDI) to the provinces along the highway. This inflow of FDI has resulted in the creation of many job opportunities as well as the expansion of various micro businesses around the industrial parks. The recent increase in the inflow of FDI has made an immediate and positive impact on the regional poverty reduction.

In addition to the improvement of transport infrastructure, many aspects of institutional capacity building are urgently needed to attract foreign investors. The elaboration of FDI-related laws and the improvement of administrative procedures are examples. The experience of neighboring East Asian countries, such as China or Thailand, should be very helpful for Vietnam to consider in developing its institutional capacity. Institutional learning at the provincial level has also enabled the provinces concerned to offer a far more favorable incentive to their potential investors, leading to the scaling up of poverty reduction in the project areas. Technical support from foreign governments or private companies has made a significant contribution to developing capacity as well. For instance, the interaction and cooperation between the investor and the custom officers stationed in an industrial park have created an institutional innovation for their customs operation. The implementation of the Action Plan under the Japan-Vietnam Joint Initiative to Improve Business Environment would work as an important catalyst for improving the investment environment in Vietnam, becoming a solid foundation for scaling up poverty reduction.

Large-scale infrastructure could make a direct contribution to poverty reduction as well. The improvement of Highway No. 5 and Haiphong Port has resulted in the expansion of high-value agricultural production in the provinces along the highway. Expansion of fishery production for urban consumers is a notable example in these provinces. This structural transformation in agricultural production has wide and sustained effects on poverty reduction in the region.

The importance of political commitment

To realize this poverty reduction in the rural economy, administrative support with a clear political commitment was absolutely necessary. The Vietnamese government demonstrated its strong commitment to reducing poverty by formulating the Comprehensive Poverty Reduction and Growth Strategy (CPRGS), which has, with the government's other efforts, become a concrete basis for scaling up poverty reduction in the areas along Highway No. 5. With this strategy, central and provincial governments have provided comprehensive support to poor farmers. The expansion of agricultural extension services by provincial governments and the increase in rural credit by the state bank are examples of such support. Without these interventions, farmers would not have been able to make use of the business opportunities provided by the improvement of transport infrastructure.

Conclusion

The transport infrastructure projects in northern Vietnam have made a great contribution to poverty reduction, as can be widely seen in the areas along the highway. The projects shed light on the broad range of roles that infrastructure plays as a prerequisite for economic growth and a direct contributor to poverty reduction, through multiple channels (such as those identified in the projects). Analysis of this case reveals the important lesson that to scale up the effect of poverty reduction, it is necessary to combine large-scale infrastructure projects with institutional support backed by the clear commitment of the government.

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Securing Access to Land

Azerbaijan Farm Privatization Project

Nearly half of Azerbaijan's eight million people live in rural areas. The nation's per capita income was estimated at \$710 in 2002. When Azerbaijan undertook its Farm Privatization Project (FPP) in 1997, the country was at the low point of a lengthy crisis in agriculture, which began with a 14 percent drop in output during 1985–90. The little-reformed former collective and state farms held the most productive land but could not farm it effectively. Agriculture faced a radically changing political backdrop, a declining economy, a loss of its labor pool, and war. Labor productivity, crop area, and crop yields were plummeting. By 1995, 66 percent of the rural population was living in poverty—20 percent in extreme poverty.

The goals of the FPP, originally conceived as a pilot project, were modest in comparison with the successes that were actually achieved, especially in land privatization. The foremost goals were to restructure six former collective and state farms and to transfer their assets to the local populations. Post-privatization farm-support services would allow new landowners to establish successful, independent private farms in the aftermath of the land reform. Accomplishing these goals on a pilot basis would help the government develop and implement suitable guidelines, procedures, and policies for privatization; these could be refined and later replicated throughout the agricultural sector. Less obviously stated among the goals of the FPP was poverty reduction through sector growth, off-farm job creation, and the provision of community-based services.

Background

The former collective and state farms faced macroeconomic instability and rampant inflation until 1995–96, rapidly deteriorating terms of trade, loss of their traditional export markets, and strong import competition. Their access to the credit and inputs traditionally provided by the state dwindled to almost nothing, and state-supplied and state-maintained machinery and irrigation and drainage (I&D) systems fell into disrepair. Moreover, until 1995 the country was wracked by war with Armenia and internal political turmoil.

Agrarian reform proceeded slowly before the FPP. By 1997 only livestock was held mostly in private ownership, which largely explained why livestock output did not suffer nearly as much as crop production. In contrast, by 1997 the output of former collective and state farms comprised only one-third and one-fifth of the 1990 level, respectively. Aside from the former collective and state farms and the small garden plots that everyone possessed (averaging 0.14 hectares), there were a growing number of leasehold and other family farms, typically run by former farm directors and other officials; these averaged around 20 hectares in size. Until 1996 all types of farms were subject to state production orders for “strategic” crops such as cotton and wheat.

Stimulating private farming

The FPP envisioned providing farm privatization and other support services to enable the rural population to sustain and benefit from privatized agriculture. Models would be created of various support services in six former collective and state farms that could be replicated elsewhere in the country. Districts were selected in various agro-climatic zones of the country, in order to adapt the model to local conditions ranging from coastal subtropical areas such as Lenkoran to steppe lowlands such as Salyan.

Farm privatization services were designed to facilitate privatization at the pilot farm, district, and national levels. The foremost goal was to create a mechanism to transfer the ownership of former collective and state farm assets to the local population in order to better use the land. The population in the project area was favorably disposed towards the transfer, mainly because the former collective and state farms had become so unworkable and the government supported privatization. Optimism concerning private farming was not yet established.

Important subcomponents of the initiative were to set up an accurate, cost-efficient land registration system to serve a land market in which collateralization increases the availability of credit; an effective and measurable process for registering titles to property; and efficient farm advisory and information service.

Farmer and community participation in the reform process

Farmers in the project areas identified the main constraints on productivity as poor access to land, farming equipment, inputs, markets, and reliable irrigation. More than 84 percent of farmers expressed a desire to obtain credit to overcome these shortcomings. FPP addressed this situation by furnishing post-privatization support to the newly created private farms, using Agroprombank as its agent. Training was to be offered to both farmers and lenders, and credit issued for seasonal working capital, livestock, farm machinery and equipment, and rehabilitation and development of I&D infrastructure. Dilapidated canals and drains would be rehabilitated in the pilot areas, and water users' associations voluntarily created to manage operations and maintenance (O&M). A betterment levy and water charges would be instituted to recover a progressively larger portion of the costs of rehabilitation and O&M.

According to the stakeholders in the project areas, the chief causes of poverty at the start of the project were unemployment and poor social services (many of which had once been provided by the former collective and state farms), in addition to arrears in payment by bankrupt former collective and state farms and the lack of agricultural support services and credit. To address unemployment and improve social services, FPP included a community-development component to establish business centers for the creation of off-farm jobs, to begin the preparation of broader social-development initiatives targeted at the most vulnerable people, and to involve the community in privatization, decisions concerning credit allocation, and the management of critical community infrastructure such as drinking-water systems and schools.

A revived agricultural sector

FPP was "developed in close consultation" with an authoritarian government that both controlled power throughout the countryside (via the direct appointment of district governments) and remained strongly supportive of land privatization and farm restructuring. Its goals were consistent with and tightly integrated into Azerbaijan's Poverty Reduction Strategy and the World Bank's Country Assistance Strategy for Azerbaijan. Most of the agencies responsible for implementing FPP were strongly committed to the project. FPP sought to benefit from a strong institutional presence in the central government and in the pilot districts. A project-management unit was set up in the

Azerbaijani cabinet, and project implementation units—comprised of local agricultural agencies and farmers—were created in each of the pilot districts.

Azerbaijan's FPP accomplished successful land reform in a rapid process that was widely perceived as fair. FPP started as a pilot project to privatize land from the former state and collective farms and to provide post-privatization support services for the new private farmers. Its original timetable covered five years (1997–2001), but most of the project components quickly became the focus of long-term, nationwide endeavors. The project established a mechanism for rapid yet egalitarian distribution of land plots and an accurate, cost-efficient land registration system. The replication of these models throughout the country in 1998–99 resulted in the creation of about 825,000 new small farms.

FPP contributed to poverty reduction beyond that foreseen at its outset. Agricultural output in Azerbaijan grew by one-third between 1997 and 2002, with the largest jumps following the land reform, and crop area grew by 30 percent after the reform. Agriculture also absorbed around 400,000 new entrants as a result of the reform, and though this initially lowered labor productivity, the surge in output has since driven productivity to levels not seen in Azerbaijan since 1993. Rural poverty declined from 66 percent to 43 percent of the population between 1997 and 2001. Much still remains to be done, both to further strengthen farm services and supportive infrastructure and also to address the “non-income” aspects of poverty, by providing better services such as gas, drinking water, healthcare, and education.

Driving factors: a committed and favorable political economy

FPP benefited from a favorable political economy (an authoritarian government controlling power throughout the countryside). Moreover, there was a consensus among the rural population, reached from various viewpoints, that private farming was the only way to move forward in agriculture—if abuses could be kept in check. Privatization was voluntary, being based on the decisions of the farmer members to reorganize the collective and state farms, and thus momentum was built for the process from the bottom up. The process was choice-driven: farm members were allowed to decide which activities to undertake and how to manage their farm assets (land and nonland). The process was transparent and universal; community members actively participated in organizing farm activities and received information, advice, and guidance to make knowledgeable decisions in acquiring and then managing assets. Other important factors included the macroeconomic stabilization of 1996 and the consequent lack of economic distortions during the implementation of FPP; the focus of the project team on participatory institutions; and practical, flexible responses to impediments and contingencies.

Among the lessons: models for land privatization and farm restructuring worked only when they were tailored to specific national needs through learning and experimentation. Country ownership was critical not only in terms of support for implementation, but also for tailoring the models to fit the needs of the government and society.

Brazil: Reducing Rural Poverty by Increasing Access to Land

The distribution of income and assets in Brazil is among the most unequal in the world, with poverty rates that greatly exceed those in other countries with similar per capita incomes. Beyond the obvious relationship between inequality and poverty, consensus has emerged that limited access to land and extreme inequality in land ownership are central factors in rural poverty in Brazil. Most of the country's 16.5 million rural poor are landless or lack adequate land for subsistence. About 10 million

of these people live in the rural northeast, where regional poverty indicators are much higher than national and regional averages.

A new approach to increase land access

Land reform can make an important contribution to rural poverty reduction, providing a cost-effective and sustainable source of income for poor families. But while land ownership with undisputed title promotes productivity growth and poverty reduction, it is not enough: on-farm investments are an essential complement. Matching grants for on-farm investments within a package of financing linked to land purchases have a greater chance of increasing income, and make beneficiary communities more attractive clients for rural financial agents.

Thus in the late-1990s the Brazilian government sought viable, complementary alternatives to traditional land redistribution mechanisms—approaches that would be fast and cost-effective, increase productive activity, expand coverage, and avoid conflict. Research indicated that government-led programs of land acquisition and beneficiary selection had an uneven record and that voluntary, market-based transactions between buyers and sellers, with family self-selection for participation, had significant potential. Moreover, economic changes in Brazil in the 1990s made land reform more economically feasible and politically palatable.

The Land Reform and Poverty Alleviation Pilot Project in northeast Brazil—popularly known as *Cédula da Terra*—was launched at full scale in 1998 (following two years of testing and evaluation in the State of Ceará) and ran through 2002. Poverty reduction was the project's overarching goal from its inception. The project represented the first major expansion of the methodology established as an outgrowth of community-driven development principles and techniques pioneered in northeast Brazil under the World Bank-supported Rural Poverty Reduction Program (which has reached 7.5 million people since 1993; see the related case study).

The continued refinement and expansion of this approach under the follow-on, scaled-up Land-based Poverty Alleviation Project I—known as *Crédito Fundiário*—is consistent with the federal government's recently-announced National Agrarian Reform Plan. The plan envisages the settlement of 530,000 families nationwide, including 130,000 families using the *Crédito Fundiário* mechanism. So far, under the Bank-supported program, some 30,000 families have settled on and received title to 835,000 hectares, with a similar number of land purchase proposals currently at various stages of processing.

The project is implemented by civil society through community associations, with participation open to local, state, and national civil society organizations and nongovernmental organizations, including the National Confederation of Agricultural Workers (CONTAG). Associations of poor rural laborers and subsistence farmers select, negotiate, and obtain financing to purchase agricultural properties from willing sellers. Within an overall financing package for each family (equal to around \$4,000 at current exchange rates), land purchases (financed by the federal government) are complemented by matching grants to finance on-farm investments (Bank-financed), plus a separate settlement grant (about \$450) to tide families through their first year. Resources for technical assistance contracted by the associations are also included in the program. The program's exploratory, groundbreaking approach required from the outset design features sufficiently flexible to permit midstream adjustments based on research findings and changing circumstances and experiences.

Principles and outcomes

Four principles govern the model used by the program: decentralized implementation; a community-based approach that promotes sustainability and builds social capital; access to productive

investments; and ongoing piloting and evaluation. The program is establishing the foundations for local asset accumulation and economic growth in rural areas based on good governance and social capital formation. Negotiated land access involves lands otherwise excluded from traditional agrarian reform programs and brings poor rural workers to the table as full participants. The state's role in the land transfer process has been recast as facilitator; guardian of standards, quality, and learning; provider of support and technical assistance; and catalyst to action for land purchase and settlement. Evaluations, studies, seminars, and intensive Bank supervision have provided the analytical foundations supporting scaling up this relatively cost-effective, conflict-free mechanism.

Evaluation by the University of Campinas (UNICAMP) shows that between 1998 and 2000 agricultural production on project-financed lands increased 366 percent, and between 2000 and 2003 another 204 percent, indicating markedly better use of land and an increase in family labor devoted to farm activities. Moreover, between 1998 and 2003 beneficiaries' real income rose 75 percent. These increases occurred despite drought and less-than-anticipated credit and technical assistance availability.

Lessons

Evaluation of the Brazilian experience indicates that:

- The market-based, community-led model has been an agile, effective method for settling landless rural families. The entire process—from identification to purchase—is condensed into about 90 days and is generally free of conflict.
- Self-selection for participation effectively targets the rural poor—particularly the *entrepreneurial* poor, who are more likely to settle successfully.
- Communities have consistently selected land of reasonable quality, appropriate size for the group purchasing, with much lower costs than traditional land reform and without elevating land prices.
- Participatory implementation through community associations works well, breeding empowerment, transparency, and social capital. Associations are quite adept—with support from groups such as rural worker unions, the church and technical assistance providers—at mobilizing members, selecting and negotiating land for purchase, and preparing and executing productive on-farm investments.
- Management information systems are essential for monitoring the implementation of programs involving numerous community groups across broad areas, and permit continuous improvements and adjustments.
- Information dissemination campaigns are critical to stimulating demand and ensuring adequate availability of properties to meet that demand.
- Technical units implementing such programs require support, reasonable autonomy, and developing specialized institutional capacity (through training and cumulative experience) to administer community-based land access.

Sustainability

Certain project features bode well for sustainability. Self-selection for participation tends to produce motivated beneficiaries, committed to land settlement and loan repayment. About 84 percent of Cédula da Terra beneficiaries with first installments due by end-2002 made their first payments on

time, with the remainder delayed only by processing issues. Moreover, many families and communities introduced improved systems with good results, a crucial factor being a dynamic community association which promoted income generating activities for members and the conservative management of financial and natural resources. Analysis of production systems shows that investments realized or in process support future, sustainable production increases capable of raising families' incomes above the poverty line. Finally, other crucial factors for sustainability include continuous follow-up to promote and sustain beneficiary access to credit, technical assistance, and information.

India: Online Delivery of Land Titles to Rural Farmers in Karnataka

The Bhoomi (meaning land) project for online delivery of land records in Karnataka, India—one of the country's 26 states—shows that making government services available to citizens in a transparent and efficient manner can empower them to challenge corrupt and arbitrary bureaucratic action. It also illustrates how well designed e-governance projects can be used to take discretion away from civil servants and provide benefits to rural farmers.

The role of land records

India's system of land records is crucial for proving ownership of one's land. It is also important for land taxes, reforms, and administration. Indeed, creation of an accurate, complete land information system is one of the key challenges for governance today. Although land records can cover a wide variety of information, the most important area involves geological data (such as land shape, size, forms, and soils); economic data related to crops, irrigation, and land use; and information about legal rights, liabilities, and taxation.

Certainty of ownership is an essential prerequisite for development of an efficient land market. A study carried out by McKenzie in India shows that India loses 1.3 percent of its potential growth because of badly maintained land records. Land records form the basis for assignment and settlement of land titles, and must protect the rights of a land's legal owner. Manual maintenance of land records, however, does not facilitate this objective. It also hinders effective collection and analysis of the data contained in them—data that are crucial for, among other things, increasing bank loans, resolving legal disputes, promoting accurate crop data and insurance, and ensuring efficient land markets. India's central and state governments have long recognized the need to reform the country's system of land records.

The move away from manual record-keeping

Efforts to computerize land records in Karnataka began in 1991, but not until March 2002 was the task completed in all subdistricts. Karnataka's Department of Revenue has now computerized 20 million records of land ownership covering 6.7 million farmers in the state. Under the manual system, 9,000 village accountants, each serving three or four villages, maintained land records. Farmers had to seek out a village accountant to get a copy of the RTC (record of rights, tenancy, and crops)—a document required for many common tasks, such as obtaining bank loans, apart from proving ownership.

But village accountants were not easily accessible, and it took them 3–30 days to provide such records, depending on the record's importance for the farmer—and the bribe paid to the accountant. Bribes typically ranged from about \$2–40, but could exceed \$200 if details on the records were to be written in a deliberately ambiguous fashion. Moreover, land records held by village accountants were not subject to public scrutiny.

Mutation requests—to alter land records upon sale or inheritance of land—also had to be filed with village accountants. Accountants were required to issue these notices to interested parties and post them in village offices. But often neither action was carried out, nor was any record of the notices maintained. If no objections were received within 30 days, changes to land records were to be carried out by revenue inspectors. But in practice it could take a year or two for records to be updated. Even where accountants were law-abiding, oversight and accuracy suffered as the number of records multiplied over generations and accountant supervisors were burdened with numerous other regulatory and development tasks.

Benefits of Bhoomi

Bhoomi has succeeded because it targeted a critical need for farmers and it has delivered significant benefits to them. Among the most important of these benefits is a reduction in the discretion of village accountants, who are now forbidden to issue manual copies of land records. Only computerized records are valid, and they can be obtained online without any formal application for about \$0.32 at land record kiosks in 177 *taluk* offices. (Taluks are subunits of subdistricts.) Records are now tamper-proof and are in the public domain open for scrutiny.

In addition, steps have been taken to allow farmers to submit mutation requests at the kiosks. At 20 of the kiosks, farmers can check the status of their requests using touch screens. If a revenue inspector does not complete a request within 50 days, the mutation request automatically gets escalated to a second person in the taluka designated to authorize mutation requests. Moreover, these requests are now handled on a first-come, first-served basis, thus cutting down on favoritism.

All these measures limit opportunities for bribery. In addition, operators of the computerized record system are held accountable for their actions and decisions through a log of all transactions. Bhoomi also makes it easier for many people—particularly the poor, the illiterate, and women—to obtain land records. As a result about 0.8 million farmers obtain their land records every month and more come forward to get data based on the ground reality and changed in their land records.

During the next phase of the project all the taluk databases will be uploaded to a Web-based central database. Land records will then be available at private rural Internet access points. Many other benefits will flow from centralization of the database.

Future steps

There are plans to open a thousand Bhoomi kiosks statewide through a public-private partnership. In a pilot experiment, 20 telecenters have been established in the Mandya district to view, print, and distribute land records. These centers are allowed to charge a higher fee to cover their costs and earn a small return—an approach that will enable their viability throughout rural Karnataka. These kiosks would work as an efficient digital interface with government at the village level.

In addition, other services, such as downloading of forms used for services and beneficiary schemes, could be added to the content. Departments such as forestry, animal husbandry, and sericulture may create their own content for delivery to rural areas. There are also plans to electronically link the Bhoomi kiosks with the newly computerized Kaveri centers, which register property sales online and can provide cues to Bhoomi to carry out changes. And in the future, Bhoomi kiosks will collect land taxes.

Another innovation involves data from crop surveys, which are currently collected manually and updated in the taluk database three times a year. Under a recent pilot, a locally designed handheld computer was given to 200 village accountants to capture crop data live in the field. The accountants found it easy to learn how to use the handheld computer.

Bhoomi has received positive attention from the media and won several awards. Moreover, independent evaluations have found that the project has significantly reduced corruption and improved service delivery. Accordingly, the Indian government is making efforts to replicate Bhoomi in other states.

India: Lessons from the Land Reform Movement in West Bengal

In the early seventies, the state of West Bengal, in the eastern part of India, had one of the highest poverty levels and the largest number of poor people in the rural areas of India. West-Bengal saw two major turnarounds in the rural sector in the eighties: a spectacular jump in the growth rate of production of rice, the major food-crop, from 1.8 percent during 1960-80 to 4.68 percent during 1977 to 1994; and a remarkable fall in the rural poverty level from 73 percent in 1973 to 31 percent in 1999. West Bengal greatly surpassed the achievements of other states.

This coincided with the 1977 election of a coalition of left parties, led by Communist Party of India (Marxist) or CPM, which has held uninterrupted power for the last 26 years. The CPM instituted a series of major rural reforms guaranteeing heritable rights to sharecropping tenants (known as “Operation Barga”), ensured better distribution of products between tenants and owners, and confiscated surplus landholdings from big land-owners and distributed part of this to the poor farmers. Effectively, this gave quasi-property rights to the sharecroppers and eliminated absentee landlordism to a large extent. This was followed by decentralization of village power structures through a three-tier system known as *panchayati raj*, which started effective functioning from 1985 onwards through fiscal devolutions.

It is not easy to determine the extent to which land reforms were responsible for the spectacular turnarounds in West-Bengal, since a number of catalysts worked simultaneously in bringing this change. Some writers identify land reforms and decentralization as the major institutional innovations, along with strong political will of the leftists as the catalysts; others give the credit to the rapid rise in the use of inputs, which in many cases were simply market-driven. The studies do not address the interlinkages and interdependence of different land reform measures, decentralization in decision-making, and autonomous and induced technological changes.

After analyzing the essential historical background that leads to the whole reform process, the technique applied for identifying the crucial factors behind West-Bengal’s rural success is the use of cross-section time-series pooled data regressions over districts of West-Bengal. The results show that Operation Barga has some effect in raising productivity of yield along with irrigation, fertilizer, rural roads, and labor use. The impact of recording of sharecroppers was captured by cut-off dummies which represent different levels of recording. One significant result is that optimal level of recording seems to be 25 percent of operating households in a district, since setting cut-off below this seems to capture too poor peasants, having insufficient complementary inputs. Setting cut-off above it tends to ignore some genuine success cases. The regressions show that yield-raising effect appears to be a combination of land reform and technological factors where perhaps the Panchayats also played the role of spreading the use of inputs through extensive construction of *unsurfaced* rural roads as well as through their dispute settlement and intermediary roles.

Political will in carrying out land reforms was very important. The ruling coalition in West Bengal used its massive historical support of poor peasants through its peasants organizations. It had a clear vision of the sequence of reforms that began with Operation Barga, and continued in 1985 through empowerment of the local level bodies or the three-tier panchayats, with fiscal devolution. This created the right incentive and power structure to increase investment in land through better

irrigation, rural roads, seeds, and higher labor use. The poor farmers could avail themselves of the fruits of technological progress only once they were made more secure and given more incentives to use better inputs with the help of locally elected bodies. The panchayats played an effective role since 1985 in mediating water disputes and ensuring steady labor supply and minimum wages. The current phase of reform encourages crop diversification and promotes agro-based industries across West-Bengal.

Agricultural reforms in West-Bengal produced some desirable reforms through an interlinkage and interface of several variables. These are Operation Barga, decentralization of decision-making and conflict resolution through the panchayats and spread of modern inputs to the poorer sections of the cultivators. None of them can be viewed as stand-alone strategies.

However, every success also highlights some weaknesses which need to be looked into for fruitful replications across Indian states and similar countries elsewhere. While democratic decentralization could very well be replicated given right political will, the weaknesses which came to the forefront are (a) neglect of wage demands of the other major poor stratum namely, agricultural laborers; (b) alienation of land from the sharecroppers or redistributed landholders; (c) paying little attention to gender inequality in succession acts of land ownership or redistribution of land titles; (d) erosion of democracy at grassroots levels; and (e) neglect of action in case of complementary inputs. Also, it shows the opportunity cost of not taking appropriate actions along with land reforms, the most important of which is the lack of diversification of crop and other rural industries.

Nepal: Secure Access to Land in the Hills of Nepal

International Fund for Agricultural Development

The Hills Leasehold Forestry and Forage Development Project, initiated by the International Fund for Agricultural Development (IFAD) in 1989 and completed in 2003, was designed as a model for reducing poverty and restoring environmental balance in several districts in the hills of Nepal. Using 40-year renewable leases, the project transferred small blocks of public forestland to groups of poor households, which they regenerated, protected, managed, and used drawing on financial, technical, and institutional support provided throughout the project.

The project focused on developing the feed and fodder base for livestock—both because poor people relied on these resources for their sustenance and because the environmental balance in the hills was dependent on them. The project led to significant changes in national policies, advancing the concept of leasehold forestry for poor people. Leasehold forestry is the only project in both the forestry and livestock sectors in Nepal that focuses exclusively on poor households.

Project sponsors and costs

The project cost \$20.4 million, financed by an IFAD loan of \$12.8 million, a Dutch government grant of \$3.4 million, and contributions of \$2.7 million from the government of Nepal and \$1.5 million from participating farmers. In addition, efforts to scale up the project received substantial technical assistance from the United Nations Food and Agriculture Organization—enabling the project to innovate in a way that would have been difficult under the government system.

The initial costs of the project were rather high: about \$920 per beneficiary household and \$1,480 per hectare, reflecting the project's experimental approach and the significant civil works and technical assistance financed during its first phase. Now that leasehold forestry is well established in Nepal, costs have fallen to \$290 per beneficiary household. This is quite low for an approach that

involves tackling structural poverty issues such as providing long-term tenure security to poor people.

Outcomes

By the time the project ended, 1,773 leasehold forestry groups had been formed involving 12,028 households, with 7,457 hectares of degraded forestland handed over. The project was designed to focus on poor families with less than 0.5 hectares of land, and was successful in targeting this group.

Once sites were designated as leasehold forest and groups were formed, grazing was stopped and grasses, legumes, and trees were planted. In most areas there has been rapid natural regeneration of herbs and grasses, followed at varying speeds by trees. Overall, there has been an impressive rehabilitation of multilayered, more or less natural forest. Biodiversity has also increased significantly.

In terms of impacts on rural poverty and the environment, the project improved household incomes and food security, increased the number of goats, the availability of animal feed, and foraging self-sufficiency, substantially reduced the time required to collect fodder and fuel wood (making it easier for women to engage in income-generating activities and attend meetings, training, and literacy classes), raised school attendance (because there was less need for children to herd animals), and reversed environmental degradation at most leasehold sites.

Success factors

The usefulness of leasehold forestry in combating poverty in the hills of Nepal has been widely recognized, and such programs have been given priority status in Nepal's Poverty Reduction Strategy Paper and the Government's Tenth Plan (covering 2002–07). What started as a small pilot project has become a national program, financially supported by the government and by a growing number of donors, and backed up by a recently approved leasehold forestry policy.

The project's success has partly stemmed from its reliance on a learning culture, particularly its ability to learn from mistakes, build on successes, and adapt to changing circumstances. For example, as the project progressed it recognized the importance of gender mainstreaming. As a result it developed a full-fledged gender component—including training of both husbands and wives in leasehold households and gender and development training for all agency staff involved in the project—that has received international recognition. There has also been a stronger focus on building the institutional capacity of household groups, including by hiring group promoters and aggregating groups into larger organizational structures, such as cooperatives and federations.

In addition, during implementation several adjustments were made to the project's scale. First came changes in the project's area and duration. Second, the project shifted from small, isolated household groups to clusters of small groups, which proved more viable, enabled the emergence of the larger organizational structures, and were easier to service. Third, once leasehold forestry was found to be effective in reducing poverty and restoring environmental balance, the government made it a national program, extending it to 26 districts—most outside the original project area.

Another development not foreseen during project appraisal was the hiring of female group promoters, a move that fostered social mobilization. Female group promoters were first recruited in 1998, and it soon became clear that their services were highly appreciated and in many cases essential to strengthening the functioning of leasehold groups. The project's female promoters are provided by the Society for Partners in Development, a local nongovernmental organization.

Lessons

Perhaps the most important factor in scaling up the leasehold forestry pilot into a national poverty program was the commitment and leadership of key government officials. Other lessons that might be applicable in other countries include:

- *Appropriate management and investment arrangements can restore the productivity of degraded forests.* Poor households with limited land holdings are willing and able to care for and regenerate the productivity of degraded forest sites—provided they have secure tenure for sufficiently long periods (as with 40-year renewable leases).
- *Granting poor and disadvantaged groups secure tenure to public land can challenge local power structures.* Without a sufficiently strong organization of poor and disadvantaged groups, conflict over resources may nullify the security of formal tenure.
- Much can be gained from coordination and cooperation between forestry and livestock services, which otherwise tend to be at odds with each other.

Peru's Urban Land Titling Program

Since the 1940s, urban migration has radically altered the structure and size of Peruvian cities, but migrants from rural areas have been excluded from established legal and administrative systems, especially the systems that establish legal access to housing. Migrants responded by establishing informal human settlements in defiance of the law. In 1996, such settlements contained more than one million properties in eight of the country's largest cities.

The government of Peru recently modified its longstanding policy of repressing extra-legal settlement on state land and private property and improper use of agricultural land for urban development. It now accepts these developments as inevitable. In 1988, with the support of the political parties convinced of the need for institutional reform, Peru passed laws to establish a new parcel-based property registry that formalizes and simplifies property rights. In 1996, COFOPRI (the *Comisión de Formalización de la Propiedad Informal*) assumed responsibility for formalizing informal urban property using a registry known as *Registro Predial Urbano* (Urban Real Estate Registry), or RPU. Its target for 2001 was to establish legal titles for over one million informal urban properties in eight main urban centers.

In making this important change in policy, the government recognized that while growth, macroeconomic stability, and economic reforms were essential for growth and poverty reduction, they were not enough in themselves. The Informal Real Estate Property Formalization Program was so important to Peru's economic programs, in fact, that the country's annual commitments with the World Bank related to the program were incorporated into agreements the country signed with the International Monetary Fund.

The plan called for the formalization of informal properties in Lima and seven major urban centers in Peru. Strong social pressure and demands from people sped up its launch in other cities and led to its expansion to other urban centers. COFOPRI was able to grow because of its early experience, the standardization of its processes, development of a modular growth design, and the availability of trained consultants in Lima and Arequipa.

COFOPRI and the RPU enjoyed full independence, meaning they had technical, functional, and administrative autonomy. All public institutions linked to the formalization process were required to comply with the statute and requirements dictated by COFOPRI on formalization matters, and COFOPRI was given title holding to all government lands, whether fiscal or municipal.

Preliminary reforms during the late 1980s and early 1990s allowed COFOPRI to identify legal, institutional, and operative obstacles to large-scale formalization of property rights and to develop legal and institutional reforms to overcome those obstacles. Creating an efficient property formalization system to secure poor families' rights to their principal assets required a consensus on the need for reform among the executive and legislative branches, the people in the informal settlements, and the civil society in general. The functions of administering the formalization process had to be concentrated into a single entity. Public and private interests that derived privileges and incomes from the process of obtaining formal property rights had to be neutralized. Since it was forged in 1996, the consensus—to generate a massive title granting program, complete with a survey and register that were easy and cheap to use—has held. COFOPRI remains the entity responsible for urban formalization.

The three major stakeholders in the formalization process were urban landholders; financial companies; and institutions involved in planning and development, including local governments, urban infrastructure, and service providers, and land and housing developers (private and public). Urban landholders played an important role at different stages of the process. Infrastructure suppliers and public utilities took advantage of formalization, and municipal governments have made use of the graphic databases compiled in the land-survey process for planning and urban development.

The goal for titling properties was far surpassed. By June 2003 COFOPRI had titled 1,313,795 plots. Surveys carried out to measure the economic impact of the formalization indicate significant benefits in several areas—among them increased investment in home improvement; increased access to credit and the use of real estate as collateral; increased property transactions; and an increase in property value. Also, the formalization program is associated with an increase in the number of hours people are available to work and an increase in their access to the labor market because families do not have to stay home to protect their property. Social benefits are primarily the legal security from property titles and the ability to use homes as collateral for loans, improving the lives of the families, especially women and children, and reducing the incidence of child labor. Women represent more than 50 percent of the beneficiaries of the formalization process.

The recognition of property rights is only the first step in the process to improve the lives of the affected population. Formalization must be accompanied by other measures, among them systems for gathering, systematizing, and exploiting information on formalized properties and their owners; research to clarify the factors restricting access to credit and investment in housing, infrastructure, and public utilities; education of the newly formalized population about how to gain access to credit; diffusion within the newly titled population of the benefits of registering improvements made to their properties; strengthening of municipal government functions in land use, planning, urban development, and promotion of local economies; and land-management systems to protect the environment while permitting building sites to be granted to those who have no house.

Philippines: Agrarian Reform Infrastructure Support Project—Making Agrarian Reform Work

Japan Bank for International Cooperation

The majority of the Filipinos who live in the countryside are poor. Poverty and oppression brought about by inequality in land tenure relationships and lack of state support for agriculture has led to rural unrest and mass migration to urban centers. Agrarian reform has been seen as a key state intervention that would reduce poverty by redistributing wealth and transform rural areas into centers of equity-led economic growth by ensuring investments in agriculture. This became the goal of the Agrarian Reform Infrastructure Support Project (ARISP); the impact it has created in creating a better life for thousands of Filipino farmers has made it one of the most effective poverty reduction programs in the Philippines today.

Agrarian reform and implementation

ARISP was the first Japanese official development assistance (ODA) loan assistance that supported the implementation of the Comprehensive Agrarian Reform Program (CARP). Agrarian reform—as a national policy instrument used to bring about social justice, poverty reduction, and rural development—has been on the government agenda for many years. Despite the difficulties and obstacles the program encountered in previous years, it gained ground during the Ramos administration (1992–98). During this period, the distribution of private and public agricultural lands to farmer beneficiaries accelerated and the Agrarian Reform Communities (ARC) strategy was launched. The ARC strategy focused limited resources for agricultural production support to clusters of villages that had already undergone the land reform process, thus maximizing impact and serving as models for agrarian reform.

ARISP provided infrastructure support such as irrigation, farm-to-market roads, and post-harvest facilities to farmer beneficiaries in 76 ARCs nationwide. Institutional development support was given to the farmers' associations, irrigators' associations, and cooperatives by tapping the expertise that development nongovernmental organizations (NGOs) had in community organizing. By the end of the project in 2002, 78 communal irrigation projects and systems in more than 14,000 hectares of land, 45 post-harvest facilities, and more than 400 kilometers of farm-to-market roads had been constructed; 76 farmers' associations had also been strengthened. These inputs have resulted in a 125-percent increase in the size of irrigated areas, a 113-percent improvement in cropping intensity, a 10-percent decrease in post-harvest losses, and a 97-percent increase in average production yields. In terms of the farmers' institutions, membership increased by 19 percent, capital build-up increased by 36 percent, and savings increased by 21 percent.

Project impact and political will

Translated to project impact among farmer beneficiaries, ARISP has caused productivity to increase between 35 percent and 64 percent; more importantly, incomes of farmer beneficiaries have increased from a low of 60 percent to a high of 227 percent. The message these results send cannot be overemphasized. The impact of agrarian reform in improving the plight of poor farmers has always been in doubt and under fire, especially from opponents of the program. ARISP showed that by providing land and agricultural support services, farmers can pull themselves out of the quagmire of poverty.

The political will of the Department of Agrarian Reform (DAR), its efforts at energizing the organization, and its strategy of winning back the public constituents of agrarian reform provided the favorable environment that boosted the implementation of ARISP. Institutionalizing community and civil society participation and re-educating the bureaucracy for community-based development work were institutional innovations that became driving forces of the project. The extensive use of

government inter-agency collaborative mechanisms helped solve problems encountered and allowed the tapping of other government resources and technical expertise. But what really differentiated ARISP from any other ordinary infrastructure project was the heavy involvement in the project of beneficiaries and civil society groups. They were seen not as mere project implementers but as major stakeholders of the project. That has made the difference.

Scaling up

The success of ARISP has led to the scaling up of the program through the launching of complementary and similar programs within DAR and the implementation of a second phase. To complement the production credit requirements of ARISP ARCs, DAR and the Land Bank of the Philippines—with the support of JBIC—launched the Rural Farmers and Agrarian Reform Support Credit Program with more than 2 billion pesos of credit extended to farmer beneficiaries nationwide. Following this was the Mindanao Sustainable Settlements Development Program, another program launched by DAR and JBIC using ARISP's salient features. Currently DAR is undertaking an ARISP Phase 2 program, amounting to 6.7 billion pesos in 150 ARCs covering about 43,000 hectares of land and benefiting an additional 99,000 farmer beneficiaries.

Features, strategies, and lessons learned

ARISP's salient features and successful strategies have been adopted and replicated in the other ODA programs and projects of DAR. This has now amounted to more than 40 billion pesos providing support to thousands of agrarian reform beneficiaries nationwide. More importantly, ARISP has shown that production yields and incomes of farmers will increase if they are given the essential ingredients for development: land to till, agricultural support to make their lands productive and crops marketable, and community institutions that are strong and sustainable. In the case of the Philippines, ARISP has shown that agrarian reform works.

Thailand: Land Titling

Australian Agency for International Development

The Thailand Land Titling Project is an outstanding success story of inter-agency cooperation and received the World Bank Award for Excellence in 1997. It was designed as a four-phase project over 20 years and will finish in 2004. The project partners—the Royal Thai Government, the Bank, and the government of Australia—provided funds and personnel, with the Australian Agency for International Development (AusAID) supplying technical assistance and training programs to the Department of Lands (Thailand). The project goal was to strengthen the institutional capacity of the Department of Lands by providing training and expertise in cadastral surveying and mapping, title deeds issuance, land valuation, and information technology. At completion, it will have delivered approximately 13 million titles to Thai landowners and will continue to deliver significant social, financial, and economic benefits to Thailand for years to come.

Reviews of the project have noted the effectiveness of land titling projects in addressing rural poverty, increasing tenure security, and improving access to credit by titleholders. These achievements have had positive effects on regional economic growth, greater social stability, and sustainable resource management. The project's development of good practice guidelines will enable future projects to be managed with an additional degree of effectiveness. In addition, its strong focus on governance and capacity building has assisted in ensuring sustainable outcomes for the Thai government.

When the Thai Land Titling Project (TLTP) began, local consultants conducted a Land Policy and Development Study to support preparation of the Fifth Five-Year National Social and Economic Development Plan (1981–85). The Study found that 46 percent of Thailand's land area was devoted to agriculture. However, only 12 percent of the agricultural area was covered by title deeds; 49 percent was held under less secure forms of officially recognized land-use-right documents, 18 percent was occupied by people who lacked officially recognized documentation, and a further 21 percent was illegally occupied forest reserve. The Royal Thai government, in consultation with the Bank, decided that land tenure was a significant issue in rural development, and in 1984 the Australian government approved the TLTP implementation.

The TLTP was designed to develop the capacity of the Department of Lands. The first project implementation phase began in nine provinces in north and northeastern Thailand (the provinces of Chiang Mai, Chiang Rai, Phayao, Lamphun, Mae Hong Son, Nakhonratchasima, Buriram, Sisaket, and Surin). These provinces had been identified as containing widespread poverty and were primarily agricultural areas. The second and third phases were completed in the north, northeast, east, and central parts of Thailand. The southern section, which contains the added complication for surveyors of having a heavy covering of rubber trees, will be completed during the final project phase ending in 2004.

The project has had four central objectives:

- To accelerate the issuance of title deeds to eligible landholders throughout Thailand
- To produce cadastral maps in rural and urban areas, using a uniform mapping system showing all land parcels
- To improve the effectiveness of land administration at both central and provincial levels
- To strengthen the Central Valuation Authority to provide an effective property valuation service at the national level.

The Thai Land Titling Project's success has meant that a considerable amount of project reviews and assessments have been carried out, in addition to the normal project evaluation process. The 2000 AusAID review of land titling projects, entitled *Improving access to land and enhancing the security of land rights: A review of land titling and land administration projects*, examined factors contributing to the project's success in detail and drew a number of lessons learned that could be applied to future land titling projects. In addition, a major corporate project participant, BHP, produced a paper entitled *10 Pillars of Land Titling*, on a successful land project's components. These ten pillars were identified as:

- *Land titling is a means to an end, not an end in itself.* Land titling must be continually demonstrated to support fundamental quality of life issues confronting developing nations. If not, government commitment will waver and the community's participation and confidence will be difficult to achieve.
- *Land titling needs a commitment to national reform.* A commitment to change at the highest levels is required. Clear and consistent policy and a legal framework are important to accomplish the technical, equity, social justice, and good governance project outcomes.
- *Land titling is about people, not technology.* The initial emphasis must be on process improvement and the expansion of the bureaucratic skill base, with a particular emphasis on developing future leaders.

- *Land titling is more than a project—it is a way of life.* Land titling is a long-term program aimed at bringing about reform to the national land administration system. To be successful, people in institutions need to change.
- *Technology provides the tools, not the standards.* Land administration is strongly influenced by the bureaucratic, social, and cultural environment, and overlooking existing practice often leads to failure. It is important to review existing manual procedures and to then simplify and streamline where appropriate.
- *Successful land titling requires community support.* The land titling process should be public, open to all, and actively involve village officials. Fees must be transparent and the adjudication results publicly displayed.
- *Get the results on the board quickly.* Policymakers will be assured that land titling is viable if early key results can be demonstrated.
- *Work from the part to the whole in developing land law.* It can take considerable time to develop and implement high-level land law. Lower-level legal instruments such as ministerial decrees are often useful.
- *Land titling requires production orientation.* Land titling is a production process that requires a series of coordinated actions. A key element is the setting of output targets, and it is important that there be quality control and monitoring.
- *Ensure an appropriate reward for field staff.* Land titling personnel can spend long periods over many years in the field. If field staff are not adequately rewarded, there will be repercussions, either in the quantity or quality of their work or in the manner in which they seek to establish an informal reward system.

Further, some of the key lessons highlighted by various project assessments are these: Project initiators should ensure that project rationale and objectives are directed to well articulated and defined development problems; outputs should be realistic and achievable, and the technical methods and systems introduced culturally acceptable, affordable, and sustainable. There should be a high likelihood that benefits will continue to be achieved long after the project has ceased. Project initiators should ensure that the design time is adequate to allow the recipient country staff to contribute, to understand the proposed outcomes, and to feel they own the project design. The social and gender aspects of land titling should be given more importance in design and implementation to avoid potential adverse impacts on particular socioeconomic groups and to ensure that the target groups are beneficiaries. It is essential to effectively monitor social and gender aspects throughout the life of the project and preferably beyond. Quality baseline studies for social and economic evaluation are needed. It is useful to closely monitor the progress and validity of assumptions, sustainability indicators, and achievement of benefits. The design team should include expertise in development, social, and gender issues and in technical aspects.

Some more specific recommendations are as follows:

- For advisers, cultural and language barriers are not quickly overcome; long-term advisers working closely with well-selected counterparts can minimize these problems. .
- Advisers must transition effectively from the analysis and recommendation phase to overseeing and guiding the change process, when appropriate.

- Systematic land adjudication is the most effective approach to accelerated land titling under Thai conditions. Land titling targets under this approach must consider constraints such as unclear boundaries with forestry, land reform areas, and lack of clear ownership evidence. A realistic target was an 80 percent titling rate of parcels identified by the adjudication teams.
- Sustainable institutional change requires a long-term framework and sustained efforts, often beyond a project's time horizon.
- Land titling and land reform efforts need to be grounded in an overall rural development strategy that weighs the relative cost and likely impacts of various alternatives for reducing rural poverty and improving natural resource management.
- Clear policy direction is needed to bridge the gap between technical change and longer-term institutional development.
- Factors essential to project success include strong management, particularly in the planning and implementation of systematic adjudication and land titling, continuous technical assistance by a resident team of advisers, and flexibility in project implementation, as was demonstrated under TLTP by the readiness to shift resources toward more ground surveys to achieve appraisal titling targets.
- Change will occur more readily while the advocate is present to follow up on recommendations.
- Targets should be established in terms of area covered, not number of titles issued. A focus on area targets will provide titling agencies with an incentive to clarify boundaries between private and state domain and give a clearer sense of the gaps left by a first sweep of systematic adjudication. In the absence of data on the size of these gaps, it will be difficult for the government to make an informed decision about whether to conduct a second sweep or simply to leave the areas uncovered to sporadic adjudication.
- Farmers in the Land Reform Areas should be provided with efficient land surveying services and defined and marked forest boundaries to enable the titling of contiguous lands. Land information data should be shared more effectively among government agencies. All these undertakings are best programmed and implemented within a common policy and institutional framework for land management and administration. Such a framework would enhance the coordination of policies and programs undertaken by the various agencies responsible for land reform, land titling and registration, forestry and land conservation, property valuation, and property tax assessment.
- The case for freeing up land in state hands should be carefully considered. The return to deregulation, if accompanied by appropriate policing of core reserve areas, is likely to generate larger social benefits than titling areas already in the private domain, where land rights are not a source of conspicuous conflict. In Thailand, areas in the private domain offered relatively secure tenure to farmers before the titling program. However, a large number of farmers occupy reserve land that, in many cases, is appropriate for farming; this land does not offer critical environmental services and it is beyond the means of the government to protect it. Farmers on encroached reserve land are deprived of the benefits—principally, improved access to formal credit—extended by the titling program.

Targeted Programs

Afghanistan: The Role of National Solidarity Program and National Emergency Employment Program in National Reconstruction

For the first time in more than two decades, the people of Afghanistan have a chance to build a peaceful, prosperous society. Today, however, Afghanistan is one of the world's poorest countries, with disastrous economic and social indicators. Substantial and sustained support is required to ensure that the proposed National Development Framework and national budgets become effective instruments for policy reform. The key to success is simultaneous progress on numerous fronts, particularly those involving the economy, politics, security, and counter-narcotics.

Community-driven development is a centerpiece of Afghanistan's development strategy. International experience suggests that projects planned and managed by communities typically have higher returns than those planned and managed by government agencies. The former projects also enhance local ownership—a key factor for sustainability. Moreover, evidence from World Bank–financed projects shows that community projects are especially appropriate in postconflict environments.

The National Solidarity Program and the National Emergency Employment Program were launched as pilot initiatives in 2002 to provide immediate, tangible benefits to poor and vulnerable Afghans throughout the country, supporting reconstruction from the bottom up. Both programs are proving crucial in establishing mechanisms for harnessing national assets, guiding the reconstruction process, and—perhaps most critically—confirming the new transitional government's role as facilitator of progressive reform. How are these two flagship poverty reduction programs contributing to Afghanistan's reconstruction? And what factors will underpin their scaling up and increased impact?

Objectives and impacts

The National Solidarity Program and National Emergency Employment Program were designed, on the basis of international post conflict experiences and lessons learned, as complementary initiatives. Both seek to instill principles of entitlement for Afghan citizens through sustainable nationwide transfers and management arrangements. These transfers include both financial resources (block grants to communities under the National Solidarity Program, investments in infrastructure for local governments, and cash payments to households under the National Emergency Employment Program) and services to strengthen institutions (primarily to community development councils under the National Solidarity Program, and to public administrations and private enterprises under the National Emergency Employment Program).

The National Solidarity Program supports small-scale reconstruction and development projects identified by communities, and empowers them to make decisions and control resources

during every stage of the project cycle—providing a national foundation for democratic governance and poverty reduction. It aims to cover every village in Afghanistan within four years. The National Emergency Employment Program provides a safety net for vulnerable Afghans by creating productive employment opportunities and establishes mechanisms for developing infrastructure (particularly roads) using labor-based methods, based on an approach led by the private sector.

It is far too early to judge the success of either program, and even their potential impacts need to be considered in context. Afghanistan has an uncertain future. Requirements for sustainable poverty reduction extend far beyond the programs' boundaries and into the international dynamics of political economy. This is so even to the extent that these programs are inspired by international best practices and achieve impressive scaling up-up, full international financial backing, and support from the highest levels of government. Major strides have been made in the past two years, but in the current context there are no fast tracks to state building or guarantees of what lies ahead. Thus, a cautious approach is needed. Moreover it should be stressed that existing analysis is based only on preliminary data and reports from key stakeholders, as management information systems are currently under development.

Ambitious targets for accelerated scaling up-up have been set for grant-funded community projects (under the National Solidarity Program) and for jobs to develop rural infrastructure (under the National Emergency Employment Program). Given the challenges of advancing reconstruction in the fragile postconflict environment, and of installing coherent systems rapidly to accelerate project implementation by a wide range of stakeholders, initial expectations for pilot initiatives may have been somewhat unrealistic. Still, with more than a year of experience, the stage is set for scaling up.

Despite the political imperative to demonstrate immediate and tangible results, some of the most significant achievements to date of these pioneering programs may not have received sufficient recognition. The enormous challenges of expansion have required further outreach, moving beyond households and villages to the national agenda for policy reform, to institutional restructuring, and to international relations—where inspiring confidence will secure lasting support.

Driving factors

Four factors are emerging as critical to the existing and continued success of the National Solidarity Program and National Emergency Employment Program. The first is political commitment. The national development budget has been used to support policy reform, making it possible to channel international financial assistance according to government investment priorities. To that end, the government recently issued a seven-year investment plan that includes the \$1.3 billion required for the two programs.

Second, innovative arrangements have been crafted to achieve the service delivery and capacity-building objectives of national programs. This has been helping to overcome two decades in which the public administration was eroded by the exodus of trained personnel, the collapse of a meaningful payroll system for civil servants, and a lack of exposure to new approaches. The National Solidarity Program and National Emergency Employment Program have been instrumental in reforming the government's role as project facilitator, with private and civil society organizations acting as implementers. But the private sector and civil society also have limited capacity, and successful scaling up of the two programs will depend on parallel scaling up of complementary support measures—ranging from regulatory and legal frameworks to microfinance and other support service delivery mechanisms. For the National Solidarity Program, the establishment of community development councils has been a central component of operations.

Third, as priority national programs, the political pressure to accelerate expansion must be balanced with the need to systematically harness opportunities for ongoing learning and experimentation. Within the National Solidarity Program, implementation arrangements are highly conducive to sharing experiences among 22 facilitating partners. The most powerful drivers for learning and experimentation often lie within communities. Further efforts are required to strengthen communication between communities and local governments, to promote exchanges and learning among communities, and to establish mechanisms for participatory monitoring and evaluation. In addition, care is needed to ensure a gender-sensitive approach, to promote the equity and empowerment objectives at the core of both programs.

Finally, the enormous challenges of Afghanistan's reconstruction agenda show the extent to which crises can generate opportunities for progressive reform and social transformation. Lessons from Bank experiences with introducing a community-driven approach in politically complex situations (for example Indonesia's Kecamatan Development Program and recent experience in East Timor), have been especially influential for policy reforms. Other technical agencies are supporting the development of delivery mechanisms to build the confidence of foreign donors and sustain financial support.

Lessons

Securing Afghanistan's future will obviously require much more than a couple of poverty reduction programs. Still, as the first-priority national programs to be implemented, and with more than a year of experience, the potential significance of the National Solidarity Program and National Emergency Employment Program for Afghanistan's reconstruction is becoming increasingly apparent. Together the programs have provided an essential focus point for key stakeholders at all levels, building consensus and providing a clear vision for policy and institutional reforms.

This catalytic role, while not explicitly recognized in program objectives, has been essential in accelerating the reform and restructuring—in the public administration, private sector, and civil society—that drives successful scaling up. The early experience with the two programs points to five key lessons:

- Transformative poverty reduction programs can be harnessed as catalysts for policy reform.
- Investing in institutional restructuring and strengthening is essential to accelerated scaling up.
- Pilot initiatives can play a key role in building experience and confidence.
- Sustainability issues—fiscal, political, and social—must be addressed from the outset.
- The long-term agenda for successful scaling up needs to be pursued at the same time as other reforms.

Afghanistan stands at a political crossroads. In this context the National Solidarity Program and National Emergency Employment Program represent the government's new policy orientation and, by incorporating proven international design features, have begun to contribute to its realization. With successful scaling up, these programs' contribution to Afghanistan's future will ultimately be determined by the extent to which they are able to support Afghans in deciding for themselves where their national interests and priorities lie.

Brazil's Bolsa Familia Program

As part of its dual focus of maintaining macro stability while achieving more equitable growth and rapid social progress, Brazil's government is undertaking sweeping reforms to improve its social safety net. The issue of combining the federal government's cash transfer programs was part of President Lula da Silva's election platform. This discussion continued into 2003 within the Social Policy Council and culminated in the launching of the Bolsa Família Program and the establishment of an executive secretariat to oversee it in October 2003.

The political conditions created by the election of the new government gave further impetus to the debate at all three levels of government on the issue of combining the federal government's cash transfer programs and coordinating them with other social programs and policies as a way of addressing the flaws and inequities in social spending in recent years.

The reforms seek to integrate several federal programs, including Bolsa Escola, Bolsa Alimentação, Cartão Alimentação, and Auxílio-Gás. Each of these programs had maintained its own emphasis—promoting schooling, health care, food consumption, or compensating for adjustment—while providing cash transfers to roughly the same target group of poor families. Each was managed with separate administrative structures, beneficiary selection processes, and banking-sector contracts for issuing payments. These separate structures created inefficiencies and administrative duplication, resulted in considerable gaps and duplications in coverage, and missed important synergies from jointly promoting education and health. The reforms integrate these programs (and possibly others later) into a single, improved conditional cash transfer (CCT) program called the Bolsa Família Program.

The new program builds on the foundations of previous programs and increases their impact through strengthened institutional arrangements, targeting, monitoring, and evaluation. Its main objectives are:

- Reducing poverty today through a direct monetary transfer to poor families
- Reducing poverty tomorrow by providing incentives and conditions for investments in human capital on behalf of beneficiary families.

The program has three important focal points: (1) the family unit (as the entity receiving the benefit and bearing the responsibility of meeting program requirements); (2) decentralization partnerships with states and municipalities; and (3) a Cadastro Único dos Programas Sociais (Unified Registry of Social Programs) as a policy planning and administrative tool.

The program's objectives include creating pathways for beneficiary families to escape poverty and hence graduate permanently from the program; promoting local development; ensuring that the poorest segment of the population receives priority; making more effective use of resources; unifying, expanding and streamlining cash transfer programs; and finally, removing incentives for sector-based cash transfer policies (such as the previous programs combined under the Bolsa Família Program).

The key to effectiveness is institutional coordination—within government, between levels of government, and between government and society. Such coordination distinguishes Bolsa Familia from its sector-based predecessors. The main players in the federal arena are the Bolsa program's national secretariat (which is directly linked to the office of the president), the new Ministry of Social Development and Combating Hunger, the sector ministries, and the Caixa Econômica Federal

(Federal Savings Bank), in its capacity as the entity operating the Cadastro Único and responsible for payment.

The interaction between this type of targeted CCT program and the provision of more universal “supply side” services for health and education is complementary: On the one hand, the provision of quality health and education services is clearly a crucial requirement for conditional transfers to work; as such, efforts should be made to simultaneously invest in such services. On the other hand, even if health and education services were universally available, CCTs would be needed to help alleviate common demand-side constraints (direct and indirect costs) that prevent poor households from using those services.

The program will make cash transfers of \$17–33 to families with monthly per capita incomes below \$33, with higher benefits and priority granted to the extreme poor with incomes below \$17. These amounts were set with the goal of minimizing the number of people benefiting from the previous programs who might lose under the integrated program. The exact transfer amount will depend on income levels and household composition. Monthly transfers are expected to average about \$24 per beneficiary family (which would represent a scaling up in average benefits from the previous programs). On a per capita basis, the average transfer represents about 19 percent of the poverty line used by the World Bank and 6 percent of the minimum wage.

The transfers are conditional on all family members complying with key human development conditions as part of an important policy shift towards focusing assistance on the family (rather than on individuals). Previous programs provided support and conditions only for some individuals within the family. Synergies are expected from the simultaneous promotion of investments in health and education for all family members.

The political support of Brazil’s president for a more results-oriented approach in the social arena is clearly the reason for the extraordinary performance of the Bolsa Família Program. By December 2003, 32 percent of poor families in Brazil had received benefits from the program. The Northeast and Central-West regions had the highest (40 percent) and lowest (18 percent) rates of coverage. Coverage is still low in some states in the North (Rondônia and Roraima) and quite high, up to almost 50 percent, in four states in the Northeast (Piauí, Ceará, Rio Grande do Norte and Paraíba). At the same time, strong intergovernmental partnerships have already led six states to pool their efforts during the first stage.

Bolsa Família is rapidly becoming one of the Brazilian government’s major social initiatives. It seeks to reach 3.6 million families by the end of 2003 and 11.4 million families (or about 44 million people) by 2006. This represents a significant scaling up of social assistance as compared with the (overlapping) coverage of its predecessors, the largest of which covered approximately 5.7 million families in 2003.

Bolsa Família will require a significant increase in financing, beginning with a planned budget of \$1.9 billion in 2004 (about \$330 million higher than spending on the separate programs in 2003), reaching a total of more than \$11 billion over the period from 2004 to 2007. The program is also seeking better complementarity and a pooling of resources with state and local programs for expanded coverage.

It remains to be seen if the Bolsa Família Program under the new ministry will retain the desired flexibility and institutional capacity and if it will be possible to harmonize agendas related to social welfare, combating hunger, and the Bolsa Família Program.

These problems must be targeted by new initiatives to create an integrated approach to evaluating and monitoring the program, coordinate with other initiatives in the social realm and with agencies that generate technical know-how, improve the targeting system (eligibility and selection criteria) and the Cadastro Unico, streamline ways of graduating from the program, develop different strategies for small and large municípios (for food security and the Bolsa Família Program), create better institutional conditions in the poorest municípios, and include civil society in implementing, monitoring, and evaluating the program.

Brazil: Favela-Bairro—Scaled-up Urban Development

Probably the best-known urban upgrading program in Latin America, the Favela-Bairro program is considered a reference for urbanization of informal settlements. Favela-Bairro is a significant example of effective urban interventions in infrastructure and social services that are organized according to a life-cycle perspective, with ample community participation.

Origins and components of the program

Once the municipality of Rio de Janeiro acknowledged the problem of long-neglected slums (*favelas*), the Favela-Bairro program developed policies to address this issue and methodologies for proper implementation. Favela-Bairro originated from the Program of the Urbanization of Popular Settlements of Rio de Janeiro, which began as a self-help favela urbanization program in which the municipality performed, and financed, sanitation and street improvement works by hiring labor from within the beneficiary communities.

Innovation: no displacement, participation, and integral approach

Instead of relocating the slum's population, Favela-Bairro's basic approach was to maintain the residents in the areas they occupied and bring to them the services available in more prosperous city neighborhoods. In order to select urban upgrading projects, *contest* and bidding process mechanisms were implemented for each favela. Moreover, residents participated in selecting proposals for interventions in infrastructure, social services, and employment-generation programs. In addition, Favela-Bairro included components of community development, sanitation, and environmental education, as well as support for the regularization of irregular settlements.

Transparent selection of neighborhoods

To avoid the costly politicization in the selection of the favelas to be included in the program, transparent and technical criteria were implemented. In order to increase the urban impact of the intervention, the selection of favelas used a system of ranking based on poverty indicators, cost-effectiveness, and strategic aspects that favored favelas located in the same area. The adoption of these selection criteria from the outset confirmed the program's apolitical nature and protected it from any partisan interests. This was a significant factor in the public's perception of the program's transparency.

Continuity between administrations

Successive city administrations have provided continuity to the program. The first stage took four years to accomplish its goals and was recognized as a tremendous success both by its beneficiaries and overall public opinion. In those four years, the program benefited 195,000 people living in 55 favelas, and an additional 25,000 living in 8 irregular subdivisions.

The success of the first phase of the program persuaded the city government to increase the scale of the operation. Phase II was therefore designed systematically to apply a revised, integrated upgrading methodology. The goal of the second phase, which began in 2000, is to benefit an additional 89 favelas (320,000 people) and people living in 17 irregular subdivisions.

From the beginning of the program, the financial and technical support of the Inter-American Development Bank has played an important catalytic role for Favela-Bairro.

Impact

The major effects of the program, among many others, relate to (i) improving the standard of living of the residents and surrounding neighborhoods; (ii) improving health conditions, with direct reflections in health indicators; (iii) increasing the value of the real estate of slum residents (overall property value has increased between 80 and 120 percent in the favelas that are part of the program); (iv) reducing poverty-related risks in the most vulnerable groups (children, teens, female heads-of-households); and (v) improving the technical skills and competitiveness of the residents, thereby increasing their ability to find work and earn income.

Critical factors of success

The factors that were critical to the program's success and that made it a benchmark of urban upgrading are that (i) it rightly addressed challenging and socially relevant issues in urban and human terms; (ii) it was implemented efficiently, with sound financial and managerial controls, transparent selection criteria, and a high degree of community involvement; (iii) it adopted a methodological approach that integrates a holistic vision of urban poverty with a life-cycle-based social services focus; and (iv) it triggered broad public opinion support because of the wide dissemination of its significant social, urban, and economic impacts.

Physical and social investments with community participation. Urban strategies for dealing with urban poverty and slums in the 1960s and 1970s relied too much on subsidy schemes that were often misdirected to middle-income families. Many housing developments were built only to be rejected by their residents or to become vertical slums, and were created by institutions that eventually became too big, too expensive, and ineffective.

Bridging the gap between the formal and informal city requires concerted policies intended to transform squatter settlements into regular neighborhoods by providing them with legitimate infrastructure and regularizing their land tenure situation. This upgrading process is often more economical and effective than other forms of urban intervention, such as resettlement or housing subsidies. Although this approach has been attempted in the past, the new emphasis has been on a comprehensive intervention while ensuring its sustainability and replicability. The combination of physical and social investments should permanently elevate the area's rank from slum to that of a regular neighborhood, and should be tailored to the demands of the communities. This participative process ensures that the project will address the real needs of its beneficiaries.

Some strategies for community participation include involving the community in the decision-making process of the project from inception to completion; organizing neighborhood associations and using them as a channel for communicating with the rest of the community; and using neighborhood associations to provide services such as garbage collection, child care, and reforestation.

The social macro function. Favela-Bairro's implementation had a number of features that enabled it to overcome the difficulties inherent in such a complex multisector and multi-institutional program. A permanent intersectoral committee—the *social macro-function*—and a technical group to

support its decisions was created to ensure a good level of coordination among the several departments involved in the project implementation. This social macrofunction joined up the municipal departments of education, health, housing, social development, culture, sports and leisure, and later labor.

Project management model. Favela-Bairro's experience demonstrates the effectiveness of a management-by-projects approach in such complex operations. The introduction of professional managerial methodologies that enabled managers to coordinate all interventions and to follow up progress in each neighborhood has been a crucial element for efficient supervision and control.

The correct methodological approach. The integral approach strategies adopted by Favela-Bairro consist of proposals of integrated and participative actions. The path that goes *from welfare to work* should combine programs and services for human and social development with labor and income-generation opportunities. To be viable, however, social promotion interventions should be focused on geographical areas with a high concentration of poverty, specifically on the poorest families.

An intersectoral, decentralized, and participative approach can produce synergetic effects capable of providing greater impact for poverty and inequality reduction policies, and capable of contributing to their sustainability.

Although Favela-Bairro has been based on the idea of integrated urban infrastructure interventions, initially the program did not incorporate all the basic components of an integral approach strategy. These components were gradually incorporated into its design as a result of the participatory process and the transformations that occurred in the municipal administration.

Favela-Bairro is the result of an evolving process that resulted in the creation of a typical integral development model with a territorial base that incorporates life-cycle perspectives.

Public perceptions. Rio de Janeiro inhabitants, either living in favelas or not, recognize the importance of the Favela-Bairro Program. A public opinion poll carried out in 2003 asked *cariocas* (as Rio residents are called) to choose from a list of governmental programs the one to which the next mayor should give priority. Favela-Bairro was chosen in first place in all three rounds of the survey. The same institute asked respondents about the most important project for the city, and again Favela-Bairro ranked first: 26.1 percent of respondents have elected Favela-Bairro as more important than programs such as minimum income, popular restaurants, and even essential works in major city roads.

The scaling-up effect: influencing other regional programs

The Favela-Bairro program has indeed been promoting a scaling-up effect not only in Brazil, but also in other countries. Favela-Bairro inspired similar initiatives in the area of neighborhood upgrading in at least six other countries: Argentina (National Neighborhood Upgrading Program, 1996), Ecuador (Housing Sector Support Program, 1997), Bolivia (Housing Sector Reform Program, 1998), and Uruguay (*Municipal Development*, 1997 and *Integration of Informal Settlements*, 1999). In Brazil, other programs were inspired by the success of this program: in Rio de Janeiro, the *Baixada Viva* program (1997); in São Paulo, the *Slum Upgrading Program* (1996); and the national reach upgrading program *Habitax Brasil* (1998).

Lessons learned: from small to large scale

Despite the inherent complexities of slum-upgrading projects, technical problems are not the biggest difficulties in moving from small or pilot programs to large undertakings that can have a significant

urban impact. What is most important to this expansion is acceptance of the upgrading policy. In this case, the integrated multisectoral and life-cycle-based approach is a legitimate and effective form of public policy.

Only integrated solutions produce significant improvements on the quality of life of the urban poor. Although integral approaches are more costly, in this case because of significant complementarities and synergies, marginal benefits are even larger. Certainly this outcome has helped to ensure the necessary funds to support a large-scale effort either at the local or the national level. Single sectoral solutions do not solve complex urban problems.

China's Southwest Poverty Reduction Project: A Multisectoral Approach

The China Southwest Poverty Reduction Project (SWPRP), implemented in 1995–2001 in the Guangxi Autonomous Region and the provinces of Guizhou and Yunnan, covers 35 of China's poorest counties, with about 2.8 million primary beneficiaries. The project areas are dominated by the *karst* topography, common in Southwest China, that features limestone mountains marked by sharp peaks and ridges, with sinks and underground caverns. Cultivable land is found only in the sinks and valleys. The picturesque karst landform unfortunately makes for harsh conditions for people living in the rural areas.

SWPRP was the first World Bank Group-supported project in China to use an integrated multisectoral rural development approach to attacking absolute poverty in a severely resource deficient area, where single-sector programs cannot achieve sustainable poverty reduction. Closely linked to China's national poverty reduction program, SWPRP's principal objectives were to (a) demonstrate the potential of a multisectoral approach to poverty reduction at the village level, (b) develop a program to find employment for the rural poor in the rapidly growing urban areas of China, (c) upgrade poverty monitoring at the national and local levels, and (d) significantly reduce poverty in these very poorest counties in southwestern China. The project cost at completion was \$464 million (5 percent below the appraisal estimate). The Bank provided a loan of \$47.5 million and an International Development Association credit of \$200 million equivalent.

Project genesis

In the early 1990s, China's Leading Group for Poverty Reduction (LGPR) collaborated with the Bank to produce the 1992 study, *China: Strategies for Reducing Poverty in the 1990s*. This study concluded that poverty was now heavily concentrated in rural, upland areas of China's interior, where agricultural growth had stagnated and growth of rural enterprises had not been significant. The report emphasized the limited access to education and poor health conditions in these areas, and made the case for increased fiscal transfers to the poorest communities. Arguing that the prospects for improved growth in agriculture and rural enterprises in some of these areas were relatively limited, the report took the view that a broader multisectoral approach was instead necessary to overcome poverty in the most disadvantaged areas. This multisectoral approach should include support for public health, basic education, rural infrastructure, and increased inter-regional labor mobility. It was also recommended that an improved poverty monitoring system be established. The study was released at an International Conference on Poverty Issues in China held in Beijing in October 1992. Attending were high-level representatives of the Chinese government, World Bank, United Nations, nongovernmental organizations, and academia. At the end of the conference, the government and the Bank proposed to operationalize the study's recommendations through a Bank-assisted project to reduce poverty in southwestern China.

Recommendations of the *Strategies* study were also reflected in the National Seven-Year (1994-2000) Plan for Poverty Reduction, known as the 8-7 Plan, which the government introduced in 1994 to target increased investment to the remaining absolute poor in designated poor Chinese counties. (The 8-7 Plan is discussed in another case study.) The Southwest Poverty Reduction Project was undertaken as part of the 8-7 Plan.

Project description

Support was provided through six components for: (1) social services, including education and health; (2) labor mobility; (3) rural infrastructure, including roads, drinking water systems, electrification, and other small rural works; (4) land and farmer development, including support for grain and cash crop, tree crop, and livestock production; (5) development of town and village enterprises (TVEs); and (6) institution building and poverty monitoring.

Achievements

The project was very successful in demonstrating the effectiveness of a new multisectoral poverty reduction model and in directly involving senior policymakers in the design and implementation of this new model. While previous multisectoral projects in other countries had experienced difficulties, this one was a success. Many of the key lessons of the Southwest Poverty Reduction Project—including the multisectoral and multiyear project approach, with benefits targeted to the poorest townships and villages—have now become part of China's national poverty reduction policy and been extended to poor counties throughout the country. The project's approach was also subsequently extended under the Bank-assisted projects for Qinba Mountains Poverty Reduction, Gansu and Inner Mongolia Poverty Reduction, and a proposed Poor Rural Communities Development Project. The same model was adapted in a Vietnam Northern Mountains Poverty Reduction Project.

Among the achievements was an upgrading of poverty monitoring at national and local levels, with the National Bureau of Statistics (NSB) completing annual sample surveys of households in project and non-project areas. The database thus created allowed for objective measurement and analysis of what worked and what did not. Based on the questionnaire adopted for the Southwest Poverty Reduction Project, NSB is now monitoring poverty in all of China's 600 nationally-designated poor counties.

On completion, the project was found to have had a strongly favorable impact on income levels, grain and other agricultural production, and the overall well-being of the majority of project area poor households. Specifically, the following improvements were realized from 1995 to 2001:

- An increase in per capita net income from Yuan 939 to Yuan 1,422 and increased per capita savings from Yuan 93 to Yuan 352
- A drop in the incidence of absolute poverty from 31.5 percent to 13 percent.
- Improved food security, as indicated by a drop from 17.7 percent to 4 percent in the population, with per capita grain production below 150 kilograms per year
- An increase in sixth grade completion rates from 46 percent to 78 percent
- Increased girls' enrollment, as indicated by a reduced education gender gap from 86 percent to 97 percent

- A decline in infant mortality from 5 percent to 2 percent in Guangxi and from 8 percent to 5 percent in Guizhou
- Increased village access to road transport, drinking water, electricity, and other basic infrastructure.

The labor mobility component was notable in benefiting the project's absolute poor and having significant policy implications at the national level. Overall, about 280,000 people were assisted in securing seasonal and long-term off-farm jobs, thus increasing the rate of labor mobility from about 8 percent to 12.5 percent and providing remittances to the home villages totaling about Yuan 1,590 million. Participation in the labor mobility component was limited mostly to single young adults, and the remittances they sent home were more often than not sufficient to raise their entire family above the poverty line within a matter of months. The home families have used the remittances to improve their housing, buy grain and fertilizer, cover education and medical expenses, and in some cases to invest in family-run microenterprises. These achievements were in large part thanks to the strong commitment of the government and implementing agency to effective poverty reduction. Without this commitment, the many obstacles encountered during implementation could not have been overcome.

Shortfalls

While very successful overall, such an innovative and complex program is bound to encounter some difficulties and shortcomings. Here are three significant difficulties:

- While the basic health services component achieved its objective of increasing the accessibility and quality of health services to the poor, it did not establish a village cooperative medical scheme as envisioned. Without such a scheme, much of the improvement in basic health care services will deteriorate in the absence of continued government support.
- TVE development under the project was unsatisfactory. It was adversely affected by (1) cumbersome procedures and requirements for clearance of TVE proposals; (2) uncertain ownership of enterprises and inadequate counterpart financing; and (3) inadequate market analysis, poor product quality, and/or collapse of the market for certain products. The component was reduced in size during the latter years of implementation.
- While the overall labor mobility component went well, a subcomponent to generate employment opportunities in three Guangxi municipalities by supporting a poverty-reduction enterprise development zone; low-cost housing schemes; and activities in mariculture, agriculture, and tree plantation did not succeed. The subcomponent was eventually cancelled and the funds redirected to other successful activities.

Scaling-up features. In terms of scaling up poverty reduction, the project has demonstrated new approaches to labor mobility, village development planning, and poverty monitoring.

- *Multisectoral model.* By directly engaging senior policymakers in the design and implementation work, the project demonstrated the effectiveness of a multisectoral poverty reduction model in China's poorest areas. This approach has now become a dominant theme in China's national poverty reduction program.
- *Labor mobility.* In the 1990s, about 100 million rural inhabitants found off-farm jobs in towns and cities, mostly in the coastal provinces; but the upland poor comprised only a

very small share of this flow of migrant laborers. The SWPRP was the government's first attempt to organize and support a voluntary system of labor placement for the upland poor in safe off-farm jobs. Over time, the outflow of labor from all of China's upland poor areas has grown and by now represents a large and growing share of the entire labor movement. SWPRP convincingly demonstrated that labor mobility is an extremely effective poverty reduction measure. The government at all levels now actively supports labor mobility, and labor mobility has become an important element in China's overall poverty reduction program.

- *Village development.* The Village Development Plan model first piloted and advanced under SWPRP has now been extended to 146,000 poor villages in China.
- *Poverty monitoring.* The SWPRP Monitoring Component had an impact that goes far beyond the project itself. A national poverty monitoring system drew heavily on the experience of the SWPRP in questionnaire design, sampling, and data collection; and it builds on methods developed under the SWPRP. Staffing of the national poverty monitoring offices at the central and provincial levels has also drawn on the SWPRP personnel. Since 1997, China has conducted a national poverty survey that covers all nationally designated poor counties, and the National Bureau of Statistics (NBS) now publishes an annual *Poverty Monitoring Report of Rural China*.

China: The East Helping the West to Reduce Poverty—Shanghai and Yunnan

Since the late 1970s China has achieved miraculous economic and social development. Yet since the 1990s there have been growing disparities between the country's urban and rural areas and between regions—especially between the east and some parts of the west. Accordingly, an important part of the central government's strategy for increasing national cohesion and alleviating poverty and inequality has involved requiring cities and provinces in prosperous coastal regions to form partnerships with provinces in the low-income hinterlands.

Among these is a partnership between Shanghai—one of the first parts of the country to benefit from economic reforms—and Yunnan—which contains more than 10 million poor people, reflecting (among other things) its harsh geography, inconvenient transportation, and shortages of technology, information, education, and human capital. In 1996 Shanghai began supporting poverty reduction projects in three of Yunnan's poorest prefectures (Simao, Honghe, and Wenshan), and by the end of 2003 had contributed 420 million yuan to these projects, with most funds coming from Shanghai's municipal, district, and county governments and the rest from social donations. The projects are designed to reduce poverty; enhance bilateral economic cooperation, and promote social development.

Activities and outcomes

The projects involve many activities to improve the living conditions and production standards of poor people in Yunnan:

- Building roads, housing, systems to provide clean drinking water and adequate food and clothing, and other infrastructure.

- Supporting households with cropping and animal husbandry, and providing microfinance to meet their production needs.
- Increasing rural incomes by demonstrating new agricultural technologies and producing improved seeds.
- Fostering human resource development by providing training in science and technology and exporting workers to other parts of China.
- Promoting social development by constructing village health posts and primary schools, and by helping children from poor households attend school.
- Advancing economic cooperation by acquiring enterprises in Yunnan, transferring industries, and cooperating with Yunnan on tourism, environmental protection, science and technology, and services such as commerce and trade.

These projects have significantly reduced poverty in Yunnan—especially in villages that have achieved adequate coverage for food and clothing, where more advanced experimental interventions have been pursued. In such villages the incidence of poverty has fallen below prefecture averages and continues to decline, supported by growth rates higher than the averages for the three prefectures. Between 1998 and 2002 per capita grain holdings nearly tripled in these villages—while per capita incomes increased by almost nine times.

Projects in these experimental villages have also generated a positive social response. First, they have changed farmers' way of thinking, inspiring them to actively seek methods of development. Second, farmers' means of production have changed from traditionally crude management to technology-based production. Third, lifestyles have changed, with farmers paying more attention to hygiene and carefully scheduling their daily lives and production activities. Fourth, the implementation of poverty reduction projects has been a model for surrounding villages, especially when supported by dissemination, training, and demonstration. Most farmers have learned one or two practical agricultural skills, increased productivity by adopting new technology, and strengthened their ability to withstand both natural and market risks.

Moreover, social indicators have improved throughout the prefectures, with fewer students dropping out of primary and junior high school—providing a strong foundation for reducing poverty. Similarly, health care investments have greatly improved health conditions, with dramatic reductions in maternal mortality, infant mortality, and under-five mortality between 1997 and 2003.

Factors for success

Many elements have supported Shanghai's strategy for helping Yunnan reduce poverty. First, in pursuing large-scale poverty reduction, governments possess significant advantages over markets and civil society in mobilizing funds and other resources. Thus government involvement is essential for poverty reduction efforts to fully succeed. During 1992–2001 Shanghai's GDP grew by an average of 12 percent a year. This strong growth increased government income—crucial for supporting Yunnan's poverty reduction projects.

Second, Shanghai has done an excellent job of helping to implement projects and participate in some aspects of project management, but it has not overstepped its boundaries and tried to handle affairs within Yunnan. To that end, Shanghai has selected talented coordinators to support Yunnan's poverty alleviation offices, and project supervision and evaluation are mutual responsibilities.

Third, poor people are actively engaged in poverty reduction projects, and are required to participate, for example, in the construction of infrastructure and housing. In addition, beneficiaries have developed new projects based on their learning from the management and implementation of old projects.

Finally, differences in industrial structure enable enterprises in Shanghai to transfer manufacturing capacity to Yunnan, promoting economic growth there and so contributing to poverty reduction. In recent years there has been a significant increase in cooperation between enterprises in Shanghai and Yunnan, with Shanghai's enterprises investing 440 million yuan in Yunnan in 2003.

Principles and lessons

Shanghai's efforts to help Yunnan have given high priority to meeting poor people's basic needs, emphasizing projects that directly benefit them. They have also paid attention to poor people's lasting capacity to generate incomes by developing activities in accordance with local comparative advantage, once basic food and housing needs have been met. In addition, projects have focused on basic social development (in primary education and health care), which will benefit poor people over the long run. Finally, they have used a comprehensive approach of integrating funded projects with personnel assistance—sending staff with expertise in management and innovation to participate directly in project development and management, and in learning from and scaling up these experiences.

The case of Shanghai helping Yunnan shows that help and cooperation between a country's subnational units can mobilize the resources of governments and civil society organizations in both—helping to reduce poverty and achieve other impressive outcomes in a relatively short period. Shanghai's experience is especially important for developing countries with substantial disparities between regions and with weak central capacity for making fiscal transfers to poor areas and implementing poverty reduction projects there.

Mexico's *Oportunidades* Program

Oportunidades is the principal anti-poverty program of the Mexican government. (The original name of the program was Progresa; the name was changed in 2002.) *Oportunidades* focuses on helping poor families in rural and urban communities invest in *human capital*—improving the education, health, and nutrition of their children—leading to the long-term improvement of their economic future and the consequent reduction of poverty in Mexico. By providing cash transfers to households (linked to regular school attendance and health clinic visits), the program also fulfills the aim of alleviating current poverty.

The program design was based on the idea that poor families do not invest “enough” in human capital and are thus caught in a vicious circle of intergenerational transmission of poverty. According to *Oportunidades*'s vision, poor families are aware of the benefits of investing in their children but cannot afford the monetary costs of attending school or the opportunity costs of sending children to school (the income or value of income that children would earn if they were working, rather than attending school). Since families need this income for current consumption, they take their children out of school at early ages and send them to work. Thus, the idea of *Oportunidades* is to provide parents the equivalent of that income to send their children to school instead.

Oportunidades provides monetary educational grants to participating families for each child under 22 years of age who is enrolled in school between the third grade of primary and the third

grade of high school. The program began operating in 1997 in poor rural areas and recently expanded to cover urban areas. The number of families benefiting from Oportunidades has surpassed 4 million, with over 2.5 million families in rural areas and over 1.5 million in urban areas. Oportunidades also has won a significant commitment from the government, currently representing 46.5 percent of Mexico's federal annual anti-poverty budget.

Implementation

The critical design and implementation of Oportunidades includes many features. The three chief components of Oportunidades are education, health, and nutrition. Under the education component, grants are provided for primary through high school. The grants increase as children progress to higher grades and, beginning at the secondary level, are slightly higher for girls than for boys. The amounts of the monthly grants range from about \$10.50 (105 pesos) in the third grade of primary to about \$58 (580 pesos) for boys and \$66 (660 pesos) for girls in the third year of high school. Beginning with secondary school, the grants are higher for girls to remain in school because they tend to have a higher drop-out rate.

The health component provides basic health care for all members of the family, with a particular emphasis on preventive health care. This service is provided by government public health institutions. The nutrition component includes a fixed monetary transfer, equal to about \$15.50 (155 pesos) monthly, for improved food consumption, as well as nutritional supplements for children between the ages of four months and two years, malnourished children aged 2 to 4, and pregnant and lactating women.

The program is targeted, using both geographical targeting and proxy means tests, where household surveys for all households in eligible communities are carried out. Families are chosen through the analysis of the socio-economic information at the central government level. Payments are given to the female head of family (in accordance with international literature showing women make *better* use of financial resources);

The program was conceived and staffed by a group of experienced and highly credentialed government officials in different ministries of the government and with strong presidential support. This has carried over to an effective collaboration between the education, health, finance, and social security ministries of the Mexican Government on the operation of the Program.

It has a rigorous, ongoing evaluation process, with the first stage administered by an external and independent organization, the International Food Policy Research Institute (IFPRI). The credibility of this evaluation has helped strengthen the program's legitimacy in Mexico, leading to its expansion into urban areas as well as support across political administrations, and to international recognition, including a loan of one billion dollars from the Inter-American Development Bank.

Oportunidades impact analysis: credibility and effectiveness

Oportunidades was the first social program in Mexico to carry out a rigorous independent evaluation of program impacts that included randomly assigned treatment and control groups. Given the size and ambitions of the program, program officials emphasized the importance of accurate, credible data as a strategy to measure effectiveness and to try to ensure that the Program would survive changes in government. An external firm, the International Food Policy Research Institute (IFPRI) was hired to conduct the evaluation, along with some academic economists.

The results of the IFPRI evaluation can only be characterized as extremely positive. In the words of the Coordinator of the Oportunidades-IFPRI evaluation, Emmanuel Skoufias:

The results of the evaluation of IFPRI show that after only three years, poor Mexican children living in the rural areas where Oportunidades operates have increased their school enrollment, have more balanced diets, are receiving more medical attention, and are learning that the future can be very different from the past.

Important positive impacts were reported in school enrollment, health clinic attendance, and nutrition. In the case of education, the largest impacts were reported on children who enter secondary school, where impacts represent a percentage increase of enrollment over 20 percent for girls and 10 percent for boys. Significant health and nutrition effects were also reported. Oportunidades children 1-5 years have a 12 percent lower incidence of illness than non-Oportunidades children (Gertler 2000). Additionally, data suggest that Oportunidades has had large impact on increasing child growth and in reducing child stunting. Behrman and Hodinott (2000) report an impact of Oportunidades equivalent to an increase of 16 percent in mean growth rate per year (corresponding to 1 cm) for children who received treatment between 12 and 36 months of age.

While the first phase of the Oportunidades evaluation concluded in the year 2000 (with the end of the three-year contract with IFPRI), there have been a number of important continuing efforts in the evaluation. Given the expansion of the program to urban areas, a new urban evaluation is under way. Additionally, the rural evaluation is continuing with the objective of analyzing the medium term impacts of the program, such as the effect of increased schooling on the future income of its participants.

Changes in the program

There have been two principal modifications in Oportunidades, in large part, due to the IFPRI evaluation. First, the program has been extended to urban areas. Oportunidades was originally a rural program focused on primary and secondary education, although its plan was to first achieve a generalized coverage in rural areas and then slowly extend to poor urban areas. This is exactly the pattern that has evolved.

The second important change has been the extension of education grants to the high school level. And, the Fox administration recently announced a new component of Oportunidades called “Youth with Opportunities” (Jovenes con Oportunidades), a savings plan for participating high school students that grows with each year, from ninth grade through graduation.

Some lessons learned

The positive impacts of Oportunidades show that conditional cash transfer programs of this nature can be an effective feasible instrument in both reducing current poverty as well as improving the future of children through increased investment in their health and education.

The experience of Oportunidades also shows that it is feasible to carry out a targeted conditional cash transfer program on a very large scale even within poor isolated areas with few services, and in particular in a developing country with a limited welfare state (Scott, 2003).

Among the important factors behind the success of the program is that the initial evaluation was planned from the beginning of the program. This ensured the feasibility of having a control group and also insured that results were available at an early juncture in the program, when program changes are easier to carry out and when programs may be more susceptible to budget cuts. Involving prestigious academics in the evaluation also was important; this made the credibility of the results difficult to question.

Peru: Innovative Strategies for Reducing Poverty in the Southern Highlands

International Fund for Agricultural Development

Peru, the fourth largest country in Latin America, is a severely indebted middle-income country that achieved only slight reductions in poverty in the late 1990s. The largest concentration of the rural population is in the Andean Highlands—one of the country's three main zones—where 4.2 million rural people are poor, with 73 percent living in poverty and 27 percent in extreme poverty in 2001. The government's strategy for reducing poverty in the rural highlands involves promoting sustainable growth to increase incomes, enhancing human development by providing education and health care, as well as social protection to people bypassed by growth, and strengthening local institutions to enhance people's capacity to manage their affairs, improve their lives, and raise their self-esteem.

A new approach to rural development

In the Southern Highlands the approach to rural development and poverty reduction has shifted from providing supply-driven extension and related services to empowering farmers and meeting their demands for investments and services of their own choosing. This change has strengthened peasant communities and women's organizations, making them the driving forces of development. It has also empowered communities by making them directly responsible for managing financial, natural, and social resources. Poor, marginalized communities are now involved in civil society and the formal economy.

Transferring decision-making power and authority over resources to communities and households has increased their incomes and assets and bolstered the legitimacy of communities responsible for planning and administering collective resources. It has also enabled them to become active economic and social stakeholders who exercise their rights as citizens, boosting their self-esteem.

IFAD's efforts

The International Fund for Agricultural Development (IFAD) has promoted and supported this new approach to development through a strategy that focuses on five main goals: improving management of and access to natural resources, increasing the assets of small farmers, improving access to services by developing markets and strengthening public and private service providers, increasing access to information and new business opportunities, and strengthening local development and identity—especially in areas with substantial cultural and ecological potential.

Four IFAD projects in the Southern Highlands, involving investments of nearly \$100 million, aim to reduce poverty by expanding the capital and asset base of the rural poor and increasing their access to services. The Promotion of Technology Transfer Project to Peasant Communities in the Highlands has been completed, the Management of Natural Resources in the Southern Highlands Project is nearly complete, the Development of the Puno-Cusco Corridor Project is under way, and the Market Strengthening and Livelihood Diversification in the Southern Highlands Project is not yet operational. The strategic thrust in all four projects is shifting from supply- to demand-driven service management by poor communities.

Scaling up

IFAD's demand-driven projects develop markets for local goods and services using an approach that transfers responsibilities for managing and administering public funds to users and community organizations. Efforts to scale up the projects occur at various levels:

- *From households to farmers organizations and communities.* The projects transfer responsibility for managing public funds to 180,000 families (nearly 1 million people), 1,100 farmer organizations, and 1,000 communities.
- *From natural resource management to wider economic activities with strong rural-urban market links.* These efforts have been supported by new training and dissemination tools that have spread new technological and economic approaches.
- *From one project area to the entire Southern Highlands.* The first project, to promote technology transfers to peasant communities, started in five departments of the Andean Highlands but eventually covered the whole rural area of the Southern Highlands.
- *From donor initiatives to government institutions.* The government has used the basic principles of the demand-driven approach used by IFAD projects in its poverty alleviation programs, especially through the National Compensation and Social Development Fund. Projects are chosen and applications prepared by communities, with some assistance from local Fund offices. Projects are then ranked according to a number of technical criteria, and the best local projects are selected. This procedure maintains competition and project quality while ensuring that projects meet local needs and desires.
- *From IFAD to other international donors.* The World Bank has incorporated the concept of transferring resources directly to beneficiaries in its rural development operations, such as the recently designed Highlands Development Project.

Results and future directions

The results of IFAD's projects in the Southern Highlands have gained momentum as policies have evolved and the state's role as service provider has waned, inducing the government to adopt a broader strategy of demand-driven service provision. Elements of IFAD's innovative experiences and local management tools are also being used by other governmental institutions, IFAD projects, and donors. Moreover, with the evolution of the IFAD projects, municipal governments have become co-financiers and stakeholders in projects, supporting complex demand, supply, and market linkages in their municipalities.

With greater inclusion, participation, power, and control over public resources and decisions by villagers, providers of services—including training and technical assistance—have become more responsive and accountable to beneficiaries. IFAD will continue to learn with and from its partners—local, governmental, and international—in its efforts to significantly contribute to empowering poor people and alleviating poverty.

Lessons

IFAD's efforts in the Southern Highlands offer several lessons:

- *The new approach required broad consensus and support.* Scaling up the demand-driven approach from a single project to the entire Southern Highlands would never have been possible unless the government and other development partners agreed to give decision-making power to poor rural households and communities. Similarly, this devolution of decision-making succeeded because these beneficiaries believed that it was important to expand government services in one economic subsector (agricultural extension) to cover a wider range of socioeconomic issues.

- *A synchronized process provided mutual support.* The demand-driven approach was implemented by building the capacity of households and communities while developing the skills and approaches of service providers. This parallel process depended on intensive feedback and mutual learning. Raising awareness among service providers about their accountability to client farmers and communities was crucial in achieving a lasting win-win situation. At the same time, farmers and communities had to bundle their interests and priorities to achieve critical mass and sufficient purchasing power—ensuring attention to and coverage of needed services.
- *Openness and transparency were essential.* Promoting intensive, ongoing dialogue and exchange of information with all stakeholders—at all stages—reduced controversies, helped meet expectations, and increased a sense of ownership of change. Still, the real drivers of this process and its support by third parties such as the World Bank and the National Compensation and Social Development Fund are the undeniable, enduring results achieved in poverty reduction. The IFAD projects have already provided significant benefits to more than 100,000 households, and efforts are still under way—showing the feasibility of Peru achieving the Millennium Development Goals.

HIV/AIDS

Cameroon: The Role of Social Marketing in HIV/AIDS Prevention

KfW—Kreditanstalt für Wiederaufbau

The HIV/AIDS epidemic is becoming the single biggest obstacle to reducing poverty and to achieving the Millennium Development Goals (MDG). While HIV/AIDS is not strictly a “disease of poverty”—since it affects people at all income levels—HIV infections disproportionately affect the poor and illiterate, with young women topping the list. The impact of HIV/AIDS is unique, because the disease hits adults in the prime of their lives, thus depriving families, communities and entire nations of their most productive citizens.

Cameroon already has more than its fair share of ill health to cope with—indeed, health indicators are now worse than they were 10 years ago. The additional burden caused by the HIV epidemic is worsening and promoting the spread of poverty. It is reversing human development, exacerbating gender inequalities, eroding government capacity to provide essential services and reducing labor productivity. HIV/AIDS thus has far-reaching ramifications for MDG attainment and related national poverty targets.

The Programme de Marketing Social au Cameroun (PMSC), implemented by the Association Camerounaise pour le Marketing Social (ACMS) since 1996 and financed by German Development Cooperation (KfW—Kreditanstalt für Wiederaufbau) since 2001, took up the challenge of reducing rates of HIV infection in 1989 by selling high-quality condoms at a subsidized price through private-sector channels. The ACMS has achieved high governmental recognition, is credited with a dramatic increase in condom use and is recognized for its effective behavior change campaigns.

PMSC was faced with the challenge of developing information and sensitization campaigns in a country characterized by multi-ethnicity, religious pluralism and remarkable socio-economic disparities in the various regions. Differences in acceptance of condom use are clearly shown by the provincial breakdown of per-capita condom consumption, which ranges from 3.4 condoms in more urbanized predominantly Christian areas to 0.3 condoms in northern regions with a lower socio-economic standing and Muslim population groups. The project is creative in meeting the challenge by giving special attention (e.g., radio broadcastings for youth) to areas with a low rate of acceptance.

Creation of ACMS institution was supported by an international NGO, Population Services International (PSI). PSI provides financial oversight, training, quality control and international exchange of best practices through formal representation on the ACMS board. This is complemented with representation by local independent board members who have no direct commercial interest in program activities. There are now five Cameroonian board members who act as antennae in the larger community and have helped the ACMS avert problems and take advantage of opportunities.

The fact that the ACMS is a true local institution increases opportunities and eligibility for donor funding.

Severely restricted by funding and limited by poor economic conditions from 1989 to 1995, the ACMS has been innovative with regard to its operations. Relying heavily on existing resources of the commercial sector, the ACMS has established a cost-efficient distribution system, maintained a lean organizational structure, and increased cost recovery. It has been creative in mobilizing funds to address the most vulnerable groups with targeted messages, and research has provided evidence of behavior change resulting from these interventions.

Complementary efforts by KfW focus on supporting social change and mobilization of vulnerable groups, including young women and people living with HIV/AIDS (PLWHA), thereby promoting an integrated approach to HIV/AIDS control. The ACMS's success has contributed to Cameroon's growing recognition of the potential contribution of the private sector for the achievement of social goals. This is seen as a necessary prerequisite for scaling up poverty reduction.

PMSC started its activities three years after the first case of HIV/AIDS was declared in Cameroon. At that time, PMSC condom promotion activities were regarded by many as being of a purely commercial nature. Expensive condom brands were available in pharmacies and were predominantly used for contraceptive purposes. Although the Ministry of Health had agreed to the widespread distribution of condoms—officially considered to be a pharmaceutical product—by PMSC, a formal agreement with the ministry was not signed until 1992. PMSC worked hard in the following years to earn acceptance and gain recognition by the ministry, the National AIDS Control Committee (NACC), and other governmental bodies created for the fight against HIV/AIDS.

ACMS sought close cooperation with the public sector as well as with a variety of NGOs. This was facilitated during the period 1996–2003 when it was funded within the framework of the regional USAID project Santé Familiale et Prévention du SIDA (SFPS). This multifaceted effort strengthened the capacity of public-sector health facilities and promoted acceptance of family planning and HIV prevention through community mobilization and social marketing.

At present, ACMS regularly supports small NGOs in their AIDS awareness activities, primarily through the donation of educational condom samplers. It also works more closely with larger NGOs such as CLAP (an NGO for commercial sex workers), the Cameroonian Family Planning Organization (CAMNAFAW), and the Society for Women and AIDS in Africa (SWAA), mostly in connection with sensitization events.

During the program's lifetime, *changes in scale* have been many and multifaceted. The program *enlarged its conceptual approach* by starting a social franchising project, ProFam, that aims to improve reproductive health-service delivery in private clinics. With that, ACMS made a qualitative jump from a product- and awareness-oriented organization to one that is concerned with actual clinical service delivery. Presently 64 clinicians from 25 private clinics have been trained in family planning counseling, outreach, and client orientation and began providing services in December 2003. This will expand into priority areas such as management of sexually transmitted infections and HIV counseling and testing.

There have been quantitative changes in the programs regarding office outlets, staffing and—most of all—condom distribution. From the outset, the program has targeted nationwide distribution, relying initially on just three independent sales managers. By 2001, the number had risen to one manager for each province plus one for a key tourist town. Thus, the project has been able to address both distribution and communication needs more effectively. Early attempts to involve NGOs in the creation of sales networks by giving them appropriate training did not prove sustainable, as

commercial sales were not part of these NGOs' mandate. New ways in which NGOs can be more involved with the project are still being identified. There are plans to explore working with them on a short term basis to open new sales points.

One focus for impact assessment concerns whether condoms have been made more acceptable. Although the program started its activities in the midst of the socioeconomic crisis, ACMS has been able to ensure increases in annual condom sales from the very beginning, except the year following the price increase. This is even more remarkable given the sociocultural climate at a time when HIV was not in evidence and therefore not perceived as a threat. In addition, a number of social and religious sectors of the population opposed the promotion of condom use and reacted in a very hostile manner to the project's sensitization measures.

Since 2001 ACMS has conducted substantial baseline research. Research findings have been used to identify specific features of various target groups and their misconceptions about condom use, and to address identified issues with skillfully targeted messages. The impact of these messages will be measured in two years' time. The comparison of baseline and follow-up studies of the 100 percent Jeune project, funded by the Gates Foundation, reveals that progress has been made in key areas. Condom use has increased with regular partners; youth report improved self-efficacy in terms of purchasing and correct usage of condoms; young women have been empowered, as demonstrated by their increased rates of condom purchase and use and their ability to discuss and negotiate condom use with their partners; parental support for condom use has increased; and there is less stigma attached to condom use, sexual negotiation and HIV in general.

Another focus for impact assessment concerns influence on policies and governance. The program has witnessed profound changes over the last 15 years in terms of national policy formulation, international and public support, and presidential commitment to HIV/AIDS control and its efforts. PMSC/ACMS is mentioned as one of the key elements and main partners in the "Strategic plan of action for the fight against HIV/AIDS in Cameroon (2000–05)" and is the principal partner of the National AIDS Control Committee for condom distribution.

The growing recognition in Cameroon of the potential contribution of the private sector for the achievement of social goals has been stimulated by the success of the social marketing program. In general, the understanding that ministries or the public sector should finance and deliver all services is disappearing in favor of a more pluralistic, multi-stakeholder approach. There is now increasing support for ProFam, the family planning franchising model of ACMS. Along the same line, KfW is piloting a co-operative health insurance scheme and is drawing on the experience of PMSC for its marketing.

A third focus for impact assessment concerns whether ACMS has been able to contribute to poverty reduction and thereby to the achievement of the MDG and the pursuit of the broader country poverty reduction strategy (PSRC). Increasing condom sales, in combination with preliminary research results concerning behavioral change, provide convincing evidence that the program definitely contributes to poverty reduction in terms of opportunity, empowerment, and risk reduction.

ACMS arguments to convince wholesalers to sell condoms have evolved with time. Wholesalers needed first to be convinced that it was legal to sell condoms in retail outlets, since they feared harassment by the forces of law and order. They thought condoms could only be sold in pharmacies and were skeptical as to whether consumers would buy from them. Once these concerns were addressed, ACMS used commercial arguments, helping wholesalers understand that by selling condoms they would earn the same profit margin as for any other consumer product they carry. ACMS assured them that promotion would stimulate demand for the product, and advised them how to merchandise condoms and assist condom clients. Presently, the message is conveyed that while

earning a fair profit margin for a well-promoted product, wholesalers are helping Cameroonians to fight HIV/AIDS. This social aspect has proved highly motivating.

The approach of ACMS—marketing condoms in conjunction with promotion and sensitization campaigns—is complemented by the KfW’s Youth and Adolescent Reproductive Health Project. This project also aims to prevent HIV transmission but focuses on social transformation and mobilization of vulnerable groups as well as model development for improved self perception, social roles and responsible behavior. To ensure that strategies reflect the realities of the epidemic as experienced by PLWHA, the project supports their organizational network in order to address the prevailing stigma and denial surrounding the HIV/AIDS epidemic—a major obstacle for effective prevention. The relationship between poverty, gender, and vulnerability to HIV/AIDS is addressed by a component supporting teenage mothers through “aunties” who offer advice legitimized by their own life experience. Together, these KfW approaches encompass the spectrum of preventive measures.

Financial, geographic, sociocultural, and cognitive access to condoms are preconditions for prevention, while promotion of civil spirit, courage, the ability to communicate, and community development help to overcome taboos and stigmatization still connected with sexuality and HIV/AIDS, making condom use more sustainable. Without both approaches the HIV/AIDS epidemic cannot be overcome.

Lessons learned

ACMS experience suggests that—at the bottom line—consumers and the private sector are willing to invest in their own health as well as in public health objectives if given the opportunity and offered affordable and high-quality alternatives.

Other lessons from this example of NGO involvement in the broad range of poverty reduction activities include:

- Think “public health” and “private sector” at the same time.
- Remain focused on measurable health impact.
- Stay in touch with customers/stakeholders and keep asking questions (via research, focus group research, visiting wholesalers, service providers, pharmacies, and so on).
- Develop a strong partnership with the Ministry of Health but maintain autonomy and support views with facts.
- Build a strong partnership with other stakeholders, share your experiences and promote complementarity in action among them.
- Remain open to learn from others both in country as well as internationally.

Southern Africa: Scaling Up Regional HIV/AIDS Programs

The World Bank runs a global learning process on how to enhance poverty reduction efforts by scaling up. The process studies lessons from both successful and less successful experiences from scaling up poverty reduction from around the world. The objective is to explore whether it is possible

to plan and implement scaling-up of successful development experiences, as a way to accelerate the broad process of poverty reduction needed to achieve the Millennium Development Goals. The Swedish Ministry of Foreign Affairs has commissioned Sida to prepare Swedish support to this process. Sida has chosen to present two regional programs in Southern Africa with an HIV/AIDS focus.

Adding to an already heavy disease burden in poor countries, the HIV/AIDS epidemic is deepening and spreading poverty, reversing human development, worsening gender inequalities, eroding the capacity of governments to provide essential services, reducing labor productivity, and hampering pro-poor growth.

The epidemic is especially targeting the poor, particularly at community level where changing patterns of households economy is visible due to HIV/AIDS. As families lose their breadwinners and caretakers, income is lost, agricultural output declines, nutrition worsens, medical expenses increase, funeral costs soar, savings turn into debt, children drop out of school, and so on. This devastating development pushes affected households deeper into poverty.

Two examples of Sida supported HIV/AIDS programs from Southern Africa are the International Federation of the Red Cross (IFRC)- program for Home Based Care, prevention and Orphan care support” and the support to International HIV/AIDS Alliance (IHAA). The first program scaled-up through its physical international expansion, the second through expanding the fight against HIV/AIDS at a grass root level on a larger scale.

IFRC home-based care, prevention, and orphan care in Southern Africa during 2002–07

As an organization IFRC made a commitment to massively scale-up HIV/AIDS advocacy, prevention, and care activities through a comprehensive regional program in Africa. The targeted countries in the program are: Botswana, Zimbabwe, Zambia, South Africa, Swaziland, Malawi, Namibia, Lesotho, Angola, Mozambique.

The goal of the program is to reduce impact of the HIV/AIDS epidemic amongst the most vulnerable working through the National Red Cross Societies to provide a supportive non-discriminatory atmosphere to deliver home based care, prevention education and support to the infected and affected populations, especially orphans and other vulnerable children.

Some objectives of the program are:

- Care and support—to improve and maintain the quality of life and condition of 100,000 People Living with HIV/AIDS (PLWHA) including their immediate families, orphans and other vulnerable children.
- To reduce the vulnerability of women to HIV and sexually transmitted infections through social and economic empowerment of women and girls.
- To improve the capacity of 100,000 PLWHA and OVC through the establishment of 500 Income Generation Activities.
- To provide nutritional support to 100,000 most vulnerable PLWHA and 250,000 OVC through food security integration into the home-based care projects in the targeted countries.

The Southern Africa Red Cross Societies declared HIV/AIDS a disaster and immediately set in motion strategies to scale-up their response. One of the initial actions taken was to co-ordinate baseline surveys to assess the HIV/AIDS situation in each country and to develop country plans that were in line with the government's national HIV/AIDS policy. One of the key lessons learned through the assessments was that the use of *knowledge sharing in the Sub-Saharan Region could facilitate accelerated and effective implementation of programmatic efforts*. For instance the Zimbabwe Red Cross home-based care success story was used to assist other National Societies in the replication of the project. Another example of *transfer of knowledge between the National Societies* is found in the case of Angola and Mozambique where knowledge sharing is an important part of the project. In addition to the common language (Portuguese) the two countries share similarities in conflict resolution. With the ending of the Angola conflict, there is the challenge of returning refugees coming from regions with high rates of HIV infection, the same problem faced by Mozambique in the early 1990s. Mozambique can provide assistance to Angola in the development of an appropriate response to deal with the returning refugees and in the development of a broader HIV prevention education program for the general population with a focus on the youth.

Concerning poverty, the individual association to infection increases with individual poverty, especially among women. Poor health care systems reduce the likelihood that poor women and men will receive care for Sexual Transmitted Infections (STIs), which is a major co-factor to the spread of the disease. Poor nutrition increases the risk of HIV progressing into AIDS. Limited resources for prevention and care result in ignorance on how to protect oneself from HIV-transmission and also in limited access to condoms for prevention, or testing and counseling. Most people cannot afford a diagnostic test where it's available. In addition, extreme poverty contributes to the exchange of sex for money or gifts.

A child born in a poor family in sub-Saharan Africa deprived of its fundamental rights to health, education, income and earning opportunities, land and capital faces many more risks during their lifetime than anywhere else. Poverty certainly contributes to the huge number of mobile and migrant workers with separation of families, which is a contributing factor to HIV- transmission. The IFRC program assists the countries involved in targeting the most vulnerable people with care and support, income opportunities and alleviating interventions related to food insecurity.

International HIV/AIDS Alliance (IHAA) Regional Program for Africa 2002–04

IHAA is an effective and professional organization, which started its operation in 1993 and has ever since then supported community action on HIV/AIDS in a number of developing countries. Targeted countries in the program: Mozambique, Zambia, Madagascar, Burkina Faso, Senegal, Nigeria, Morocco. The organization works in partnership with non-governmental organizations (NGOs) and community-based organizations (CBOs), as well as international donor agencies, national governments and United Nations to ensure that international support reaches communities in developing countries. IHAA has provided technical support to several NGOs and CBOs leading prevention care and impact mitigation responses in over 40 countries.

While the Swedish efforts in the Sub-Saharan region focus on prevention, care and support, coping strategies and advocacy on primarily national level, Sida seeks partners to supplement the efforts at district and local level to ensure a holistic approach to HIV/AIDS.

The goal of the IHAA program for Africa (2002-2004), the so called "Africa Plan", is to support communities in developing countries to play a full and effective role in the global response to Aids in Africa.

Objectives of the program:

- Increase the quality of HIV prevention, AIDS care and AIDS mitigation activities in the non-governmental and community sector.
- Build the capacity of civil society institutions, governments and the private sector;
- Catalyze increased attention to HIV/AIDS, particularly by promoting the integration of HIV into other health and development initiatives.
- Develop new knowledge and promote good practice in HIV/AIDS programming.

Moreover, IHAA makes ongoing analysis of vulnerable groups, which indirectly contribute, to baseline facts of poor people.

The IHAA structure of partnerships with NGOs and CBOs in different countries gives good possibilities for scaling-up activities at a community level. Sida has initiated discussions with IHAA concerning channeling of support to their “partner-NGO” in Senegal working with HIV/AIDS cross-border activities engaging several CBOs along the Senegalese borders. In addition, there are on going discussions concerning a regional stigma program to be included in the Africa Plan, with an organizational base at the IHAA office in Zambia.

Furthermore IHAA operates globally which implies that learning from Africa can be applied on South Asia. In addition to that, IHAA has a strong Monitoring and Evaluation system, which means that the organization can support strengthening of administrative and financial systems to partner organizations.

Thailand: Addressing HIV/AIDS—Proven Solutions and New Problems

The East Asia and Pacific region of the World Bank has an estimated 2.3 million adults and children living with HIV/AIDS, out of the global total of 42 million. In such a large and diverse area, the HIV/AIDS epidemic is as varied as the countries—from 12 fishermen with HIV in Tuvalu, with potentially devastating consequences for the country's fishing-based economy, to an estimated 1 million people infected in China at the end of 2002, with profound implications for the health system there. HIV threatens progress towards achieving the Millennium Development Goals and related poverty targets in the region and around the world. Although the situation varies greatly from country to country and even among provinces within countries, the situation is urgent.

Thailand has acted decisively in the face of this challenge, leading the way in prevention programs, mobilizing civil society and building political commitment. At the beginning of the AIDS epidemic, the initial standard public health approach did not discover many cases, leaving Thai officials with the perception that HIV affected only marginal groups. In 1989 HIV testing of injecting drug users revealed the explosive spread of infection. By 1992, 31 percent of commercial sex workers were HIV-positive, and there were signs of HIV spreading to the heterosexual population. Thailand implemented good serological surveillance of the general population, sentinel surveillance of groups whose member practice high-risk behavior, and surveillance of risky behavior. The national response to the crisis was strong, swift, and comprehensive, thanks to strong political commitment from the King and Prime Minister.

Strong leadership provided high-level support for HIV-prevention programs among commercial sex workers and their clients. AIDS policy was run from the Prime Minister's Office. A massive public information campaign emphasizing prevention, behavior change, and condom use was launched. Private initiatives, focusing on education and prevention in the workplace, complemented the government efforts. A 100 percent condom program to promote universal and consistent use of condoms in commercial sex was adopted nationwide, including regular screening for sexually transmitted diseases (STDS) and free condoms. Public spending on AIDS prevention and control increased greatly from 1987 to 1997, when it totaled \$82 million a year. The result: a profound decline in high-risk behavior, reducing new cases of HIV and eventually decreasing the level of HIV in the population. (HIV prevalence in 21-year-old army conscripts declined nationally from 4 percent in 1993 to 1.9 percent in 1999.)

Around the world the international AIDS community is scaling up interventions that have been tried in other countries or in a randomized controlled trial. Both Thailand and Cambodia have excelled in systematically launching local pilot projects, including 100 percent condom programs and treatment or home-care programs, before applying them nationally. In addition, Thailand has encouraged large international research projects that measured HIV incidence, and participated in the first large-scale trial of an HIV/AIDS vaccine.

A regional approach is needed to address external catalysts such as migration and mobility, which have a complex impact on the spread of HIV/AIDS. There are also regional networks trafficking in women and illicit drugs. These regional factors create the preconditions of high-risk behavior, behavior that can ignite an HIV/AIDS epidemic. International assistance has also played and will continue to play a major role in local responses in countries throughout the region.

A major reminder from each of the countries experiencing the epidemic is that inaction can be more costly than action. This need for action is illustrated in the Millennium Development Goal (MDG) of reducing HIV prevalence in persons aged 15-24 by 25 percent by 2010. If countries are not successful in achieving this goal, other MDGs could also be compromised. Similarly, AIDS can destroy human capital and can weaken mechanisms that generate human capital formation. Through this long-term process, the disease could lead to severe economic consequences. For example, some studies show that in Thailand farm output and income fell between 52 and 67 percent in households affected by AIDS.

In order to lessen the economic and social costs of HIV—and continue the fight against poverty—we must learn from the lessons of countries already deeply involved in the struggle:

- Political commitment is imperative to tackle and mobilize resources around difficult social issues, such as sexual behavior and commercial sex work.
- Institutional innovation within governments, the health system, social services, and other sectors must be encouraged.
- Systematic learning and experimentation, based on strong pilot tests and evaluation, can enhance national programming.
- Interactions with external catalysts, including international donor assistance, must be managed well.

“Government reluctance to address AIDS has something to do with sex.” That’s the view of Mechai Viravaidya, founder of Thailand’s Population and Community Development Association. He has successfully put AIDS and condoms in the public eye and kept them there using humor and flair.

Mechai says, “Humor has kept the issue alive. And in areas where there is possible embarrassment, it has helped tremendously.”

The way these and other lessons are adopted and adapted within the East Asian region will determine the future of the epidemic and the social and economic landscape of Asian society. As Jemal ud-din Kassum, the regional vice president for the East Asia and Pacific Region at the World Bank, says: “Political leaders and the public have to acknowledge that it’s a problem. Then they have to move swiftly and deeply on prevention for all risk groups, build capacity, and address health system issues. They also need to prepare for treatment and support. And in doing all of this, we need to continue to keep the focus on achieving results.”

Uganda: Scaling up HIV/AIDS Prevention

Uganda’s early enthusiasm to combat the HIV/AIDS menace was occasioned by the threat it posed to the NRM government through its impact on the army. As early as 1986 Uganda was sending troops to Cuba for training, and 40 percent would be returned for being HIV positive. (Interview with Maj. Rubaramira Ruranga, National Coordinator of the National Guidance and Empowerment Network of People Living with HIV/AIDS, also chair to the 11th International Conference of People Living with HIV/AIDS, October 19, 2003.) Cuba’s President Fidel Castro called Museveni and told him, “You have a problem. Your army is going to be wiped out, not by the bullets of the enemy, but by HIV.” (Discussion with President Museveni, State House Nakasero, December 31, 1999.) The NRM realized that an intensive countrywide campaign against the pandemic was critical. The cabinet resolved as early as 1987 that whenever government officials address any function, they should take time to “advise” people on the virtues of abstinence, safe sex, and faithfulness to one partner.

The Ministry of Health established the AIDS Control Program to combat the malady. But Museveni felt this was not enough and in 1990 established the Uganda AIDS Commission in president’s office to coordinate the fight against AIDS. The government also created the Joint Clinical Research Center as an arm of the army to spearhead research into finding a cure for HIV/AIDS. But realizing that the military did not have the adequate facilities and personnel to manage the research, a partnership was formed with the Ministry of Health.

An extensive public sensitization campaign, using print and electronic media and billboards, broke the taboo of openly talking about sex. The campaign opened doors for parents and teachers to teach about safe sex, abstinence, and faithfulness to students and children. It also allowed condoms to be freely distributed in schools, advertised in the media, and widely sold in shops. Indeed, Uganda’s approach of openness to the AIDS/HIV pandemic and massive public awareness campaigns has paid off handsomely—the HIV prevalence rate declined from 30 percent in 1986 to 6 percent in 2002. The approach is a model for other countries and development partners in designing initiatives to address the problem, such as the World Bank’s multicountry AIDS program.

Uganda: Conquering “Slim”—Uganda’s War on HIV/AIDS *World Bank Development Dialogue on Values and Ethics*

From Bwindi Forest and its fabled gorillas, to the Bujagali Falls, to Jinja, the source of the Nile on Lake Victoria, Uganda is a country of exceptional physical beauty, the “Pearl of Africa.” Immediately following independence in 1962, its prospects looked bright. For nearly a decade, Uganda witnessed a rapidly expanding economy, comparable to some in Southeast Asia. However,

following this initial period of hope, profound internal strife and turmoil marked much of the period through the mid-1980's. The period 1971–86 was marked by constitutional crisis, economic collapse, and civil war. During this time, it is estimated that more than one million Ugandans were killed.

Midway through these difficulties, silently, at first at least, the worst scourge to attack the 20th century was quietly assaulting Uganda's population. In 1982, Uganda was the first African nation to identify HIV/AIDS within its borders and would become one of the worst-hit countries on the African continent.

The first cases of HIV in Uganda were confirmed in Rakai District in the fishing village of Kasensero on the shores of Lake Victoria in 1982. The first to be infected were fishermen and traders, many alleged to be smugglers, who were trafficking goods between Uganda and Tanzania. The disease, popularly known as "Slim" because of its emaciating effect on its victims, appeared at a time when there was a paucity of scientific knowledge about the disease in Africa. Its early symptoms were general malaise and sporadic fever, followed several months later by diarrhea, weight loss and skin rash and discoloration, frequently accompanied by sexually transmitted diseases and tuberculosis. Most commonly, the source of "Slim" was thought to be witchcraft and ancestor revenge. Many of the afflicted came from the more affluent traders, promoting the notion that the disease was a curse from God, retribution for past illicit business practices. Most commonly, early treatment was sought from traditional healers and herbalists, many of whom encouraged the belief in witchcraft as the source. As its true cause came to be known, as was the case in other countries, HIV/AIDS became shrouded in a haze of stigma, shame, and discrimination, associated with promiscuous sexual behavior, homosexuality, drug use, and, still, witchcraft.

Today, Uganda is regarded as one of the few success stories in Africa's effort to combat HIV/AIDS. The country has reversed the rising tide of AIDS, where many of its neighbors have failed. What accounts for its success? Among the facets of Uganda's national strategy to combat HIV/AIDS—social, political, and economic—the role of faith leaders and faith-based organizations, Christian and Muslim, stands out as critical in every aspect of Uganda's HIV/AIDS programs. Despite success, challenges, present and future, confront the country as it attempts to consolidate past success and reduce HIV incidence even further.

After the first cases were identified in 1982, HIV/AIDS rapidly developed into an epidemic in Uganda. A national sero-survey undertaken in 1987–88 suggested a national infection rate of 6–8 percent. This increased rapidly until 1992, when national prevalence (based on sentinel surveillance sites) peaked at just over 20 percent. Since then, the rate has declined steadily. By 2002, the estimated national prevalence was estimated at about 6 percent.

In January 1986, Yoweri Museveni became president of a country emerging from two decades of the ravages of civil war, state-sponsored terrorism, an economy in tatters, social services devastated, and the confidence of its people at low ebb. Among the challenges facing the new government, HIV/AIDS could easily have been ignored or at least postponed. Instead, Museveni appointed an AIDS Surveillance Sub-Committee and openly disclosed his anxiety to the people and the press. In 1986, the National Commission for the Prevention of AIDS was established and, in October of the same year, in collaboration with the World Health Organization, the AIDS Control Program (ACP) was launched. The ACP met weekly under the chairmanship of President Museveni. ACP organized an extensive program of seminars and training, introduced AIDS education into school curricula from late primary onwards, and encouraged political leaders from the President on down to become active advocates.

This program, situated in the Ministry of Health was presented to a donor's conference in May 1987 held in Kampala where seven major objectives were identified: health education, blood

screening, rehabilitating blood transfusion facilities and services, surveillance and data collection, distribution of condoms, research and patient care. The stress on AIDS education, with its attendant plea for open public discussion won special praise, as the best response to the epidemic. The program was recognized internationally as a model for other countries, not only in Africa but as far away as Thailand.

The foundations of Uganda's national strategy to combat HIV/AIDS are many and multifaceted. They include strong political commitment led forcefully by President Museveni; massive mobilization and education efforts that contributed to public debates; openness about the problem and active efforts to mitigate stigma within society; an extraordinary range of partnerships with special outreach to all of Uganda's main faith communities; and a conception of the disease that almost from the beginning diagnosed it as a threat to development and not just a health problem. The interrelations among the elements of Uganda's program are complex and dynamic.

The "ABC" prevention model pioneered in Uganda—**A**bstinence, **B**e faithful, use a **C**ondom—is considered the cornerstone of its success. How precisely these components have combined, and what have been their individual relative contributions, has been the subject of much debate and analysis. However, two points are especially worthy of note. First, prevalence rates began to fall in the early to mid-1990's, implying that incidence rates had begun to decline several years earlier, perhaps even in the late 1980s. Second, while knowledge about condoms and distribution of condoms has increased since 1991, the use of condoms has remained relatively low, suggesting that the messages of abstinence and faithfulness targeted toward high-risk groups early in the campaign played a pivotal role.

The Ugandan government authorities, in formulating and implementing their policy, reached out to a wide spectrum of partners, and did so in a particularly nonconfrontational way. Every player—government, private sector, civil society, and faith communities—was encouraged to join the fight against HIV/AIDS, to contribute in a manner consistent with their basic values and beliefs, and to exploit their respective comparative advantages. Great care was taken to guard against pitting the moral precepts of one group against another, particularly with respect to the faith communities and their views on condoms. Every constituency was given space, but in a nonthreatening way that gradually allowed the consolidation of consensus.

Uganda's success in combating HIV/AIDS is the result of the cascading effect of multiple interventions. This series of activities, appropriately sequenced and gradually scaled up, was built on a foundation of strong political commitment, openness to civil society (with a special outreach to faith communities), and complementary measures beyond ABC, such as networking and support groups for people living with AIDS, blood screening, voluntary counseling (at least in urban areas), and training.

The role of faith leaders and faith-based organizations merits special mention. Early in the campaign, a special appeal went out to all church leaders to help in the struggle against AIDS. One early role which was especially important was health service provision. Years of civil conflict had left state provided health services in a largely dilapidated state. Christian mission health networks had continued to function throughout the period of conflict and in many areas were the only source of health clinics and hospitals. While there existed no formal relationship between the Ministry of Health and these faith based health services (there was no requirement in the 1980's for nongovernmental providers to formally be registered) there was generally good cooperation and exchanges between the two services. Government doctors in fact were often posted to mission hospitals. Mission hospitals were quick to join the ranks of the front line attack on HIV/AIDS, taking up a major responsibility for care of people living with AIDS.

Faith-based organizations did not assume an isolated role, but were intimately involved in all aspects of HIV/AIDS interventions. Partnerships with faith-based organizations have permeated virtually every aspect of Uganda's HIV/AIDS program from its inception. Many of Uganda's key organizations—TASO, AID, UNASO—while not directly faith-based themselves, have had longstanding and deeply rooted partnerships with faith-based organizations, Ugandan and international. The Uganda AIDS Commission has estimated that about half of the approximately 2,000 nongovernmental groups engaged in HIV/AIDS initiatives are faith-based—spanning the range of education, prevention, counseling, care and treatment.

While most faith communities were opposed in principle to the use of condoms, few openly opposed the government's distribution programs. The churches and mosques did not allow their initial reticence with respect to condoms to hinder their active contribution to the overall program. In parallel, the government was sensitive to the concerns of the faiths concerning condoms and avoided overly aggressive promotion. Thus the religious communities generally focused on the need to change behavior and the underlying values involved, while the government (and other nongovernmental groups) promoted the use of condoms as a part of their programs.

Thus, each and every element of the overall program and a wide spectrum of stakeholders have been vital in Uganda's success in reversing HIV/AIDS trends. Their strength is in their combination: none would have been sufficient on its own to yield such favorable outcomes. What stands out in the Uganda story is the respect for different views, the flexibility of the partners in addressing the issue, the adaptation of messages and programs continuously over time, and the early and continuing forthrightness in addressing the range of issues raised by HIV/AIDS. It is a rare case of such dynamic partnership linking the very senior tiers of leadership with the communities of those affected, their families, men and women, young and old.

Despite widely acknowledged success, Uganda still faces a huge challenge in reducing HIV/AIDS prevalence. In Kampala, the estimated rate is still about 8 percent. For Uganda as a whole, this is still the leading cause of death among its most productive age groups, those 15-49.

Prevention vs. treatment

Many policy makers and service providers have recognized that past efforts in Uganda's program have concentrated heavily on prevention. Among the more prominent challenges will be antiretroviral drug treatment. Along with Cote d'Ivoire, Uganda was the first country to pilot test ARVs in Africa. Costs have plummeted, generics have become more available, and there are substantially increased resources available. The challenge for Uganda's health system will be to build capacity to deliver treatment, including training of staff, assurance of quality control, reinforcement of distribution systems, and appropriate storage facilities. It is estimated that about 18,000 people are receiving ARV treatment at present. The "3 X 5" target is 60,000 which many see as feasible. Faith-based groups seen by many as likely key players in the expansion of ARV treatment since they are regarded as having sound logistics and accountability and they are able to reach the poor better. Some programs already have established community adherence teams to monitor patients on treatment.

The challenge of coordination

With Uganda's success has come an ever increasing number of agents and organizations anxious to become engaged. Several observers point to a particular need for improved coordination especially at the district and subdistrict levels between the local government authorities and health services and the whole gamut of nongovernmental partners, especially the multitude of faith based organizations, with respect both to an equitable distribution of services and in terms of medical standards and protocols. This will be particularly important with increased access to ARVs.

Stigma

Stigma continues to be a significant challenge. While the degree of openness which Uganda has fostered has no doubt been a major factor in its success in combating HIV/AIDS, stigma persists, posing high economic and social costs to many HIV+ people. Women are especially vulnerable to stigma, both within the family and within the workplace. Women continue to risk being thrown out of the house and separated from their children by their husbands if they reveal HIV+ status. Faith communities have a special role to play in continuing to broaden and deepen their efforts to combat stigma, discrimination, and exclusion. Income-generating projects, especially for women are an additional avenue to provide empowerment and independence.

Funding

While there is and will be significant incremental resources from multiple sources available, especially for treatment, at the national level, at the level of individual grassroots, community-based projects, inadequate funding poses a significant constraint to efforts to expand and scale up the scope of their activities. Ironically, a number of projects reported that the process of decentralization was compounding this situation, since funding processes, and in some cases accountability procedures, were particularly weak between central, district, and subdistrict levels.

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Other

The City-to-City Challenge in Ghana, Morocco, Tajikistan, and the United States

World Bank Institute

Much international development assistance was designed for a world of poverty rooted in subsistence agriculture. The last three decades have drastically changed the institutional matrix in developing countries. Increasingly in the future, urban institutions and cities themselves will play a much more important role in providing services and reducing poverty.

City to city cooperation is a promising tool for larger scale mobilization of cities as partners in development and in achieving the Millennium Development Goals by 2015. At the turn of the last century, 47 percent of the world's population lived in cities; this proportion is expected to rise to 60 percent by the year 2030. Virtually all of the increase in this global urban population will be concentrated in the developing countries. Of equal significance is the sheer number of cities—organized developmental units that lie around the heart of poverty in the world. Million-sized cities already number in the 500 range; 100,000-size cities number in the tens of thousands. Cities represent the most immediate, front-line institutions saddled with poverty; the organizational units that are the last to be equipped to address these tissues; and importantly, potential institutional partners whose poverty alleviation potential has not been tapped.

The many powerful trends now sweeping across the globe—decentralization, democratization, liberalization of trade, and increasing velocity of communications and transactions—all create a new prominence, new possibilities, and new challenges for cities. Cities share a great many basic functions in governance; they are nurseries of new ideas and methods; and they are inventing many techniques to strengthen capacity in many areas.

Can intercity cooperation help achieve the Millennium Development Goals? Cities in OECD countries have vast unused technical, financial, and humanitarian resources needed for global assistance. Ample anecdotal evidence already suggests that by tapping into this latent pool of city resources, as many European and U.S. cities have been doing since the 1950s, scaling to achieve the MDGs can be achieved without proportional increases in aid.

Recognizing the large latent resources in city-to-city exchange, the World Bank Institute and Sister Cities International, an international NGO headquartered in the United States, formed a partnership to explore practical steps and policy issues involved in focusing on MDGs in both “offering” and “host” cities. The “MDGs City-to-City Challenge” project began in October 2003. The partners are guiding the participating cities to explore the practical steps and policy issues in addressing and improving conditions of selected MDGs.

Three pairs of cities—Tamale, Ghana and Louisville, Kentucky; Casablanca, Morocco and Chicago, Illinois; and Dushanbe, Tajikistan, and Boulder, Colorado—agreed to the city-to-city challenge. All six are members of a network of 1,500 cities in Asia, Africa, and Latin America that are in sister-city relationships with 750 cities in the United States.

The cities in the project are following a common format and process of education about poverty and MDGs in selecting goals, diagnosing the current situation, laying out a plan for improvement, and launching efforts to improve circumstances. Conferences and face to face meetings with representatives of the cities have helped to educate present members and led to the selection of pairs of cities to take part in the demonstration.

Selection of specific MDGs took place in joint community consultations in Tamale, Casablanca, and Dushanbe, with delegations from Louisville, Chicago, and Boulder taking part each with their respective partners. Tamale selected a goal in water and sanitation. Casablanca is concerned with low levels of literacy in a specific low income neighborhood, and Dushanbe has indicated interest in strategies for productive work for youth, focusing on a cyber-café installed as a result of a longstanding exchange between Boulder and Dushanbe.

After choosing a project, the task was to inventory data about the chosen MDG, along with associated targets and indicators in each of the six cities. For Louisville and Boulder, this is a process of awareness raising and education about the world's commitment to poverty reduction. For Tamale and Dushanbe, it is the most important input to a plan of action. Tamale and Dushanbe will develop a customized diagnostic tool for assessing the present state of conditions in three neighborhoods—one urban, one peri-urban, and one rural. The format of data will be based on the United Nations' Multiple Indicator Cluster Survey, Demographic and Health Survey, and Living Standard Measurement Survey. In Tamale, a local consultant conducted the survey, interpreted the results, and submitted a report to the cities as well as to WBI and SCI. The Casablanca team chose the Sidi Moumen-Bernoussi district to conduct the diagnostic survey in a diplomatic attempt to reach out to the home of the Madrid bombers of May 16.

The action plan, to be implemented, monitored, and evaluated during 2004 and 2005, will be based on the outcome of diagnostic work. In Tamale, the plan is being put together by means of a inclusive community participatory process. It was agreed that the first phase of the plan would involve an education campaign about MDGs and specifically about the chosen priority MDG, target and indicators, while the other phases may include education about how to secure donor support for implementation of projects related to MDGs; training about strategies and techniques to improve conditions in the selected MDG areas; and capacity strengthening. At the time of this writing, Casablanca and Chicago are working to identify techniques and tools from Chicago's experience and elsewhere that can be put to use in Casablanca.

The objectives of the three cities fall neatly with current poverty-reduction strategies and MDG frameworks for their respective countries, largely because the cities adopted the broad guidelines of PRSPs and MDGs. For example, Tamale's choice of Goal 7, Target 10, flowed naturally from participation in the deliberations in Tamale by various officials of key agencies involved in Ghana's PRSP. In the case of Tajikistan, Goal 8, Target 14 was a natural choice, given the serious problems of unemployment.

This project is promising for several reasons. Each pair of sister cities has more than a decade of experience working together. Perhaps because community groups were involved in the identification of goals, the projects are also consistent with local level objectives in both communities. Municipal international cooperation builds on a network of tens of thousands of cities now beginning to take on more prominent roles as globalization reduces or blurs the importance of

national boundaries. In many cities, certainly those in Sister Cities International, is a committed community, usually consisting of one or more neighborhood organizations or issue-oriented groups that have been operating on the basis of cultural exchange or enlightened self-interest for many years.

Though the projects still have much ground to cover, some of the driving factors are already visible. First and foremost is the history of community-to-community contact built into the sister-city relationship. The facilitation and access provided by this long-standing institutional tissue in both pairs of cities constitute an important factor in the relatively easy launch of the MDG C2C Challenge.

Exchange at the level of community group and citizens, articulated by city leaders, technicians and citizens on both sides, is characteristic of many, if not most, C2C relationships. Horizontal relationships often have fewer impediments to overcome, beginning in an atmosphere that is open, markedly less dependent, and less susceptible to suspicion and resentment than many formal and commercial relationships of technical assistance.

The mechanics of community organizing are already in use by community groups on both sides of the exchange. Participatory decision-making at this level is not new or innovative; nor are the mechanisms of channeling resources and grants. These mechanisms have been invented and reinvented in many places, often with success, in such efforts as social funds, matching grants, and community funds created by mayors, cities, and communities in many parts of the developing world. Neighborhood-level survey data proved to be an important factor in establishing baselines and plans. The innovations now needed are in accountability and transparency at the neighborhood level.

The progress made so far can be attributed in part to leadership in each of the participating cities. Also vital were external catalysts—Sister City International, the World Bank Institute, and Citrix, a corporation that specializes in networking hardware and software.

In several respects the City-to-City Challenge Program is unlike others represented at the Shanghai Conference. First, the project is the result of horizontal cooperation at the municipal level that is already operating on a very large scale—on the order of thousands of cities—in much of the world. Though not necessarily focused on poverty, or on MDGs for that matter, municipal international cooperation has already proven an effective and powerful institutional form of cooperation, one that illustrates new, diplomatic dimensions, and represents a far-reaching, and promising channel of development assistance. With key elements of scalability already demonstrated, its challenge is to test the feasibility of inducing cities to incorporate MDGs and poverty reduction into an ongoing process.