

DECENTRALISATION AND POVERTY REDUCTION: EXPLORING THE LINKAGES

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DRAFT FOR COMMENTS.

This paper discusses some of the linkages between decentralisation and poverty reduction—i.e., under what conditions decentralisation reduces poverty. The paper is a review of what I see as the main issues arising from a number of recent decentralisation experiences around the world. The paper considers different kinds of decentralised institutional arrangements in which the local community is involved, in particular provision of decentralised public services for poor people, and community-driven development projects.

At the request of the organisers, I focus more particularly on the relationships between decentralisation, participation and poverty reduction, and on analytical tools/indicators to measure the outcomes of decentralization policies. The paper draws on my own research (see references) and on *Growth and Empowerment*, a forthcoming book co-authored with Nick Stern and Halsey Rogers. It also draws heavily on the World Development Report 2004 and a number of World Bank research papers on decentralisation and poverty reduction.²

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The outline of the paper is as follows. The first two sections are aimed at clarifying concepts. In Section 1, I define what we mean by poverty-reducing policies (or “pro-poor” policies) and make the point that empowerment is a term which is preferable in this context. In Section 2, I discuss the key factors in institutional structures that foster empowerment: information, transparency, accountability, local capacity, and participation. I also discuss under what conditions decentralisation, in theory, should reduce poverty. In Section 3, I attempt to evaluate the impact of decentralisation on ‘empowerment’ using recent examples from around the world. I discuss three different pathologies: (a) Governments may misallocate budgets, spending resources on the wrong groups of people; (b) Even when resources are allocated correctly, they may not reach their intended destinations if organizational and incentive problems in public agencies lead to corruption, misappropriation or theft; (c) Even when resources reach a school or health clinic, providers may have weak incentives, motivations, or capacities to deliver services effectively. In Section 4, I discuss public expenditure tracking surveys and other tools which can be used by governments or by donors to assess the impact of decentralised services. I also discuss randomized experiments which have become important tools to evaluate projects.

Section 1. Poverty-reducing policies and empowerment

Policies are considered to be „pro-poor“ if poor people benefit in absolute terms, as reflected in some agreed measure of poverty such as the headcount index (Ravallion 2004). When poverty reduction is the objective – for which economic growth is one of the main instruments -- then an absolute definition of pro-poor growth is the most relevant.³

³ A relative definition of pro-poor development would compare changes in the incomes of poor people *with respect to changes in the incomes of the non-poor*. Development would be pro-poor if the incomes of poor people grow faster than those of the population as a whole, i.e., if inequality declines. Thus growth is pro-poor when the distributional shifts accompanying growth favour the poor and poverty falls more than it would have if all incomes had grown at the same rate. This relative definition of pro-poor growth has two limitations. First, by focusing so heavily on inequality the relative definition could lead to sub-optimal outcomes for both poor and non-poor households. For example, a society attempting to achieve pro-poor growth under the relative definition would favour an outcome characterized by average income growth of 2 percent where the income of poor households grew by 3 percent, over an outcome where average growth was 6 percent, but the incomes of poor households grew by only 4 percent. While the distributional pattern of growth favours poor households in the first scenario, both poor and non-poor households are better off in the second scenario. Second, under this definition an economic contraction could be pro-poor if the incomes of poor households fall by less than those of non-poor households – despite the fact that poverty has not fallen (Ravallion 2004)

The policy objective is to achieve the greatest amount of poverty reduction and hence both growth and distribution policies matter.

Delivering a pro-poor pattern of growth requires an absence of corruption, high levels of state capacity in policy formulation and implementation, and a political elite who see their interests as aligned with those of the poor. An effective public sector committed to broad-based growth was a critical factor behind the rapid growth and poverty reduction of East Asia in the 1970s and 1980s and a major shortcoming in many Latin American countries (de Ferranti et al. 2003). Corruption has also been linked to lower incomes for the poor and higher inequality and lower educational and health outcomes (more on this below). Much is made of the lessons of the role of the state in East Asia. In many other countries, especially in Sub-Saharan Africa, we still do not know how can the institutional capacity and the incentive structures can be developed to move from the current situation to one similar to that prevailing in East Asia in the 1970s and 1980s.

The concept of „institutional capacity“ has several dimensions. It covers a variety of constraints which require very different policies: (a) lack of human capital (skilled teachers, doctors, public administrators, private contractors for public works, etc); (b) lack of physical capital / infrastructure; (c) lack of accountability of officials; corruption and poor governance. The key issues to address are:

- Human capital and training capacity at a point of time are limited;
- The poor quality of institutions and public service delivery systems (and possible resulting “leakage” of public funds or aid funds);
- Public investment strategies and macro-economic policies may be unbalanced;
- The sequencing of investments (e.g. moving toward better health indicators might need complementary factors which are in short supply, operating new schools needs training new teachers, etc); and
- In the case of accumulation of human capital, time-lags between decisions taken by agents and their effectiveness (e.g., returns on education, etc.).

These issues will not be examined in this paper but the point I would like to make is that capacity needs to be built up, and that improving capacity depends on addressing all dimensions of the problem, not only the institutional constraints but also the economic constraints (including congestion effects that may result from limited supply of some factors in the face of increasing demand).

Expanding economic opportunities is a process which my co-authors and I call „empowerment“ (Stern, Dethier and Rogers 2005). Though unfamiliar to most economists, empowerment is a concept that is of great importance for understanding development and development policy. Empowerment can mean increasing the ability of people to influence the management of their local school. It means that their voices are heard and that schools have some accountability to them as stakeholders. Similarly, people who rely on irrigation schemes are more empowered if they can participate in a water users association that has some say in how water is allocated. Otherwise they are at the mercy of officials, without any means to influence their decisions other than bribes. Empowerment is also about households being able to report the performance of and exercise influence over utilities that supply them with electricity or water. This includes involvement in determining where lines are located and in setting priorities for routings and allocations.

Empowerment is also about having some security over assets, such as the land or house that an individual occupies. If rights are secure, an individual is much more likely to have the confidence to invest in the land or house. He or she can rent it out if a decision is made to move temporarily in search of work. It can be used as collateral for loans to make investments. These examples show that secure property rights, particularly for land and houses, play a vital role in the ability of people—especially poor people—to shape their lives. Such rights are key aspects of empowerment.

To summarize, empowerment is defined as having the ability to shape one’s own life. The concept of empowerment covers a number of external and internal constraints which can prevent individuals (e.g., disadvantaged castes in India) to take advantage of economic opportunities and participate in the growth process.

Section 2. Why decentralisation and participation should, in theory, foster empowerment

There are several successful examples where communities, in developing countries, have acted in specific, practical ways to enhance empowerment. These not only show that the empowerment perspective can point us to practical policies that can make a big

difference in people's lives, they also help identify key elements in institutional structures and arrangements that can enhance empowerment. Two famous examples:

- In the EDUCO [Educación con participación de la comunidad] program in El Salvador, the government empowered community associations to hire and fire teachers in community-managed schools. As a result net enrollments increased significantly, standardized test scores improved, and teacher absenteeism fell. These results were driven by an increase in the accountability of schools to communities, combined with good local organizational capacity.
- In the late 1980s Ceará, a state of 7 million people in northeast Brazil, had very weak health indicators. The newly elected leader in the late 1980s responded by launching a publicity campaign for a public health program to inform communities of health opportunities and help them press local governments to adopt the program. The state government also dramatically expanded the use of community health agents, usually locally recruited, who provided information to families as well as some curative care and hospital referrals. This campaign led to a sharp fall in infant mortality, from 100 per 1,000 live births in the late 1980s to 25 per 1,000 in 2001. In this case successful community mobilization depended on access to information and on the way it was communicated.

Why were these experiments successful? There is not one single answer to that question but we have sufficient evidence from around the world to say that particular aspects of the new institutional arrangements that were put in place fostered empowerment: reliance on local information, transparency, accountability, local capacity, and participation—with the first four elements determining whether the fifth, participation, is effective. Nominal participation by villagers in managing the village school, for example, is unlikely to be empowering if the school director is not accountable for results, if villagers have little information about what is going on in the school, and if villagers have no organization to help them engage with the school's management. These elements help us recognize and test whether institutional structures and arrangements are promoting empowerment.

Because so many variables interact (degree of accountability and transparency, level of local capacity, degree of participation, skills level of the agents, etc), there is no recipe

for success, no „universal law“ that can be inferred from the empirical evidence on the effects of decentralisation. We have to adopt a case-by-case approach to understand what works and what doesn't.

Before discussing this in more details, let me open a historical parenthesis to mention that participation and „voice“ has been closely linked the gradual empowerment of the ‚masses‘ during the 19th and 20th century in OECD countries (Lindert 2003a, 2003b). The historical process of economic growth in most countries was simultaneously a process of increasing political participation of the masses. The historical evidence seems to indicate that people become politically more active as GDP grows and as their stake in the economy and society rises. There is also historical evidence (from both high and low income countries) that poor and less educated people have a lower propensity to vote or to register to vote, to participate in political campaigns or to otherwise influence politics.⁴

A centralized government does not have an unlimited ability to collect information and monitor agents, and local authorities are generally better informed - for instance on the revenue-generating capacity of local enterprises, or on the needs of local populations (By contrast, central authorities are presumably better able to internalize externalities, take into account economies of scale in the provision of public goods).⁵ The idea is to push decision making to the lowest possible level where peer monitoring can take place and where people can more directly control agents (Stiglitz 1999). Local providers of public goods have a better fit with locally diverse preferences (or get rid of uniformity

⁴ Some authors (e.g., Justman and Gradstein 1999) emphasize the role of participation to explain the links between growth and democracy. In static and poor societies, the fight for power is, in large measure, over a cake of fixed size and its control is in the hands of a narrow elite. Even if voting exists, participation may be limited to a few rich people; the ruling elite is part of a small group that exploits its political power to appropriate output. If dynamic forces arise leading to increased output, in the early phase of development, a rise in income may be accompanied by increased inequality as existing elites control the gains. When growth starts to affect a greater proportion of society and is driven by broader sections of society, then participation becomes broader and the political elite is recruited from a wider social spectrum.

⁵ Decisions to decentralize are generally not made because their usefulness has been proven by facts but because it helps politicians cope with a loss of confidence in the centralized state. As explained by Manor (1999), decentralisation is a political reaction to the failures of centralized models of administration and economic management. Decentralisation worldwide is seen as a way to bring authorities in more direct contact with citizens. In its various manifestations (policies to reduce sub national inequalities; decentralised provision of public services, or community-driven development), decentralisation is seen - rightly or wrongly - as a way to improve the poor quality of public services, or to resolve the tensions arising from the unequal pace of growth and improvement in standards of living in different regions of the same country. Politicians see decentralization as a way to reconnect their regimes to social groups from which they have become increasingly divorced.

constraints in provision that a centralized supplier is forced to adopt). Moreover, devolving responsibilities for expenditure management to the local level also has major advantages from the point of view of information. Putting decision making in the hands of those who have the information that outsiders lack gives them a strong incentive advantage. Local information can often identify cheaper and more appropriate ways to provide public goods (Bardhan 1997). These incentive and information advantages make decentralization qualitatively similar to the advantages enjoyed by the market mechanism over the government.

Section 3. Evaluating the impact of decentralization on empowerment

To summarize, decentralisation can foster empowerment if four elements are present: reliance on local information for decision-making purposes, transparency, accountable officials (which presupposes transparency),⁶ local capacity, and participation—with the first three elements determining whether participation is effective.

According to Mansuri and Rao (2004), participation and community involvement are supposed to have an impact on well-being through three main channels:

- Community involvement in selecting the beneficiaries of anti-poverty programs improves targetting.
- Participation and the other dimensions of decentralisation improve the delivery of public services
- Outcomes are shaped by inequalities and uneven distribution of resources within the community

Selecting the beneficiaries of anti-poverty programs improves targetting.

The benefits of informational advantages to identify the beneficiaries of anti-poverty programs depends on the existence of mechanisms that can ensure local

⁶ As mentioned by Ann Florini (1999), transparency involves the release by public or private organizations of information that is relevant to evaluating them. It is always connected to the accountability of the agents managing these organizations. The purpose of transparency is to enable citizens, shareholders, etc., to hold agents accountable for the policies and performance of these institutions. These issues are inter-related. Accountability is hardly possible without transparency, and fiscal discipline is related to accountability.

accountability. This is likely to exist in homogenous and egalitarian communities, usually characterized by high mobility. Unfortunately, as mentioned by Mansuri and Rao, the opposite—i.e. communities characterized by heterogeneous class/caste structure and deeply entrenched power hierarchies—is generally where poverty programs are most needed. Consequently, local inequality in relations of power and authority may well allow program benefits to be captured by non-target groups. In the extreme, the decentralization of poverty programs in such contexts could worsen local inequality and reproduce or entrench local power relations.

Conning and Kevane (2002) show that, while community groups are likely to have better information on who the poor are, only communities that have relatively egalitarian preferences, relatively open and transparent systems of decision making, or which have clear rules for determining who the poor are, will tend to be more effective than outside agencies in targeting programs to the poor, within a given community. In contrast, heterogeneous communities where people have multiple and conflicting identities may pose a particular challenge because of competing incentives.

Galasso and Ravallion (2003) analyze the targeting performance of the decentralized „Food For Education“ anti-poverty program in Bangladesh (which, incidentally is the oldest of the conditional cash transfer programs). They want to know what factors influenced the center’s targeting of communities, and the allocation within communities? They are specifically interested in the role of village institutions and within village land inequality as determinants of targeting performance. Overall they find that more of the poor than the non-poor receive the program. However, the size of the effect is relatively small. Further, most of the targeting differential they observe arises from targeting within villages. In fact, they find no evidence that the center is targeting villages at all. In contrast, they find that structural features of the village are significant predictors of targeting performance across villages. In particular, villages which were more isolated, or had higher levels of land inequality tended to have poorer targeting performance. The evidence thus indicates that the performance of decentralized targeting programs can be substantially constrained by local inequality.

Delivery of Public Services

For most sectors (such as better health and education) that are of particular relevance for poverty reduction, there is no strong statistical evidence that decentralisation is good to reduce poverty. Cross-country evidence does not indicate a strong relationship between public spending and „empowerment outcomes“ after controlling for per capita income and other socioeconomic variables. That does not mean that, other inputs held equal, more spending on health and other social services has zero marginal effect. But it does highlight the importance of understanding how spending translates into outcomes. Generally a good case for shared governance - for complementarity between decision making at the local and central levels - can be made. In education for instance, some parts of the system (setting the curriculum, organizing examinations at the secondary school level, monitoring the quality of instruction, etc.) are best provided by central authorities with democratic control and oversight; for some tasks (such as fixing leaky roofs). It does not make sense for the center to get involved or to sign off on decisions; for other issues, it is best to share governance. Teacher absenteeism is such a case. Local communities have more information and a greater stake in monitoring teachers. At the same time, their own actions can be effective only if the education management structure itself responds to parental complaints. Alderman (2002), in a study of the social assistance system in Albania, notes that to take advantage of the presumed access to local information about needs that local governments have, there must be a corresponding flow of information to the center as well as an incentive to use this information. The increasing complexity of decentralized programs may raise the potential of improved delivery, but it also increases the chances for misallocation of funds at different nodes of the system.

The participation in the decision-making process by the individuals who have a stake in this process - stakeholders - may have a profound effect on the quality of life, which then can have a profound feedback effect on economic outcomes if the organization is made more effective. Education is an example. If parents are more active in ensuring that teachers and administrators are more effective, this will lead to positive outcomes for the children. Participation gives incentives to make an organization work. There is some evidence on this, for instance in the state of Himachal Pradesh in India (PROBE 1999).

Participation, to be operational, requires a minimum of literacy, basic capabilities, and gender equality - which are often not present in very poor areas in developing

countries. Participation requires empowerment of the people at the local level. But some political systems are such that those who are in power, or who control power, have few incentives to allow democratic decision making and participatory institutions to develop. Accountability is ultimately a question of democratic control of the government.⁷ The development of civil society and grass-roots movements, which can exercise important watchdog functions, as well as democratic competition between political parties and elections at the national and local level, represent important elements for the struggle to eliminate corrupt and nontransparent institutions.

There is now an increasing amount of empirical evidence showing that outcomes—such as school achievements, or improvements in quality of life indicators or additional GDP growth resulting from public good provision—will be positively affected by good governance in the sense that decentralization to the appropriate level, participation and accountability will lead to improvements in efficiency. Whether decentralisation enhances welfare is largely an empirical issue. In part this is because the conditions under which decentralized organizations lead to welfare improving (Pareto-efficient) allocations are restrictive. In part, it results from political economy considerations: even though in theory efficiency-increasing reforms allow winners to compensate losers, in practice institutional changes and the lowering of transaction costs may be to the disadvantage of some groups and affect the distribution of welfare in society, prompting some groups to react - in proportion to their political power - and demand changes in their rights.

There are three ways in which decentralisation can fail to translate into better services for poor people (see Keefer and Khemani 2004)

- Governments may misallocate budgets, spending resources on the wrong groups of people.
- Even when resources are allocated correctly, they may not reach their intended destinations if organizational and incentive problems in public agencies lead to misappropriation or theft.
- Even when resources reach a school or health clinic, providers may have weak incentives, motivations, or capacities to deliver services effectively.

⁷ Participation and democratic decision-making (e.g., through voting procedures) are separate issues.

The first type of failure, misallocation of budgets, can result from poor information and understanding of appropriate policy interventions. But we cannot ignore the role that political incentives and institutions play in this process. Political influences and pressures can skew public policies in favor of influential groups or systematically divert resources from budgets—reducing investment in essential public goods that benefit all citizens.

Recent empirical evidence on diversion of public resources from basic services is striking. For instance, only 13 percent of nonwage recurrent spending for primary education allocated in the Ugandan government's budget in the early 1990s actually reached primary schools (Reinikka and Svensson 2001). Similarly, surveys in India and Nigeria have found that many teachers and health workers did not receive their salaries for several months because local governments appropriated resources received from higher levels of government for their own purposes (World Bank 2003).

In some environments powerful teacher and worker unions fight for higher wages, leading to underfinancing of nonwage recurrent spending. Service delivery surveys have found because of this underfinancing, school buildings and health clinics often lack basic equipment—such as textbooks and drugs—needed to provide education and health services. A study on basic education in India reports that many school buildings have been abandoned for lack of simple furniture and teaching materials, and instead are used by local elites for personal purposes (PROBE 1999).

Even where resources flow to intended points of delivery, incentives and support for high-quality provision may be weak. One manifestation of this is the widespread absenteeism among public service providers such as teachers and doctors. Service delivery surveys conducted for the World Development Report 2004, based on unannounced visits to primary schools and health centers, confirm the severity of this problem: provider absence rates range from 13 percent among Peruvian teachers to 58 percent among medical workers in the Indian state of Bihar (Chaudhury and others 2004).

Numerous factors contribute to high absence rates, including insufficient monitoring of providers, weak rewards for good performance, and lack of local involvement in facility management—as well as difficult working conditions and low pay, which impede and discourage many service providers who have strong intrinsic

motivation and professional pride. Providers sometimes do not receive their wages, and there are problems getting well-educated, trained individuals to move with their families to remote rural areas.

Innovative policies have helped get providers in places of need. For example, Nigeria's primary health care policy is founded on the model of community health workers, consisting of individuals drawn from local communities and trained to provide basic preventive and curative health care. India's polio eradication campaign, which sent doctors to villages for two days a month to perform immunizations, is another good example. The doctors provided this service effectively, presumably driven by both professional and patriotic motives, when they might not have been prepared to move to these villages for longer periods.

An intuitive and appealing argument that has recently gained ground is that creating institutions for active community participation in service delivery helps overcome many of the problems discussed above. Parent-teacher associations, water user associations, community health groups, and similar entities can play a powerful role in encouraging suppliers, tailoring services to needs identified by communities, and holding providers accountable for service delivery. Substantial evidence on and examples of these mechanisms are provided in the World Development Report 2004.

Important differences exist between communities with respect to their needs, capacities, and circumstances. As central governments are not able to discern these differences fully, they seek to achieve their policy objectives by relying on decentralized mechanisms that use local information. However, household and individual characteristics within communities can also vary substantially. A growing theoretical literature suggests that inequality within communities can influence policy outcomes, and that this influence could be harmful or helpful, depending on the circumstances.

Social Divisions within the Community and the Capture by Elites

Empirical investigations into the impact of inequality have, to date, largely been held back by a lack of systematic evidence on community-level inequality. Elbers,

Lanjouw, Mistiaen, Özler and Simler (2004) use household survey and population census data to estimate per capita consumption inequality within communities in three developing countries: Ecuador, Madagascar, and Mozambique. Communities are found to vary markedly from one another in terms of the degree of inequality they exhibit. The authors also show that there should be no presumption that inequality is less severe in poor communities. They argue for the use of community-level inequality estimates in designing and evaluating decentralized anti-poverty programs.

Still, as we discussed above, we cannot jump to the conclusion that decentralization automatically empowers communities and improves service delivery. In fact, capture of public services by local elites may reverse the benefits for poor people. Bardhan and Mookherjee (1998) suggest that the benefits of decentralized service delivery for local governments and communities depend on the power of local elites and on the level and nature of local inequality.⁸ Platteau (2002) and Abraham and Platteau (2002)

⁸ Bardhan and Mookherjee (1998) discuss the conditions under which centralized or decentralized systems of governance are superior for managing local public goods and poverty-alleviation programs, such as public works programs. They do not focus on allocation of taxing authority between central and local governments, but rather on information about local needs and local costs of services, including costs of supervision and monitoring programs. In a centralized system supplying public goods and services, bureaucrats have discretionary powers that may be used for corrupt purposes, and behave like unregulated monopolists. The bureaucrats are not accountable to the recipients of the programs and users of the public goods, but to the central authorities. However, the latter cannot completely monitor them for lack of information. In a decentralized system, the issue that arises is capture. Bureaucrats are accountable to the local government but the benefits of the program can be captured by interest groups that control the local government. Capture leads to several problems in the delivery of local public goods, including excessive costs and black market problems. Corrupt bureaucrats will tend to overstate costs, to divert public goods to resell them to the non-poor on the black market, or to give priority to powerful socio-economic groups. Bardhan and Mookherjee compare the delivery of local public goods under decentralized and centralized modes of governance, and showed that there is no general answer to the question: which one is better from a welfare point of view? It depends on the political context, which is a parameter in the model. For example, if local capture by powerful interest groups is sufficiently large, decentralization may be worse from a welfare point of view, even when local agencies have more information about costs and the needs of the population.

It is, of course, worth making the point that both central and local governments are potentially 'capturable' by interest groups. This issue is discussed at length in Bardhan and Mookherjee (1999). However, there is generally more electoral competition between political parties at the national level than in local elections. As a result, policy making at the national level often represents a greater compromise among the policy platforms of different parties. Even in a non-democratic environment, it can be argued, that since there are economies of scale in organization and mobilization for interest groups, regional lobbies, etc., these groups will be forced to pool their resources and enter into strategic coalitions at the central level.

Capture leads to problems of targeting of public expenditures. Self-targeting in the provision of public goods, i.e., creating incentives that encourage participation only by the poor, such as public works programs, has been emphasized by the literature on development. In India, employment-oriented public works used to be organized centrally. Today, in most states, public works programs under the Jawahar Rozgar Yojana (JRY) scheme are organized at the village level. Money is transferred directly to the village panchayat, which is responsible for planning and implementing the works. As reported by Drèze, the record of these schemes is mixed. The choice of works to be implemented has improved because

show that even though acting through local leaders enables international agencies and nongovernmental organization (NGOs) to channel considerable resources to rural communities in a short period, it can increase the probability that these resources will be misused by local elites. By virtue of their dominant position, elites can manipulate participatory methods by representing their interests as community concerns, expressed as project deliverables. In Senegal, for example, municipal bodies and rural councils used the new rights accorded to them under the country's decentralization scheme to engage in dubious dealings such as sales of rural lands to tourist and other business interests—without consulting their communities.

Platteau (2002) argues that traditional elites are not the only group to benefit from newly channeled resources, since they often have tactical alliances with politicians and educated individuals operating outside the village domain. Thus in Sub-Saharan Africa it is common for chiefs to co-opt new elites in their village associations—for example, by creating neotraditional titles that are sold to the newly rich eager to acquire a political base in the countryside.

What, then, is likely to work?

These offsetting benefits and risks of decentralized service delivery imply that policy design and implementation must take into account how policies are likely to work in given circumstances and ensure that monitoring and evaluation mechanisms are in place. One instance in which community participation has been rigorously evaluated is El Salvador's EDUCO (Educación con participación de la comunidad) program mentioned above. The government provided financing to community-managed schools and empowered community associations to hire and fire teachers. Community participation led to higher enrollments, faster learning (as measured by standardized tests), and lower teacher absenteeism (Jimenez and Sawada 1999).

village communities are better aware of local priorities and have a stake in promoting the more productive works. The employment intensity of JRY for the unskilled, however, has greatly declined because local leaders have little interest in creating employment for landless laborers. They want to create productive assets and, from that point of view, their preference tends to be for works that are relatively intensive in materials and skilled labor. The JRY schemes are also plagued by corruption. In a recent survey of public works in five villages of Rajasthan, for instance, Drèze found leakages of at least 30 percent. Further, the fact that corruption is not smoothly institutionalized means that it often undermines the timely completion of works. This is a typical case of 'decentralized corruption'.

There is, however, need for much broader evaluation of the impact of community participation, including a stronger focus on the factors shaping its success or failure. For instance, India's District Primary Education Program, which encouraged community participation, has been widely cited as a success. But the absence of careful evaluation has made it difficult to make that claim unequivocally or to identify or understand reasons for varying performance in different environments and implementation methods.

It is important here to distinguish between different types of projects. Some may be too technical or large for communities to manage successfully, and local capacity constraints can limit the benefits from increased monitoring and participation.⁹ For example, Khwaja (2001) examines the performance of 132 community-maintained infrastructure projects in northern Pakistan and finds that project design is a critical determinant of success. For example, complex projects are poorly maintained and inequality in project returns has a U-shaped relationship with maintenance. Increased community participation in project decisions has a positive effect on maintenance for non-technical decisions but a negative effect for technical decisions. Projects initiated by non-governmental organizations are better maintained than local government projects, as are projects made as extensions of old projects rather than anew. Although direct community involvement in management might not be sensible in many cases, in most cases community involvement in assessing services is likely to improve them.

Given the difficulty facing so many poor people in accessing or using public services, it is not surprising that they often bypass public service providers and seek out

⁹ Infrastructure projects (whether a road, a school or a hospital) are potentially very beneficial for poor people. However, assessing these projects is not easy. The empirical assessment of income gains from infrastructure are plagued by a simultaneity bias problem: public decisions made about the location of the investment may be influenced by income level or growth rate between regions. Only a few studies have overcome this problem. They confirm that the poor derive large productivity gains from these public investments. How does governance affect the management of physical infrastructure such as irrigation or potable water systems? Local irrigation organizations, which used to be controlled by central irrigation bureaucracies, are now being handed over to local units such as farmer organizations. So far the experience is mixed. Pranab Bardhan cites his statistical analysis of 48 local irrigation organizations in six districts in Tamil Nadu (Bardhan 1999). He finds that inequality of land distribution is a significant variable in explaining low levels of cooperation. In highly unequal areas there is less cooperation. Cooperation (in the form of reciprocity or other mechanisms) works better among people who are relatively equal and have similar needs and resources than in hierarchical communities. One cannot generalize, however, and say that inequality hinders cooperation. The opposite kind of argument (that a certain degree of inequality is good for growth) can also be found in the literature.

fee-based private services. Thus there is enormous scope for the public sector to explore partnerships with the private sector in providing basic services.¹⁰ Though there is often a rationale for government intervention in basic service provision, constraints on effective public provision may imply changing the role of government from that of direct provider to facilitator and regulator. This is a big challenge because of both conflicting political incentives and lack of competitive private markets.

For example, Bolivia and Colombia have experimented with contracting water supply to private firms. While this arrangement was initially successful in Colombia, leading to better services and increased coverage in poor areas, in Bolivia it led to a crisis—with farmers protesting against sudden tariff increases that were not accompanied by quality improvements. Further research is needed to cull lessons from such diverse experiences.

Even if public spending makes basic services available, historical and cultural norms may cause individuals and households to not respond to them—particularly disadvantaged groups such as women or ethnic, religious, and political minorities. In such cases financial incentives may be needed to boost private demand and supply. Mexico's Progresa program experimented with demand-side interventions, by providing cash transfers to rural families that kept their children in school and took them for regular health-care visits. This approach resulted in significant improvements in the health of both children and adults (Gertler and Boyce 2001). The program's achievements—and the careful evaluation documenting them—allowed it to survive changes in administrations and fostered its expansion across the country, including to urban areas.

¹⁰ Hart, Shleifer and Vishny (1997) compare the provision by private agents or by government agencies. They assess the tradeoffs between private and public provision of prisons, garbage collection, schools, and health care. They conclude that the provision of public goods by public entities is superior when quality-enhancing innovations are unimportant, when corruption in government is a severe problem (outsourcing would increase the temptation for bribes) and when there are non-contractible cost reductions that have adverse effects on the quality of the public goods provided. Privatizing the provision of public goods is favorable when the reverse holds. Attempts to 'privatize' the provision of some public goods—as part of the redefinition of the role of the state—can have serious implications for the poor. In very poor areas, the day-to-day livelihood of the vast majority of the poor depends on local commons such as fisheries, forests, or grazing lands that resemble more club goods than public goods. There are many recent examples of commons managed by specialized agencies, i.e., dedicated only to a single function - such as water agencies, or local irrigation organizations. When does community-level cooperation work and when does it not? Increasingly, all over the world, for irrigation, functions that used to be controlled by central irrigation bureaucracies are now being handed over to local units, such as local farmer organizations. So far the experience is mixed.

Bangladesh's Female Secondary Scholarship program is another such example. Under this program a girl attending secondary school receives a stipend deposited directly into a bank account in her name. Schools also receive transfers proportional to the number of girls enrolled. Although the program has not been evaluated rigorously, preliminary findings indicate that it has contributed to the impressive increase in girls' secondary school enrollments.

There are several impressive examples of direct public action achieving remarkable, sustainable improvements in human development. Tandler (1997) and World Bank (2003a) describe how in the late 1980s the newly elected leader of Ceará, a state in northeastern Brazil, launched a major public health program. Like the Nigerian program mentioned above, the Brazilian initiative recruited and trained local health care workers who then worked in their own villages—rather than trying to convince trained people from cities to relocate to the countryside. One measure of this program's effectiveness is that in between the 1980s and 2001, infant mortality in the state fell from around 100 to 25 per 1,000 live births.

In the Uganda case, when evidence of leakage of public school resources emerged, the central government launched an information campaign. It began publishing monthly transfers to school districts in newspapers, broadcasting them on radio, and requiring primary schools to post the information. As a result the information on leakage became a powerful driver of public action (Reinikka and Svensson 2001).

In these examples the commitment of specific leaders catalyzed community action and produced remarkable results. The challenge is determining how such advances can be generalized. Relevant institutions are those that inform citizens and spur the collective action needed to ensure that disadvantaged people can obtain the basic services so important to their empowerment. The power of independent and accessible media, for example, is highlighted in a study by Besley and Burgess (2001). The authors found that in India government spending on food and disaster relief was significantly more responsive to citizen needs when there was wider circulation of newspapers, particularly in vernacular languages.

Section 5. Tools to assess the impact of decentralisation on empowerment

Service delivery surveys of providers and government agencies, along with household surveys on inclusion and participation, provide data for analyzing behavior and obstacles to investment in poor people's capacities. Dissemination of such data can empower communities, encouraging them to take action.

In order to understand better the impact of decentralisation on empowerment, we need more research on the following questions:

- What kinds of institutional changes improve accountability in the provision of basic services?
- What kinds of incentives make service providers perform effectively?
- Under what conditions do public-private partnerships work well?
- What kinds of interventions influence individual and social demands for better services and opportunities, particularly for poor people?

We need to better understand the social and political structures that arise in environments of inequality and extreme deprivation, and how they determine outcomes. Modern theories of organization and incentives can help identify which modes of service provision work better than others. Yet we must take care in applying these theories, because the success of innovative interventions is highly sensitive to broader political and social institutions—and can also be affected by the ethnic and cultural diversity and economic inequality that characterize many low-income countries (World Bank 2003).

With the growing availability of different types of surveys—household, firm-level, service delivery—the development community is developing stronger databases to help us understand the dynamics of change that occur in even the most depressed communities. Together with careful analysis of examples and experiments, these databases allow us to identify policies that promote poor people's inclusion in the growth process and empower them to take control of their development.

To measure the effectiveness of the public services that are critical for empowering poor people and improving outcomes, we have a relatively new tool at our disposal: basic service delivery surveys. These surveys take service providers—such as schools and health clinics—as their units of observation (like firms in investment climate surveys), and they can be useful tools for understanding malfunctions in public service delivery. Two main types of basic service delivery surveys have emerged: Public Expenditure Tracking Surveys (PETSs) and Quantitative Service Delivery Surveys (QSDSs).¹¹ (For detail, see Dehn, Reinikka, and Svensson 2003.) Just as investment climate surveys can facilitate comparisons across countries and regions, PETSs and QSDSs provide micro data on the service delivery climate that are comparable across jurisdictions. Here we briefly describe each of these types of surveys.

If a government wants to invest in people, a necessary first step is ensuring that those funds are used as intended. PETSs follow the flow of public funds through various levels of the government bureaucracy and banking system to assess what share of the expenditure is reaching, or being used for, the intended beneficiaries. A multilevel PETS can help identify corruption, leakage, and capture of funds by political or bureaucratic actors. If publicized, the data from these surveys can not only flag shortcomings in mechanisms for investing in and empowering people, they can also empower them directly by giving them information needed to act.

But even when funds are available, their ability to empower people largely depends on how efficiently they are used. This second step is the focus of QSDSs, which gather information on the quantity and quality of services that actually reach people. They ask, for example, whether people have access to clean water, children are being immunized, teachers are showing up at schools and doctors at clinics, schools have books and desks, and clinics have drugs and functioning equipment. They also measure staff incentives and efficiency, and provide information on determinants of service quality (such as staff absenteeism) and qualitative data on corruption. Furthermore, they collect information on the institutional framework in which services are provided. Service delivery at a particular facility can thus be linked upstream to government agencies and

¹¹ The distinction suggested by the names of these surveys should not be overemphasized: a PETS typically collects information on much more than just fund flows, while the typical QSDS collects data on expenditure levels and sources.

the public decisionmaking environment in which services are located, or downstream to household surveys for more integrated analysis of supply and demand. These links allow a more comprehensive analysis of supply and demand factors than previously possible, as well as explicit analysis of political economy factors. By combining these sources of data, we learn more about what determines outcomes of interest—health, education, incomes, and opportunities for poor people—and what policy levers have greater potential impact.

Service delivery surveys can throw light on important empirical questions. For example, what is the relative importance of extrinsic and intrinsic factors motivating workers in these services, and how do they interact? How do professional norms, commitment, and trust affect the motivation and behavior of health workers? How can we approach the measurement of intrinsic motivation (such as professional ethical norms and moral commitment) and their impact on behavior? Is intrinsic motivation stronger or more important in certain types of organizations, such as nongovernmental organizations (NGOs) or religious foundations?

There is little systematic evidence on these issues, particularly for developing countries.¹² Some research has tried to measure worker motivation and professional commitment through self-administered questionnaires with a broad range of questions about the worker's level of identification with the organization (such as a hospital) and its goals, willingness to exert effort on behalf of the organization, and general job satisfaction.

The PETS and QSDS were developed relatively recently, but earlier survey approaches—such as facility modules in household surveys and empirical studies to estimate hospital cost functions—have also tried to measure the provision of services. Living Standard Measurement Study household surveys have included health facility modules on an ad hoc basis. A number of the Demographic and Health Surveys carried out in more than 50 developing countries have also included a service provider component. Similarly, the Family Life Surveys implemented by RAND have combined health provider surveys with household surveys.

¹² These issues are not a focus of most QSDSs yet. Most QSDS studies have not focused on these issues yet; one notable exception is Reinikka and Svensson (2002).

The rationale for including a facility module in a household survey is to characterize the link between access to and quality of public services and key household welfare indicators. But because those surveys focus on households, they typically pay little attention to the determinants of service quality. In most cases the facility information collected as a part of community questionnaires relies on the knowledge of one or more informed individuals. Thus information is heavily dependent on the perceptions of a few individuals, and is usually not detailed enough to allow analysis of important service delivery parameters, such as operational efficiency, effort, or other performance indicators. To the extent that the information is based on perceptions, there may be additional problems attributable to its subjective nature and sensitivity to respondents' expectations. In contrast, the PETS and QSDS approach emphasizes and quantitatively measures provider incentives and behavior at the level of the service providing unit, such as the clinic or the school (Dehn, Reinikka, and Svensson 2003).

Central to these surveys are issues of participation, governance, and other key elements of empowerment—particularly its human development dimensions. The relationship between service provider and client is critical. For example, El Salvador's EDUCO program showed how parent associations and local communities, by visiting schools and monitoring teachers, can improve learning outcomes (Jimenez and Sawada 1999; World Bank 2003).

Randomized Experiments

Learning from existing projects depends to a large extent on good project evaluation. But retrospective evaluations are often misleading. Consider a case where researchers observe that schools with more textbooks typically have better-educated children. It is possible that textbooks increase education quality and achievement. But there are good reasons to doubt estimates of that effect based on a simple retrospective evaluation. One reason is that the greater educational achievement might reflect other factors correlated with textbooks, such as income or parental interest in education, rather than being a direct causal effect of the textbooks. In this case there is a danger of overestimating the actual effects of textbooks. On the other hand, if compensatory programs provide textbooks to problem schools, and if it is impossible to control fully for

the “problem school” effect in the statistical analysis, then retrospective studies may actually underestimate the effect of these programs.

Econometricians, most notably labor economists, have developed various techniques to try to get around these difficulties (see Angrist and Krueger 1999, 2001; and Meyer 1995). But evidence suggests that omitted-variable bias remains a serious concern: estimates from prospective, randomized evaluations are often quite different from the effects estimated. For example, retrospective studies of Kenyan schools suggest that the provision of additional textbooks in schools with low initial stocks has a dramatic effect on test scores. Randomized experiments, however, suggest that textbook provision increases test scores by 0.2 standard deviations among the top students but does not affect scores for the bottom 60 percent of students (Glewwe, Kremer, and Moulin 2000).

In the epidemiological literature, where randomized trials have a richer history than they do in the social sciences, there is a catalog of cases where widely accepted retrospective statistical evidence was shown to be wrong once randomized trials were conducted (Deaton 2003). In the retrospective framework, causality is almost always an issue. With random trials the question of causality is much more straightforward because the experiment is constructed so that, apart from random factors, the only difference between groups arises from the variable whose effect is being examined.

Despite the importance of knowing whether development programs work as intended, randomized prospective evaluations constitute a tiny fraction of development evaluations. Prospective evaluations, with random assignment to treatment and comparison groups, revolutionized medicine—and they could have a similar impact on development. Recent history provides a number of successful examples. Several studies suggest that school health programs may be one of the most cost-effective ways to increase school participation (Miguel and Kremer 2003; Bobonis, Miguel, and Sharma 2002). A twice yearly de-worming program costs only \$3.50 per additional year of schooling, compared with \$99 per additional year of schooling induced by the provision of free uniforms and \$36 per year induced by a school meals program.

Useful though they are, randomized experiments are no panacea. Often the questions of interest—such as macroeconomic policy—are economywide and not amendable to randomization. Other times the political process can limit attempts to

randomize the “treatment” program. Withholding access to potentially life-saving health benefits or potentially life-altering education opportunities can be considered unethical or unfair. For example, *Oportunidades*, the urban version of Mexico’s *Progresa* program, will not start with randomized evaluation because of strong opposition to delaying some people’s access to the program (Duflo and Kremer 2003).

There are, however, ways to tackle concerns of this type, sometimes making a virtue of necessity. Financial considerations often necessitate phasing in programs over time, and randomization is often the fairest way to sequence phase-in. To evaluate a private school voucher program in Colombia, Angrist, Bettinger, Bloom, King and Kremer (2002) made use of the fact that the vouchers were awarded through a lottery. Comparing the outcomes of voucher winners with those of unsuccessful applicants, these researchers were able to distinguish convincingly the program’s effects, and their results provided support for continuing and expanding the program.

It is also important to implement mechanisms to ensure that negative as well as positive results are disseminated. Evidence suggests a severe bias toward publishing only positive results (DeLong and Lang 1992), but randomized evaluations may be less susceptible to this problem than retrospective evaluations. Researchers obtaining negative results in retrospective evaluations are likely to try different approaches or not to publish. Once a structure for prospective evaluation is in place, results are usually documented and published.

Recently some attention has been paid to explaining why randomized evaluations are so rare. Pritchett (2002) argues that program advocates block randomized evaluations because they would reveal programs’ true impacts to decisionmakers. Kremer (2003) advances a complementary explanation in which policymakers are not systematically fooled but rather have difficulty gauging the quality of evidence.

Conclusions

There have been recently a number of successful community-based decentralised projects. This paper has discussed a number of recent projects. Decentralisation by itself is not a sufficient condition to reduce poverty. Many of the projects that have been instrumental

in reducing poverty and empowering poor people share several institutional characteristics: good project design and good information and evaluation systems, accountable and capable local leaders, participation and involvement of the community. Our knowledge of the conditions that create good poverty-reducing projects has improved, but more empirical information is necessary.

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