

**MAKING INFRASTRUCTURE WORK FOR THE POOR**

*A Concept Paper*

*On*

**Infrastructure and Governance**

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## **MAKING INFRASTRUCTURE WORK FOR THE POOR**

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## INTRODUCTION

Throughout the developing world, access to formal education, health services, transportation (roads/vehicles), water supply and other utilities is inequitable and of poor quality. This report attempts to explain how development assistance, economic policy, and institution building can help to mitigate these inequities in the distribution of infrastructure. It will explore the role of governance in the provisioning of infrastructure and the reduction of poverty in small communities. The goal of this study is to strengthen the linkages between governance, infrastructure and poverty reduction. Under what conditions do these linkages become weaker and when do they break down? What policy instruments, strategies and institutional changes can be identified to strengthen these linkages? And what approaches and strategies, from the governance perspectives, can be identified for further investments in infrastructure and for providing more infrastructure services at the country level?

It has been established that infrastructure is important for economic growth. However, infrastructural investment has had limited direct effect on poverty. The supply of infrastructure does not guarantee that poor people are able to use it. The benefits to the poor from additional infrastructure have been significantly less than anticipated. Due to weak governance, institutions, distorted public investment choices and inadequate maintenance, the contribution of infrastructure to growth are frequently undermined and the benefits intended for the poor, diverted. By strengthening governance and institutional frameworks, the linkages between infrastructure and poverty reduction can be made stronger.

## PRIVITIZATION AND ITS DISCONTENTS

1. Investments in infrastructure by multilateral organizations as a percentage of their investment portfolio diminished during the 1990s (Table 1.). This change was motivated by a consensus that capital shortage was not the main inadequacy in developing countries and that institutions to improve governance and to reduce corruption were necessary before capital investments could be productively employed.
2. Privatization is a pillar of the Washington Consensus that dominated much of development practice in the 1990s. The new view placed markets where governments had failed, and prompted many countries to undertake the extensive privatization of infrastructure, previously funded and managed by governments. During the 1990s more than 2,300 private infrastructure projects were implemented in developing regions, totaling \$690 billion. Nevertheless some 1.2 billion people currently lack drinkable water, 2.4 billion lack access to adequate sanitation and more than 2.5 billion lack modern energy supplies.
3. The history of privatization is closely linked to the need to balance the budgets and limit the public debt of developing and transitional economies. Fiscal austerity and the need to curb debilitating deficits resulted in higher prices for many public utilities. This helped to make privatization unpopular and forced many governments to renegotiate their contracts with private providers, which made many people question the integrity of the process.

4. Today, many developing country governments are fiscally weak and cannot issue debts to finance future infrastructure. As a result, it is extremely unlikely that any of these nations will ever return to state provisioning of resources. Instead, most developing country governments seek to improve the framework for private provisioning. Yet, due to consumer dissatisfaction, investors and governments are withdrawing their support, for privatization.
5. Although the financial assessments of privatization are generally positive, negative social assessments give rise to political opposition and popular discontent. Though privatized utilities tend to be better managed; more productive, more profitable, enjoy increased operating efficiency and improved output, many groups lose their jobs as a result of increased efficiency.<sup>1</sup> Furthermore, the poorest sectors of the population benefit only marginally from the changes in ownership. Linked to growing poverty and rising inequality, privatization gets a bad reputation. Anecdotal evidence supports these negative assertions, yet macroeconomic analysis shows that unemployment increases only marginally and that poverty levels are rarely impacted after privatization.
6. The failure to provide proper infrastructure can lead to divisiveness, tension, instability and eventually violence. The danger of such an outcome diminishes the appeal of the country as an investment destination. Instituting better efforts to serve the poor directly can alter this negative loop. Giving ammunition to critics, unfair privatizations breed popular discontent, which indirectly increases poverty

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<sup>1</sup> This seems to be especially true in Latin America where privatization started earlier and spread further. In India, after the introduction of privatization programs in early 1990's, the rate of growth of employment on current daily status basis declined from 2.7% per annum during 1983-94 to 1.07% per annum in 1994-2000.(Economic survey 02-03, Ministry of Finance, GOI)

by deterring future investment, and drives investors to nations where the risk of policy reversal is less prevalent. Unless the social risks engendered by privatization are eliminated, sound economic policy reform will be repudiated.

7. One reason for the unpopularity of privatization is that there is considerable suspicion that large-scale privatization is tainted by collusion between private bidders and government officials. The expected bonanza of jobs and higher growth often does not materialize because governments fail to prevent mismanagement. Investments in infrastructure sectors are characteristically upfront with a high degree of asset specificity and risky returns over a long period of time. Thus, reforms in infrastructure sectors require judicious government intervention and specific institutional arrangements. These interventions must address specific project, macro, and financial risk management and regulatory issues in order to ensure long-term commitment by both private parties and the government. When infrastructure services are privatized, contracts between governments and private operators are, by definition, incomplete, hence underlying the importance of consistent, rule-based contract adaptation. In such a situation, the access to information and the existence of sound regulatory oversight is critical for the success of infrastructure reforms. Whether in the context of privatization or greenfield investments, the need for enhanced accountability, transparency and procedures for addressing allegations of corruption in the award of concessions is of the highest importance. The existence

of a large number of failed and non-performing projects in several countries is frequently a consequence of corruption in the award of concessions.<sup>2</sup>

## ROLE OF GOVERNANCE IN INFRASTRUCTURE.

8. The public procurement process is only effective if conflict of interest regulations for public procurement officials are enforced. Institutional strengthening is needed to monitor the assets, incomes, and spending habits of public procurement officials and require competitive bidding to limit sole sourcing. These regulations must allow unsuccessful bidders to instigate an official review of procurement decisions and challenge said decisions in a reputable court of law. Companies guilty of major violations of procurement regulations must then be prohibited from participating in future procurement bids, and citizens must be able to challenge misbehaving companies and managers.
9. Although good regulation is essential, the success of regulation depends on the domestic political process. Regulation must not only promote economic efficiency, it must also be politically sustainable. Lapses in the provision of good governance are often political in origin. This paper concentrates on the politics of engaging the poor in the selection, monitoring and financing of options. It argues that finding an inclusive formula is the key to building better infrastructure for the future. Political regulations are necessary to ensure that political authorities do not abuse their power and neglect the interests of the poor

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<sup>2</sup> World Bank Institute, 2002.

10. When the political system is dominated by small coalitions of cronies, relatives or military officers, citizens do markedly worse on public welfare or humanitarian indices than their counterparts who live under more inclusive systems. Across the board, the data show that more inclusive systems generally do a better job at producing safe drinking water, expanding public education, offering access to medical care, encouraging free trade, avoiding corruption and black marketeering, and attracting investment.
11. Moreover, even the inclusive societies who are quite poor usually offer more advantages than autocratic countries that possess valuable resources. El Salvador and Jamaica are two excellent examples of relatively poor but inclusive societies with above-average social welfare (as demonstrated by their low infant mortality rates and high-quality drinking water). By contrast, during their non-democratic years, Mexico and Brazil had above-average income levels, but performed poorly on these social indicators.
12. The reasons for this discrepancy can be found in the incentives of politicians: inclusive governance promotes greater government spending on social policy and public goods because, in such systems, the longevity of political leaders is directly tied to the welfare of the majority.
13. In the majority of developing countries, politicians have found it more politically beneficial to provide services for elites rather than for the population in general. To understand why this is so, we must understand political incentives. All over the world, politicians are interested first and foremost in surviving in office. Macroeconomic analysis has revealed that incumbents have a higher probability



of holding on to their office by providing services selectively to those groups that they depend upon. So instead of providing universal access to services, politicians target services to special interest or core supporters to ensure future votes.

14. Life expectancy rates also depend on the coalition size that a ruler uses to govern.

Being born in a polity that scores highest on the inclusiveness index adds nearly fourteen years to life expectancy, whereas an order-of-magnitude increase in per capita income adds only five years. Both are significant, but the impact of coalition size has dramatic results, both by increasing life expectancy (because of government spending priorities) and by creating a more open economic system, since a competitive political system is a significant contributor to economic growth. By way of illustration, per capita income in Brazil in 1972, eight years after the military coup, was \$2,907. In the same year in Jamaica, a functioning but narrowly based parliamentary democracy; per capita income was about the same, \$3,099. According to the “coalition size” index of inclusiveness, however, Jamaica scored 1.0 while Brazil scored .25. It is therefore not unusual - though it may be surprising to some - to find that whereas life expectancy in Brazil in 1972 was 59.8 years, in Jamaica it was 68.6 years, nearly a decade longer. Similar evidence can be marshaled using other measures of social welfare, including the equality of educational opportunity for women and men, differences in infant mortality rates, and so on. What is more, the data also suggest that when a government switches, whether by choice or the compulsion of circumstances, from being exclusive to being inclusive in nature, economic growth shows a marked improvement over the next three to five years.

15. Enhancing political competition has a bigger effect on primary school enrollment than increases in education spending. Thus we conclude that the existence of competitive political parties whose legitimacy depends at least in part on the support of the poor is essential to ensure that they benefit in public investment.

### *Democracy and Infrastructure*

16. Curiously, rapid democratization has increased the representation of poor people but has not increased services for poor people as expected. In many young democracies services available to the poor are worse than those provided in non-elected single party states like China or Cuba. The reason is that the institutions necessary to connect electoral outcomes to actual benefits are not in place. There is a long route of accountability between the politicians, the service providers and the citizen or service consumers that diverts the flow of resources away from the poor. The obligations of public agencies towards their clients are not well specified. Elections provide an opportunity to examine a candidate's record but inadequately provide accountability between the state and the citizens. Many East Asian countries have created performance-monitoring institutions, especially Singapore, Hong Kong and Korea, which are more effective than those found in developing country democracies like Mexico and India.

17. Frequently in developing countries, few institutions outside the voting process exist to make the politicians accountable. This places a great deal of attention on elections, but very few accountability mechanisms exist to hold the politicians accountable after the elections are over. Democracies need institutions that will

increase the costs to individuals engaged in corruption. They need watchdog agencies and multiple layers of accountability that allow agencies of government to scrutinize one another and that allow the electorate and civil society to monitor the officials of the state. The judicial system must be able to impose penalties without interference by money or influence. Citizens must be assured that public accounts will be subjected to independent, systematic, and regular reviews. Legislatures must have the tools to assess and design legislature. Independent electoral commissions must safeguard voting procedures. Tax collection must be fair, predictable and comprehensive, with proper legal processes and grievance procedures in place. The media must be credible, and independent and professional organizations must be able to ensure that their members derive their stature from the integrity with which they serve the public. These are just some of the things that must be in place if citizens are to be able to hold government responsible in economic and other matters.

***RURAL DEMOCRACY IN CHINA:***

*18. China has introduced village elections to promote rural stability and to give rural inhabitants the means of combating exploitation by local officials. The Center has instituted a wealth of measures to protect peasants and to enable them to protect their interests. The most important are institutionalizing village elections, encouraging those with grievances to write letters and visit officials, allowing local protests and media coverage of egregious violations, and permitting*

*lawsuits against officials responsible for grievances. Thus the regime has provided the peasants with many mechanisms to vent their anger at local officials so that it does not snowball into anger at the center and against the general course of change being undertaken by the center. (Thomas P. Bernstein and Xiaobo Lu "Taxation Without Representation in Contemporary Rural China. Cambridge University Press, 2003.)*

### ***Social Polarization and Infrastructure***

19. Social polarization stemming from inequality or ethnic fragmentation is also an important reason why societies fail to equitably provide infrastructure. Politicians in countries that have strong ethnic and class divisions are more likely to target benefits to a narrow coalition rather than to provide the most cost efficient services to a widest possible number of people.
20. Polarized societies find it difficult to reach agreement on how to share the fiscal burden to support optimal social investments. Social development will stagnate if society is unable to agree on the amount of non-traded social goods such as roads, school education, police, defense or courts of law that are necessary but not provided through the market system. If insufficient quantities of social resources are created, society will produce fewer traded market goods, which increases the likelihood of future volatility, as society will lack the social resources to cope with future needs. In Latin America, sociopolitical stalemates prevent society from resolving debates about the level and distribution of taxation and spending and have been devastating to sound public finance.

21. A developed economy depends upon organizations that pool private resources for public goods. Pooling works best when members surrender personal rights to terminate or liquidate the collective entity. Business corporations similarly require limited liability of shareholders, and can only liquidate resources after a majority decision from the shareholders.<sup>3</sup> Village assemblies are an example of entities that can be important catalysts for improved common pool management. When individuals drop their liquidation option and submit to the will of the institution's governing body, they enable a self-determining entity to form, and to acquire an independent legal personality, to sue or to be sued, and to purchase or alienate property in their own name. The fact that individual members have relinquished their rights to liquidate the common pool enhances the validity of contracts with an external third party. This makes the enforcement of judgments against the collective entity more credible, and thus establishes a pretext to contract with other entities. This kind of legal reform can enhance the ability of citizens to contract and monitor the infrastructural services that are needed locally such as schools, hospitals and roads.

22. But when recourse against the inefficient management of common resources is weak, individuals are reluctant to join an entity governed by unrelated parties and will not consent to surrendering their rights to liquidate the organization.<sup>4</sup>

Effective local organizations will not exist without trust over how they will be

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<sup>3</sup> In other forms of incorporation individuals relinquish their individual rights to terminate the collective entity include partnerships, professional guilds, non-profit organizations, political parties, local governments and the State.

<sup>4</sup> An irony exists in that voluntary organizations to reduce uncertainty will not form unless uncertainty about their management is reduced.

governed.<sup>5</sup> Thus, poor governance can interfere with the formation of social institutions essential to direct resources into a common pool, causing many joint endeavors to be forsaken, and leaving many common goals unattainable.

23. Politicians frequently exploit ethnic polarization to strengthen their own grip on power. In ethnic polarized societies politicians can increase the size of their own political base through distortionary wealth reducing policies, and by targeting allocations that benefit only a few. This process is frequently referred to as Clientelism. Clientelism is characterized by an excessive tendency for political patrons to provide private rewards to clients. Politicians allocate public spending to win elections. To win support, they can either provide public goods to improve everyone's welfare or they can supply private goods to a small group of essential supporters.

24. Bloc voting can transform a system in which everyone votes into a system in which only a few barons of power control large numbers of voters as in the impoverished agrarian backwaters of India, like Bihar and Orissa. In these predominantly rural regions the poor who depend for their livelihood upon upper caste landlords cannot afford to vote independently of the wishes of their patrons. The village "big men" must in turn be loyal to patrons they depend upon, so that a senior member of the patronage chain ends up controlling a large number of votes. Candidates for political office deliver patronage goods in exchange for votes and bloc voting allows them to assemble the votes for an electoral victory just by backing a few key clients. Thus bloc voting allows a democratic selection

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<sup>5</sup> Mancur Olson, 1982, paid attention to social costs arising from the perpetuation of residual institutions that have lost their social justification for continuation. But developing societies face an inability to form rather than to terminate collective enterprises.

processes to be circumvented and a governments to be formed that depends on a small coalition to stay in power.

25. The Tammany Hall system worked according to a similar logic for the Irish – American populations in late nineteenth century American cities. Politicians who could get out the vote were supplied with access to the patronage machine to help out of luck constituents survive difficult times. Since anyone who wanted access to succor in times of need had to be counted among the party’s supporters, the poor could not vote independently. They sold their votes to the machine to be protected from economic risk. Their patrons could deliver a large bloc of votes and thereby keep the machine in power but individual voters gain the promise of personal protection and loose prospects for good overall economic policy. They had sacrificed the hope of good economic policies that could produce general abundance for the promise of a handout during hard times. In this way the North American constituents Tammany machine were no different than the poor landless farmers in India. In both cases where bloc voting is endemic only the requests of the barons of power need to be respected. This distortion has a powerful impact on the types of infrastructure that will be developed.

26. Bloc voting explains how the Imams of the prominent Mosques in India can control the votes of their followers simply by issuing a fatwa. For example, before the national election the contending players in an election would turn to Old Delhi's Jama Masjid to watch for the Imam's call to the Muslims to vote for a particular party. Political observers believe the Imam's edict played a big role in turning Muslim vote against Indira Gandhi in the post-Emergency elections.

27. The Muslims were on the same side as the Jan Sangh, the BJP's earlier avatar, in alignment against Indira, so strong were the influence of their fatwa on their ethnic and religious followers. Indira Gandhi learnt her lesson and when she faced midterm elections in 1980 she personally went to Jama Masjid to meet the Imam and regretted in writing the excesses of the Emergency. Obliging the Imam extended support to her for her comeback elections.
28. Since then *fatwas* from religious figures and caste heads have become an important convention around elections. For example to counter Jama Masjid, the Imam of Fatehpuri Masjid at the other end of Chandni Chowk would back the other side.
29. Ethnic fragmentation is a strong incentive for bloc voting to emerge. Politicians who advocate universally accessible public goods will have less appeal than those who offer rationed access of private goods to supporters. When bloc voting prevails citizens can no longer depend on services available to all citizens. Candidates who stand for universal client needs have little chance to supplant the candidates who appeal to ethnic blocs because voters cannot afford risking their sources of patronage by allowing a rival bloc to win. General service delivery will deteriorate leaving the poor powerless since they cannot afford to defect to a rival bloc out of fear of further reducing their access to benefits.
30. Bloc voting is one of the reasons Clientelism can distort outcomes in developing countries. But even in polities that do not hold election political leadership typically has incentives that are not aligned with the equity concerns or efficiency. These incentives are strongest when the state owns the water or electricity.



Politicians may prefer to keep prices for infrastructure services below the cost of recovery. They may use their power to appoint company directors and supply public subsidies to ailing enterprises in exchange for commitments to supply favors that include excess employment, below market tariffs to selected clients, or the targeting of new investments to garner support for a particular constituency. They may instruct the policy planners to target new investments to politically connected users. Spiraling costs and deteriorating service quality result leaving much of the population without adequate service. When cost recovery is circumvented the providers depend on budget transfers, which the politicians control. In the absence of transfers, the providers may choose to cut back service, usually to the detriment of the poor since they are the least capable of having their voices heard.

31. When Clientelism takes over service delivery, much of the population ends up without adequate services. This scenario is quite common in urban and rural regional utilities of both water and electricity. Citizens respond to the rationing of their access by supporting those politicians who favor them. As already noted the politicians who attract the votes are those who link their clients to services. Candidates who advocate universal access find they have a weak client base because all citizens benefit from universal access even if they have not voted for the good governance advocate. Voters that lose their patron lose access to private goods and the losing party has no way to penalize the provider for poor service.
32. To prevent the politicians and the providers from becoming one and the same, and to make it difficult for citizens to hold providers accountable four strategies exist.

Each offers a mechanism to separate politicians and providers. The first is to decentralize assets. The second is to use private participation in operations. The third is to charge for services, and the fourth is to utilize independent providers so that clients have a choice. All of these strategies are politically difficult rather than technocratically complicated because the incentives for politicians to lose control over patronage are very weak since they may also end up losing their ability to be re-elected.

## MAKING DECENTRALIZATION WORK FOR THE POOR

33. Throughout the world, governments are realizing the benefits of decentralization, and transferring power to lower tiers of government. The theory behind this transfer states that decentralization makes the delivery of services more effective. China and India have both embraced this trend. However, in many cases the relevant issues are not the formal existence of decentralized structures but rather, the degree to which decentralization has been made an effective policy: to what extent have resources and functional authority been transferred to local levels, and to what extent has decentralization become a tool for democratization?
34. Frequently, when decentralization occurs, local communities do not have relevant information about reforms across jurisdictions and do not know how to evaluate the performance of their representatives. It is not enough just to move administrative resources close to people; institutions for accountability must also be put into place. The record of service improvements will be mixed without the accompaniment of strong accountability, and a supportive sequence. For example,

local customers can only manage clinics, classrooms, local water and electricity utilities effectively if regulatory capacity has been devolved in an appropriate manner.<sup>6</sup> Essential to making services work is the availability of sub-national finance, the division of administrative responsibilities and the existence of local capability and capacity. Where meaningful resources are transferred, functional responsibilities are clarified, and accountability mechanisms are established at the local level, decentralization may effectively produce the economic and social benefits that policy makers intend.

35. Decentralization has had mixed results and the poor frequently do not benefit from the transfer of power. There are *three reasons* why decentralization has not had the success that were hoped for.

- Central governments often reallocate responsibilities to the local level to avoid fiscal responsibility. In such cases, decentralization rarely ensures that adequate fiscal capabilities are in place to accompany new responsibilities.
- Due to flawed institutional design, sub-national authorities often act in opportunistic ways, reducing accountability.
- Local governments often find themselves overwhelmed because they lack the technical capacity and experience necessary to undertake new responsibilities

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<sup>6</sup> Devolution can be defined as the handing over of resources to local politicians.

36. All three of these sources of failure can be remedied by making the transfer of power reflect all three components<sup>7</sup> of decentralization:

- ❖ **Political Decentralization** transfers policy and legislative powers from the central government to autonomous, lower-level assemblies and local councils that have been democratically elected by their constituencies. Under political decentralization, local governance structures include traditional authorities, civil society organizations, locally identifiable groups, women and minority groups.
- ❖ **Administrative Decentralization** places planning and implementation responsibility in the hands of locally situated civil servants who work under the jurisdiction of elected local government. Administrative decentralization transfers functions to local level structures and allows sector level authority to be integrated with local governments.
- ❖ **Fiscal Decentralization** accords substantial revenue and expenditure authority to intermediate and local governments. Fiscal decentralization must be accompanied by financial management and reporting mechanisms that promote accountability at local levels.

37. Though many spheres of community interest exist that extend beyond a single village community, it is generally unrealistic to expect a particular village to volunteer services that benefit a wider set of beneficiaries. Village authorities have little incentive to undertake long-term investments (e.g. new schools, health ports) that require government staff or recurrent budget allocations for their long run operation.

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<sup>7</sup> Source: World Bank (2000a: 3)

38. There is little or no evidence to suggest that decentralization on its own will necessarily produce systems of governance that are more effective or accountable to local needs and interests. In other words, local forms of accountability are dependent on more than just the devolution of political, administrative and fiscal power to village leaders. A full range of infrastructure and services will not emerge from village planning. Village level planning and infrastructure requires support and coordination from higher authorities. A village or local community will prioritize intra village priorities (access roads, community economic schemes, village water supply) under emphasize or neglect priorities of the wider inter village community. Village leaders are unlikely to priority will be given to services such as vaccination or crop protection that benefits a more diffuse set of beneficiaries.
39. The costs of negotiating and enforcing contracts with individual customers or small communities are the largest impediments to the decentralization of infrastructure. The particularistic provisioning of infrastructure to several small communities creates considerable transaction costs for the service provider. It is more cost efficient for service providers to deal with one large organization that offers a complete contract for the entire service that anticipates the needs of investors and consumers. Therefore providers usually manage costs by contracting with only a few large consumers, but often neglect the needs of small consumers. When providers do deal with small consumers directly, the problem of incomplete contracts arises because many components of the service transcend

the small consumer's jurisdiction and awareness. In addition, too many small projects overwhelm a country's implementation capacity.

40. There is a general consensus among policy specialists that sub-national governments should administer basic health and education services according to standards set by an inter-jurisdictional agency. To increase the responsiveness of devolved units to the needs of citizens, local governments need a local tax instrument, but must first ensure that management, staffing, and administrative functions work properly so that social benefits and not corruption are the results of the tax. Building local capacities cannot be postponed, since the benefits of these newfound institutions must be shown to the citizens if they are to have any incentive to pay taxes in the first place. . At the macro level it is essential that upper bodies provide strategic direction coordination and oversight. Communities need to be nested into a larger fiscal decentralization program. Credible intermediaries in the form of mobile community members, dependable government officials and effective representatives in regional and sub regional governments are necessary in order to ensure that the needs of the local communities are considered. Local communities often encounter problems that require resources beyond their capability and therefore need recourse to a national or regional policymaking body to build awareness among local representatives and community leaders of the broader economic, social and environmental issues that are affected by infrastructure decisions. The center has an important role to play in ensuring that decentralization separates policy makers and providers at the local level and makes the different tiers of government responsible for the

outcome of the policies that are chosen. Sub-national governments do not have efficient incentives to deliver cost efficient services if the center provides ample amounts of funding to bail them out when they overspend. Soft-budget constraints are one of the principal causes of failures in the Latin American experiments.

41. The poor governance of local infrastructure reveals itself in inflated construction costs due to bribe taking by contractors and a lack of competition in the bidding process. Incompetence and negligent of technical supervision also plays a role in unsatisfactory outcomes. To correct these weaknesses better financial and technical audits are necessary. Local leaders and officials must be prevented from preempting or influencing resource allocation decisions to serve their own private interests. Strengthening institutions by multiplying controls and audits is possible where sizable budgets are involved. In small local projects it is better to focus on improving transparency in selection, design, construction and maintenance. All allocation decisions should be made in public including announcements of donor assistance. For example in some World Bank village improvement projects signs were posted indicating the cost of the project and the rate of pay for workers on the project. Facilitating direct exchanges of experience between communities is useful. Mistakes can be corrected through education that shows what communities have done wrong. For example if they are paying too much, show them what neighbors are paying. In Bolivia visits to communities that had already embarked on similar projects achieved meaningful results. Since local projects are small, the consequences of mismanagement are immediate and are relatively easy to

- redress before the costs are deeply embedded as in the case of a large project that runs for a relatively long time. In some instances, simple contracts will hold if the services are unbundled into components that concern and engage the local community directly.
42. In many developing country administrations, political party affiliations and allegiance to the ruling party are qualifications for gaining access to centrally provided services. Ruling parties tend to harness local institutions for partisan goals undermining effectiveness and independence. Within the local communities it is common for more influential members to dominate the channels of communication with the outside.
43. Central governments are most effective when they allocate fiscal incentives competitively to local governments. The key is to have effective performance information about different local governments and to allow local governments the flexibility to reform service delivery by contracting with regional companies.
44. Devolution requires that funds, functions and functionaries are transferred to the local governments. When one of these goes without the other, it may actually discredit the entire process because it creates responsibility without the means to deliver results. In India, the constitutional amendment that set up the Panchayat Raj<sup>8</sup> tended to favor higher levels of government. Because the law in India lets the state determine what would be passed on to the Panchayats, many of the states retain many central powers, leaving local governments still dependant on political patronage. The local body is a channel for directing expenditures but frequently

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<sup>8</sup> Constitutional Amendment 73<sup>rd</sup> and 74<sup>th</sup>, 1992.



has no discretion on where money is spent and as a result, quite frequently, money that is allotted is not spent. Successful decentralization requires that the center have powers of supervision to ensure that local politicians bear the consequences of their policy decisions.

### *Linking Decentralization with Effective Service Delivery*

45. The new approaches incorporate the role of intermediary institutions that meet international guidelines, procedures and scrutiny and focus on building the capacity of local government and encouraging participatory processes. By streamlining operations to improve the efficiency of public expenditures and discontinuing the practice of overdrafts to finance operating deficits, the provincial government gains incentives towards finding sustainable solutions for the long-term financing infrastructure.
46. It is neither desirable nor practical for a community planning process to be separate from planning and budgeting at the local, district and provincial levels. An iterative local participatory planning process is needed. Sustainability is compromised when village planning, budgeting and staff deployment is delinked from district and province level. Iterative bottom up planning processes suggest that linking communities to local government bodies is more equitable than top down planning procedures or than narrow community based processes. A key lesson has been that own-source revenues are vital to local governments.
47. Judging penniless rural LGs by their poor planning record is not fair. Planning and budgeting are two sides of the same coin. Neither makes a great deal of sense

without the other. Ensuring some kind of institutional link between planning and budgeting is a way of “safeguarding” the interests of local citizens. For truly public goods and services, the fundamental problem lies with the inability of most rural LGs (Local Governments) to collect sufficient revenues themselves and to link capital and recurrent expenditure budgets.

48. Pre-determined and pre-announced capital budget allocations can make the planning process meaningful. Unless LGs know what financial resources they will receive and that these will indeed be forthcoming, their planning remains largely a process of “wishful thinking” and therefore almost pointless. Citizens can be consulted and can participate – but without something concrete at the end of it all, they have few incentives to do so in a meaningful way. Where elected officials know that good performance leads to bigger capital expenditure allocations, they usually respond by doing their best to improve LG management. Where they know that access to capital grants is contingent upon compliance with statutory provisions about local government, they will also work hard to meet those standards, and thus improve local governance in general.

49. It is commonly held that the lower the level of government, the greater is the risk of capture by vested interests and the less protected minorities and the poor will be. Hence, a tradeoff exists between the advantage of decentralized delivery mechanisms with their access to superior local information and the danger of elite capture. The tradeoff may be context specific and needs to be assessed empirically, which is why we will provide many context specific examples.

50. One way to weaken the incentives for patronage is to devolve responsibilities to different tiers of policymaking and separate the powers between them. Service and political boundaries should be aligned and decentralization can strengthen accountability. When the center controls both regulation and service delivery, it has few incentives to be accountable therefore it is often better to devolve services to another tier of policymaking. Devolving service delivery also creates opportunities to benchmark performance and to reward efficient service providers.
51. When responsibilities for water and sanitation are devolved to local governments, there is often a loss of scale economies and a loss of commercial viability because of excessive fragmentation, and there is likely to be constitutional conflicts between different levels of government. One method to resolve these conflicts is to permit inter-jurisdictional agreements. For example, the local jurisdiction can cede the right to provide water and sanitation to a company that is owned by several local authorities, or the law can allow for a service provider to be owned by several municipalities at the same time and when needed, to merge local water agencies that are too small to be viable. The central government can play a role in facilitating mergers by providing funding. It is important to align decentralization with sectoral priorities. As one decentralizes, it is always necessary to provide a window for central government to monitor the restructuring of local services. Allowing the center to retain liabilities while devolving the assets can facilitate decentralization.
52. Central governments can provide fiscal incentives to sub-national governments that succeed in accomplishing institutional reform guidelines set by the center.

There are various examples of central governments using fiscal incentives to support municipal restructuring. For example, in India, the City Challenge Fund is available to facilitate the reform of municipal services.

53. Because most localities in developing countries are ill equipped to address these challenges aid agencies often working outside the existing administrative framework to allow the programs they sponsor to proceed unencumbered by bureaucratic red tape and interference. However, the special purpose entities that donors create are frequently insulated from the politics and activities of other actors operating within the same geographic or sectoral territory, which hampers their integration into existing institutional frameworks, and compromises their efficiency and viability in the longer term. Dealing with poor local institutions by avoiding them and creating specific institutions dedicated to the implementation of a specific project may compromise long-term sustainability. . When the project ends the governance innovations that accompanied it also end. Creating project enclaves undermines replicability by limiting the viability of the project to the pilot area in which it was originally confined.

### *Lessons from the US Experience with Private Infrastructure*

54. U.S history offers relevant insights because the U.S managed to retain a significant private role in infrastructure through out the twentieth century, which suggests that privatization can be a long-term solution in some circumstances. The U.S was the only country that was able to maintain private ownership of most of its utilities throughout the twentieth century. In U.S. History most utilities started

out in private hands but eventually the states and provinces assumed a dominant role in the regulation of those utilities that remained in private hands. As the state and provincial role gradually expanded, municipal powers were delegated from state and provincial governments in the United States and Canada, allowing the states and provinces to determine the types of utilities their cities can franchise and the aspects of company performance the cities can regulate. Early-nineteenth-century North America had a strong tradition of decentralized government, however, and state and provincial legislatures were generally reluctant to get embroiled in the details of awarding local franchises. States and provinces took the lead in chartering and regulating the infrastructure that crossed municipal boundaries or provided intercity service, such as canals and steam railways. They let their cities take the lead in regulating utilities whose services were largely local and involved the occupation of city streets.

55. From the beginning, however, state government remained available as a court of appeal or mediator if either a city or a private franchise holder felt it was being treated too unfairly. In essence, the option of appealing to the state introduced an element of discretion in the otherwise contractual approach. And although that appeal was cumbersome to exercise, it was called on increasingly as the nineteenth century wore on and disputes between cities and franchise holders became more common. The spread of formerly local utilities across city boundaries at the end of the nineteenth and the beginning of the twentieth centuries added pressure for state intervention. Responsibility was moved to the state level because many turn-of-the-century reformers argued that municipalities

could not be trusted to regulate private utilities wisely or without corruption. By the mid-twentieth century municipal franchises had all but disappeared, with most of the remaining private utilities now subject to state regulation. Gas and electric companies were more likely to remain private and state regulated, while most of the water and street railway franchises were eventually taken over by the cities they served.

56. The third stage saw the revival of municipal franchises for private utilities, beginning in the 1970s. The revival involved fewer industries and shorter contracts than its nineteenth-century predecessor. Cable TV franchising lasted only two or three decades, ending because technological change had reduced cable TV's monopoly power and thus the need for regulation. The other industries – solid waste disposal, water, and sewerage- are ones where large private firms seem to have important advantages in technology and experience over municipal operators. Contracts for a period longer than ten or fifteen years are still relatively rare, and the longer contracts are generally restricted to the construction and operation of a single facility rather than applying to the entire systems. Although it is too early to tell, this selective approach and shorter-term contracts may reduce conflicts and make the revival of municipal oversight more sustainable than the original.

### *India's Incomplete Decentralization*

57. Throughout India the political compulsions of electoral party politics have pushed state governments into devolving substantial powers to the panchayats. In some

cases, this has led to real improvements in participation, accountability and government performance. However most local governments in India lack the capacity to ensure transparent budget allocation and accordingly the residents are reluctant to pay their taxes since they do not want to simply perpetuate corruption of local resources. The problem is not an absence of taxable surplus but the lack of political administrative capacity to collect and employ public resources in a prudent manner.

58. India's constitution leaves residual power with Union and not with states or local bodies, thus favoring the central and state governments at the expense of the Panchayats. Only when an incumbent chief minister at the state level is interested can progress be made towards decentralization. Therefore in India local self-government institutions can be dependent on the patronage of state government. The powers, authority and responsibilities of three layers of Panchayats are established in the constitution. But few functions are mandatory, thus discretion is left to the state concerning what can be passed to the Panchayat. For example in many districts funding is allocated that is not spent because the local community is not involved in the planning.

59. In India there are persistent problems with local elites who in collusion with local political elites avoid paying taxes all together. A second problem is that the local politicians campaign by appealing to Clientelism rather than to issues of general social welfare. Only in West Bengal and Kerala have political parties, that are policy based, emerged to challenge the dominant interest. The leadership of these provinces took the initiative to establish effective decentralization institutions in

order to implement broader policy objectives and social redistribution. In West Bengal and Kerala the rise of ideologically coherent pro poor parties is the key reason for the effective provisioning of public goods such as universal education, public health care, enforcement laws for division of land and protection of labor and for protecting the poor and vulnerable in the society.

60. The experience of decentralization in India confirms the importance of competitive political parties whose legitimacy depends at least in part on their support of the poor. West Bengal (in India) illustrates the ways in which a party that is ideologically committed to the goals of social redistribution can use the panchayats to over-ride feudal relations. Of central importance in both provinces (West Bengal and Kerala) was a political transformation in which people's political loyalties shifted away from traditional patron-client relations towards party political loyalties in a competitive party system. The success of local government in these two provinces illustrates the importance of a prior social transformation, in which political organization motivates weaker groups in society to challenge dominant groups.

61. By contrast, in Andhra Pradesh the devolving of power is less successful because the panchayats has been construed as a reflection of the Chief Minister's autocratic style. The creation of the 'village secretary' was also interpreted as a means of enhancing Hyderabad's control over the distribution of development funds and programs. As in AP, in Madhya Pradesh decentralization is used by the ruling Congress Party to maintain political support in rural areas, as well as within the ranks of its own party. In Madhya Pradesh the actual powers transferred to



panchayats have been inadequate and superficial<sup>9</sup>. Here, the formal latitude to decide and allocate public resources remains confined by bureaucratic and party political forms of regulation and control. This, in turn, limits the extent to which panchayats can be held accountable for public service delivery. In conclusion there are three impediments to the success of decentralization in India, a) Many states that are unwilling to devolve substantive power; b) a resistant bureaucracy and c) the power of 'local elites'. As Gurcharan Das has put it "*Local self-government faces three formidable enemies: state politicians, bureaucrats, and feudal interests of the village.*"

## STRUCTURE AND FUNCTION

62. The organizational design for the provision of infrastructural service is determined by two characteristics, the degree of excludability and the degree of rivalry. Excludability refers to the ability of suppliers to exclude those who are not willing to pay. Excludable services can be efficiently coordinated through markets. When there is low excludability the service is susceptible to free riders, users who do not contribute to the costs.

63. Rivalry refers to the extent to which one person's use reduces the services availability to others. Many individuals can consume non-rival services at the same time. Private goods and services are highly rival and highly excludable permitting one person to use it at one time and to exclude others at low cost. Private infrastructure that is highly rival and highly excludable is a latrine or a

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<sup>9</sup> Behar and Kumar

- phone connection. The latrine is difficult to finance and therefore sanitation has made much less progress than phones and telecommunication in general which are easy to assign service charges.
64. Public goods and services that exhibit low rivalry and low excludability are roads and traffic signs. A category of goods that features some rivalry and excludability are toll goods, piped water, electricity networks and toll roads. Public goods that are highly rival and whose supply is finite but at the same time not easily excludable are ground and irrigation water.
65. The degree of excludability and rivalry of a good or service determines what kind of structure is best suited for its provision. When excludability is low as in the case of public or common goods some kind of collective action or governance structure is needed to reduce the free rider problem. When a good or service is characterized by low rivalry i.e. toll or public goods, hierarchy can supplement the market to promote economies of scale and production.
66. Private goods such as a private latrine or phone connection are provided most efficiently by market-oriented organizations. Markets are responsive to consumer needs, make limited use of often-scarce administrative capacities, and avoid the high monitoring costs typical of hierarchies. Large private corporations (market-oriented hierarchies) or government agencies (public hierarchies) in turn have a comparative advantage in the provision of toll good-type infrastructure services. For example bridges, electricity, piped water supply, or telecommunication networks and systems, typically entail large sunk costs and monopolistic features and implies a need for hierarchy. Hierarchy may also be needed to create a

regulatory framework and enforce the corresponding rules. At the same time, since the control of access is feasible due to excludability, these services can be allocated through markets.

67. A public hierarchy or a civil society organization rather than a market has comparative advantage in the provision of public infrastructure services such as rural roads or irrigation. Civil society organizations dependent upon collective action can effectively provision of common pool good-type infrastructure services. Inadequate community participation in the provision of these services could lead to over use, for example to over-exploitation of ground water. Further, a market organization would not be able to provide the good unless it was granted contractual rights to the common pool resource. For example common lands or forests can be leased to private contractor that provides payment to a village entity. Also, a hierarchy would not be ideal given the prohibitive costs involved in monitoring and controlling access to the resource. Infrastructure services can be co-produced by two or more different types of organizations: a public sector, private sector, and/or a civil society organization. For example, government agencies can collaborate with a community organization to co-produce rural water and sanitation services.

### **The Governance of Common Pool Resources**

68. A number of obstacles interfere with the development of appropriate accountability mechanisms for the governance of common pool resources

- ✓ Communities rarely have the technical capability and need technical support
- ✓ When the need to replenish capital investments occurs, group contributions from the local community may not be sufficient.
- ✓ Communities are rarely homogenous and thus, are subject to exclusion and elite capture

69. Village level associations do not necessarily select the most efficient technology and fail to achieve economies of scale because they do not do what is best for the whole region and instead choose the technology that is best for their individual provinces. Often, the latest technologies are applicable to entire regions, but cost prohibitive in smaller areas. A discussion about how to design client-based approaches to the provision of infrastructure follows.

70. The general approach to infrastructure management in decentralized institutional settings is to un-bundle provision in terms of decision-making and management in accordance with the particular characteristics of each service and to allocate responsibilities accordingly. Unbundled services can be divided into the following: network planning, system design, choice of alignments, service standards, project priorities, construction of physical plant, and operation and maintenance of services. Regulating, financing, and undertaking each of these unbundled functions are important aspects of decentralization and need not be the responsibility of a single actor.

71. Private provisioning offers an avenue to separate the politicians from the service providers. It does so by providing explicit contracts that define upfront service

responsibilities for the provider and policy maker for such issues as the tariffs that will be paid by poor households. But, the role of private provisioning is restricted by the fact that a complete contract covering all aspects of service delivery is not possible with a local unit of government. Various tiers of government are needed to complete the contract.

72. The provisioning of water and electricity to the poor is particularly vulnerable to patronage politics. The providers end up being accountable to the politicians rather than to the clients. This is because the service must travel long route before arriving at the point of consumption. To provide effective water, sanitation, sewers and electricity, it is necessary to detach the politicians from the entities or agencies or companies that produce the product. Separating politicians from providers can be done through disbursing ownership through decentralization and private participation, by promoting competition through benchmarking, by mandating alternative access through the use of independent providers and by charging for services. All of the above mechanisms can strengthen client power and voice. But the most difficult part of infrastructure governance is to find align the incentives of politicians with the interests of customers.

73. The payment for services can be powerful tool to prevent the politicians from using those services for patronage purposes. Communities of the poor rarely have enough revenue to support the provision of services and depend on central politicians for fiscal resources. Since the provider is not dependent on the local community for some of their revenues, the provider has incentives to disregard the views of clients.

74. A provider that needs to change tariffs to reflect new costs is likely to receive a negative response from the clients, so that recourse to central politicians is needed. Increasing tariffs when necessary introduces a significant implementation issue. Adjustments of tariffs to support quality improvements must be mindful of the need for a safety net to ensure basic affordability by the poor.
75. A transition towards cost recovery requires a period when users who are not accustomed to paying the full price for their services must adjust their expectations. During that transition there will be a period where prices and the quality of services are misaligned. Governments have found this to be a very politically difficult transition, as services often do not improve immediately to justify the increase in prices. Because the jumpstart move to cost recovery is very difficult to coordinate with better service delivery, the reform of infrastructure through privatization often suffers from a loss of credibility. In India, where transmission losses of more than 35%, occur someone must pay for that loss during the transition period. But politicians have found it very difficult to persuade constituents to pay. One way to cope with this discrepancy is for governments to subsidize a portion of the private operator's costs while tariffs are adjusted upward towards full cost recovery. Cost recovery is the goal, but keeping it at a realistic pace is necessary to ensure a political sustainability. Targeted subsidies for connections and usage charges may be a necessary instrument to ensure access and affordability of basic services. This way, a major tariff shock is avoided. Reducing the impact of the shock by subsidizing the consumption of the poor can facilitate the implementation of overall system-wide user charges.

Chile, for example, funds its household water supply system with individual subsidies. Identifying poor users is a very difficult first step and will require significant efforts in data collection and assessment. The needs of the poor and their ability to pay are rarely evaluated but such a step must precede the targeting of subsidies. This absence of information can result in the wrong people getting subsidies or in inaccurate estimates of whom the poor are and how much they can pay.

76. The key to successful delivery of electricity to the poor seems to be unbundling rather than decentralization. Electricity delivery can be divided into three components: generation, transmission and distribution. Unbundling creates the potential for competition in the relevant sectors. Also, unbundling creates scope for better information dissemination about the cost structure of each part in the chain. Transmission and distribution tend to be monopolies and therefore require effective state or nation wide regulation. Privatizing distribution is common, but decentralizing the control over the power generation itself to local communities is not considered. This is because of the need for economies of scale and scope and also because it is frequently necessary to cross-subsidize rural and urban consumption. Unbundling the national REB (Rural Electricity Board) into regional electricity boards with some form of benchmarking helps clients break the monopolistic relationship. Many rural providers are experimenting with off-grid systems. In Cambodia, electricity customers have often contributed in advance to the costs of construction for system expansion (lines and transformers). In addition, at least 60% of village households have agreed to pay house wiring

and connection fees. In some cases, villages were so willing to have electricity that they collected funds among themselves to finance 100% of the distribution equipment.

77. Universal electric grid coverage must be subjective to considerations of costs in many rural areas diesel generators are more viable. Decentralized options may be the more viable choice where demands are uncertain or latent. If the demand does not materialized the risk of substantial financial loss can be reduced and a grid connection can be made later on. Local hydropower may be another low cost option that should be considered as an alternative for grid supply. Single Wire Earth Return systems, gasifiers, and certain hybrid systems and, longer term small gas turbines and fuel cells. In principle, the renewable energies, such as solar and wind power, should find good application despite playing a minor role at this time. Often the cost efficient options such as mini hydroelectric projects are neglected because policy makers are looking big grid systems. In many rural areas it is critical to reduce the wood fuel use. Wood fuel forestry is another area that can be very beneficial to rural people.

78. The costs are frequently underestimated and the benefits overstated. By itself, electrification does not guarantee economic development and its benefits tend to accrue to the wealthier groups in electrified areas. It is increasingly recognized that electrification must be part of a much broader development package. Rural electrification is not a substitute for rural income growth. When the overall conditions are right for rural income growth. Rural electrification can contribute



to but cannot substitute for other rural development interventions such as water supplies, health programme, primary and secondary education and feeder roads.

79. The private provisioning of infrastructure has created a demand for greater accountability. It is widely held today that regulators should be responsible for specific elements in the chain of accountability. In order to provide the best possible service for clients, the regulatory process must separate the policy makers and the providers. For example, they should just provide information on performance or just ensure enforcement. But when it comes to regulation, one size does not fit all. If water comes from a private company which contracts with a municipal policy maker, the municipality must do regulation. Safeguards must be established to protect a regulatory agency from political influence. Funds can be earmarked for the regulatory agency, staff can be hired without reference to civil service rules, the recruitment of regulators can be protected from political interference and their terms of service can be isolated from electoral cycles. Another option places the regulator at the national level if the provisioning is done at the local level. As already noted in the United States, a constitution provides an overall framework, while state regulatory commissions oversee privately owned local utilities that are regulated by local governments.

80. It is widely believed that during the process of provisioning, there needs to be consumer involvement with as much information about the process of reform and tariff setting as possible. Organizing consumers, however, faces many “free-rider” type obstacles. In developing countries, the consumer associations are absent so that significant asymmetry between the consumers and the providers

exists, making it easy for the provider to capture the regulator. Various developing societies have used creative mechanisms such as the use of local churches or the creation of special advisory bodies or the use of the radio in order to engage the communities to oversee and participate in the regulation of services. Recently the government of India created the Central Electricity Regulatory Commission (CERC) and has since divided services into subdivisions. In Dan Nang Province of Central Vietnam, the Vietnamese Centre for Rural Planning and Development improved the transparent of capital allocation for social investments. It links Province through District to Commune level authorities by establishing a provincial level administration that has oversight over small-scale social and economic infrastructure.

## ***Water***

81. Today, two out of every ten people in the developing world are without safe water, five out of ten are without sanitation and nine out of ten do not benefit from wastewater treatment. Full pressure, 24/7 water supply is something that very few poor people in the world's developing cities enjoy. Access to water and sanitation has been so unresponsive to improvement? Access points to water are often shared by many, many people, and on the rural side, about one-third of the existing rural infrastructure for water delivery is dysfunctional. As a result, poor people often find that they pay higher prices for water than affluent citizens who are connected to pipe systems. Many different approaches to solve this problem have been tried. Some have worked in one setting but failed in another. These

include, decentralizing to local governments, private sector delivery, regulatory reform, community driven development and small independent provider

82. The effective governance of water requires that water rights and obligations be clearly defined. The clarification of water rights is the first step in the administration of water rights. Water rights are often complicated by the variable nature of the resource. Additionally, there are economic, social and environmental values attached to water rights. All water use creates positive or negative externalities. Many of the current problems of water governance derive from hierarchical and centralized control by the central government and its inability to provide sufficient water-related services or to enforce regulations. It is often held that the local community, together with water users organizations, can govern common resources in equitable and efficient ways. Although rights may be defined on paper, water resources may in practice be considered free-for all. In many instances, particularly in agriculture, water rights are closely linked to land rights; any reform in water rights therefore must also address land rights and vice versa.<sup>10</sup> In many countries major new water laws have been or are being developed but they still need to be translated into effective rules and implementation mechanisms. In other cases enforcement is insufficient, because those directly affected or responsible for law implementation have still very little understanding of it. Regulation needs to be complemented by incentives and capacities. Formalizing rights raises complex questions about the plurality of

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<sup>10</sup> This is being addressed in South Africa's water policy reform where land and water rights are being disconnected and the riparian principle may thus not necessarily apply. Water is considered a national resource vested in the state. The law provides for nineteen catchments management agencies, which have to prepare a management plan, issue water licenses, actively promote community participation and perform other functions for implementation of the water law.

claims and the balancing of the distribution of benefits among the social groups. It also imposes responsibilities including in particular that of pollution prevention and financial sustainability. The process of formalization is often biased in favor of the rich and powerful who may abuse the system and capture rights. Informal 'rights', as defined locally with their historical rules and principles, are equally important and improper formalization may lead to conflict between the formal and traditional. The formalization of rights may be unnecessary or insufficient to secure access to water resources.

83. Village governments can be actively involved in the planning, implementation and management in order to sustain the water and sanitation facilities. Individual village plans should be based on active participation from men and women. All community members, irrespective of their social status, should be encouraged to actively participate in the planning, site selection, implementation, monitoring and maintenance. Village water & sanitation committees should be formed consisting of elected and non-elected members. There are many good reasons for management of water resources at the lowest appropriate level. One being that water management issues at local level are often profoundly different from water management issues at national or regional level. Local issues are often unique and not necessarily covered by policies set by central authorities. However, solutions can only be found if local water governance systems are effective and properly harmonized within the national institutional context. In many countries<sup>11</sup> the trend over the past decade has been to decentralize responsibilities away from central

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<sup>11</sup> In Estonia for instance local governments will be responsible for development of their water and sewerage plans and will take care of the ambient water quality. In several countries in Eastern Europe provision of urban water services has been decentralized to municipal governments.

government with more responsibility to lower tiers of government or to other actors like communities and private sector. However, responsibility is often given away freely but power is much more difficult to take away from the centre and this contradiction results in poor governance.

84. Water and sanitation are the two areas of infrastructure that are least attractive to the large-scale private investments. In Latin America where private provisioning has been most extensive, it has succeeded in providing water service to only 15% of the population (Foster, 2002). Throughout the developing world, water provisioning remains primarily public. But these two sectors are amenable to market based solutions in which the community can play a major role. Small independent providers working with local communities are becoming increasingly common in water and sanitation in developing countries. They vary from household vendors of water to small network providers to private entrepreneurs & cooperatives. Sometimes they are the primary suppliers while other times they supplement existing providers. Although it is difficult to give these independent providers a legal status several ways exist to regulate small providers so their accountability to the local customers is enhanced. These include

- Ensuring that network providers are not given exclusive supply,
- Enabling greater partnership between formal public and private network providers and small independents,
- Ensuring that the regulatory framework for network providers gives the flexibility to enable contracting with independent providers,

- Enabling small scale provider associations and working with these umbrella bodies to introduce appropriate levels of regulation,
- Enabling poor people to gain access to multiple independent providers while keeping their regulation more focused on health and issues related to groundwater depletion.

85. The economic rationale behind governance is that effective water governance is supposed to lower transaction costs by preventing corruption and increasing financial efficiency. Capital outlays of the state budget for water resources management are insufficient. There is not enough money for maintenance and repair of water infrastructure. In many countries water management and water services continue to be funded through central sources and funding is often insufficient and insecure. Where charges are collected on the basis of water use, they are often not retained by the organizations responsible for managing water resources. Instead they are paid into a general exchequer and from this account water service providers are funded. As a result opportunities are lost to redefine relations between different players - water managers, service providers, water users - and to bring financial mechanisms in line with new distributed forms of governance with larger accountability and ownership. Many poor households traditionally pay for high prices for low quality water providing the poor with improved services can also improve the revenue from the utility while improving the quality and affordability of the consumers. The poor gains status when they become legitimate customers. The willingness to pay was linked to how useful and reliable water services are perceived to be. In this context the link between

transparency and financing is very important. In many countries poor people pay for water, so introducing an assessment is not the problem rather corruption is usually reduces the motivation for community members to pay water charges. Transparent and accountable systems would go a long way to creating public confidence in paying for water services. The introduction of more effective governance systems with a strong autonomous regulatory authority and transparent and accountable processes would attract new financing. Improving capacity to prepare and manage contracts would also reduce bad utility practices, both public and private.

### ***Sanitation***

86. Sanitation is one of the most neglected problems because it is viewed as a problem of individual households. Poor sanitation creates social problem however the resolution is private, few mechanisms exist to subsidize efforts to improve sanitation. The shift from open to fixed-point defecation requires a private investment in a latrine, but incentives do not exist to provide such facilities. For sanitation the focus of change must be on collective action to mobilize communities to invest in their own infrastructure. In urban areas, government can help consumers by allowing independent providers to flourish and to support tenure where settlements are informal. If everyone does not collectively shift towards improved sanitation facilities, there is little incentive for households to act alone because diseases will still be rampant in villages. In cases where there is an absence of property rights, the inhabitants will not make

the additional investment in latrines; so improved tenure security can increase the probability of better sanitation. Sanitation is often a neglected area when compared to the water sector, with levels of investment and coverage lagging far behind. Sanitation differs in certain fundamental ways from water supply. Firstly, it is not always a networked or utility service. While sewerage sanitation is the norm in most developed countries it is not necessarily appropriate or feasible in many developing country situations. Even where families express a preference for sewerage sanitation such systems are not viable unless there is adequate water to make the sewers work and significant funding available to cover the high operation and maintenance costs of collection and treatment. Creating informed demand for sanitation requires long-term investments in promotion, social marketing and health and hygiene education. Sanitation with full treatment is expensive and many sector professionals agree that high levels of subsidy are probably required in sanitation and indeed most developed countries subsidize the sub sector. Finally, sanitation is often a local government function, while water may be organized along organized by the state and national jurisdictions.

87. General solutions to improve sanitation include:

- ✓ Property rights
- ✓ Willingness to allocate lands to sanitation systems
- ✓ Municipal Laws to ensure that community laws can make arrangements with providers (flexible standards)



88. Before major infrastructure is undertaken the contractor and government should work together to insure that there is an appropriate level of capacity at the national, provincial, district, municipal or village level and mechanisms for collaboration and oversight. Along with the technical assessment of a project there should be a governance assessment to ensure that legitimate representatives of the community participate in all decentralized aspects of project governance including policy formulation, implementation and delivery.
89. Despite some efforts in recent years in the large cities of Karachi and Lahore in Pakistan, significant participation of the private sector in the provision of urban water and waste management did not materialize due to inability of defining and implementing a well designed policy framework for private provision, including tariff policy. Attention to rural water has been deficient, and has been a serious constraint to poverty reduction in the water scarce rural areas of Baluchistan and Sindh.
90. By contrast in Bangladesh, public spending along with supportive NGO role has enabled a sharp increase in the access to safe drinking water. Also, one positive development in air pollution management has been the banning of leaded gasoline use in 1998. The problems here largely reflect weakness of the underlying institutions and corruption. Additionally, policies, standards and monitoring of water and air pollution are constrained by weak progress with environmental management institutions.
91. The Pakistan government embarked upon an ambitious program to overhaul the management of the irrigation network in 1995. The aim was to empower farmers

by establishing Water Users Association (WUAs) and vesting operation and management responsibilities to these groups along with the task of collecting better water charges. Yet, the implementation record so far is disappointing mainly because of the continued opposition from the feudal lobby and the irrigation officials. The feudal lords fear the loss of command over water distribution if WUAs are established. Similarly, the irrigation officials will lose rent seeking option once their role in water tariff collection and allocation of maintenance fund is taken over by the WUAs. While the small farmers would benefit most from this reform, the social environment of a feudal farming community limits their mobilization and voice. This experience with irrigation reforms is both an illustration of the powerful coalition of interest among feudal lobby, the politicians and bureaucrats as well as an indication of how complex and time consuming it can be to secure policy reforms in a feudal environment.

92. The striking difference in experience with social spending between Pakistan and Bangladesh demonstrate both the positive role that broader participation can play in securing development, and also represents one important difference in an otherwise broadly similar political environment in these two countries. The Bangladeshi politicians have used NGOs to their advantage by relying on them for delivery of basic human services while Pakistani politicians saw them as a threat to their authority and as such constrained their evolution.

## *China's Approach to Rural Infrastructure*

93. Government authorities in PRC have attached priority to economic infrastructure development. Irrigation and drainage works, small-scale hydropower facilities, potable water supplies for people and animals, roads, electricity and telecom have all received substantial investment. These policies have centered on trying to combine irrigation and hydropower developments effectively, progressively introducing market rates for electricity and water to make depreciation, operation and maintenance self-funding, raise funds from different sources including commercial funds to accelerate infrastructure development, and use the food for work program as a means of developing infrastructure and having an impact on poverty reduction at the same time.
94. By the end of 1998 the program had created or renovated 300,000 km of rural roads, provided drinking water for 63 million people and 54 million livestock, developed 53 million mu of new agricultural land, newly irrigated or rehabilitated 73 million mu of irrigated land, planted 46 million mu of fruit trees and forest and contributed to hydropower and telecommunications development in rural areas.
95. Local Government is responsible for the management of infrastructure projects in poor rural areas. Engineering design is mostly, but not always, subcontracted to line agencies or institutes, and unified standards are not necessarily followed. There has been limited attention to operation and maintenance funding at the design stage and it is widely recognized that there has been more emphasis on construction than maintenance.

96. Funds for operation and maintenance generally have to come from charging, but effective charging structures are not always in place. Electricity and water are relatively easy to charge for. Roads need to be paid for from the public purse, though local labor can be mobilized on a voluntary basis to carry out some repairs. Little work has been done on the impact of infrastructure development on poverty and its construction is widely perceived as a “relief” activity in poor areas rather than an economic one. Cost recovery has therefore received little attention, reinforcing the perception. Where there is cost recovery, it has often been at subsidized rates. This in turn has resulted in a preference for the development of other kinds of infrastructure by local government where revenues can be easily generated.
97. The present incentive system does not encourage social investing because of the pressures on local officials to generate revenues. Investments in hard infrastructure alone will have limited benefits without the development of soft infrastructure such as microfinance, technology and enterprise development.
98. The village appoints a special unit or person responsible for the management or maintenance of small irrigation or drainage works built by community investment. However, due to unclear ownership of such works, the infrastructure is not usually properly maintained. To tackle the problem, methods like selling off infrastructure at reduced prices, leasing, and management by contract have been used during the recent years, and the results have been fairly good.

99. Cost recovery has played a very important role in provisioning of rural infrastructure in China. Funding sources for rural infrastructure construction mainly include the following:

- ❖ Funds raised by people living in the community, including voluntary labor
- ❖ Local taxes
- ❖ Budgetary funds and subsidies from different governmental levels
- ❖ Special purpose funds allocated by the state.
- ❖ Typically fees are charged for water and electricity, but not for roads. Income from fees is the main source of funds for operating and management of irrigation and drainage works, as well as for maintenance, improvement and renovation. Charges for water are set separately according to usage and are in line with state economic policy and current reserves.
- ❖ The management and maintenance expenses for small hydropower works and drinking water works are handled by the management units of such projects of relevant level of government authorities. The source of funds is the income from the sale of water or electricity.

100. Since infrastructure constructions in the Chinese countryside are mainly funded by the budget, government subsidies and local communities, the issue of cost recovery does not arise. Only in some infrastructure projects, such as irrigation works, drinking water projects, hydropower works and road construction, where bank loans or other loans from international institutions are

- used, is there the question of cost recovery. In addition, there is usually a part of the fund raised from the local farmers or through their labor that will not be repaid.
101. User fees are appropriate for small irrigation works, meaning the benefited farmers or families using irrigated water should pay water charges. Relevant managing departments through centralized collection and payment, into specific accounts, help in cost recovery.
102. China has been one of the most successful countries in rectifying the absence of infrastructure provisioning for poor rural communities. Nevertheless, as a result of decentralization, there has been a significant increase in the regional, local inequalities in delivery of basic services including health, education and welfare. A countrywide equalization is a goal. Full local responsibility for social welfare expenditures is an inappropriate way to attain that goal. The provinces with the most limited fiscal resources have fallen behind, as Chinese decentralization has been associated with the rapid increase in economic inequality.
103. As our diverse examples suggest many ways exist to create structure for infrastructure that is sensitive to the needs of poor people.

### **UNDP Action Plan: Re-engaging Infrastructure**

104. The key to UNDP's approach will be to improve collaboration between political bodies, civil society organizations (CSOs) and multilateral and private sector investors. The UNDP can act as a facilitator, consultant and partner and it can both indirectly and directly support the engagements of civil society

organizations in the development, implementation, and monitoring of infrastructure at the national, regional and local level.

105. It can help promulgate monitoring and evaluation process at the preparation stage of the project, so that the input of the potential beneficiaries helps shape the design of the project. The UNDP can develop a Participatory Assessment Methodology that will evaluate:

- Equitable choice and access
- Affordability
- Efficient, safe and environmental use
- Proportion of community using infrastructure for non-income and income generating uses.
- Degree of changes in social development indicators.
- Cost/contribution sharing between and within households.

Priority needs are identified and insights are gained from the beneficiaries, and these in turn are incorporated at every stage of the private projects. It can develop specific participatory tools relevant to each sector. Better tools could be used for measuring the socioeconomic impacts of projects with focus on poverty and gender. Developing new measurement techniques, which consist of both qualitative and quantitative indicators of civic engagements and accountability, are essential. These techniques will measure if a service meets the users' demand, the extent to which the users consider the benefits worth their costs, and the impact of infrastructure services on the utility and use of time and workload of community members and how the utility affects the better-off and the poor sections of the community. Is there a variation in

the perceived costs and benefits between each group (poor women-rich women, poor men-rich men in the community)? Frequently, when a project has different cost structures for different members of the community it will be difficult to maintain. It is also important to establish which groups in the community spend the most time and expend the most effort in maintaining the service. The assessment should consider also system quality, effective functioning, effective management (level of service and quality and timeliness of repairs), effective management in budgeting and keeping accounts, equitable choice and access, affordability; efficient, safe and environmental use.

106. The UNDP can play a broad role in development operations and in policy dialogue in local, national and transnational levels by putting focus on strengthening civic engagements and ensuring that the civic community is incorporated into the overall strategy of improving infrastructural services. It can help to broker empowerment and participatory approaches to development by acting as an intermediary between multilateral organizations, private investors and local communities. It can identify the organizations and constituencies for all aspects of project development. The UNDP can track and monitor civil society organizations (CSOs) for their ability to contribute to more transparent infrastructure. It can work to ensure that CSOs are engaged as a component of infrastructure undertakings in the most cost-effective and equitable way. The UNDP can help to organize consultation workshops and thematic forums that can constructively channel public debate and to find measures of result and progress that are consistent with local expectations and needs.



107. The next steps are to develop an overall operational policy for engaging CSOs in infrastructure planning. UNDP can use its expertise in civil society participation for the designing and monitoring of infrastructure. It can identify the gaps between the expectations and outcomes. It can be a catalyst for integrating local civil society groups with national and global perspectives. UNDP's expertise is in engaging the civil society effectively and in making decentralization work for the poor. The UNDP has on the ground staff that maintains multi-faceted relationships with local civil society organizations. They can closely monitor these organizations and can help to build the capacity of organizations to play a more pro-active role. It can use its expertise to expand and deepen the enabling environment for civic participation. It can be responsible for developing a global knowledge management system based on engaging civil society and in using decentralization to ensure that infrastructure becomes a tool for reducing poverty. The UNDP can help establish a balance between representatives of democracy and unelected civil society. It can work closely with donor agencies to ensure the self-regulation of civil society organizations to establish their legitimacy and accountability as advocates of poor and voiceless members of communities.

108. The UNDP can provide analysis of social and economic inequities and can be an instrument for attracting attention to promote change through substantive dialogue. It can facilitate arrangements for greater coherence, coordination and accountability in the building of infrastructure. It can bridge the gap between best practice and appropriate local practice. In the end it can help match resources with strategies for development that directly target the poor.

109. It can help to improve social accountability mechanisms and support policy dialogue to include human resources governance, financing and grievance mechanisms. It can work to ensure that partnerships with private sector operations are consistent with Millennium Development Goals (MDGs).

110. UNDP's goal is to create the foundations of public trust and to show how global and local organization can work together to address inequities in the global distribution of resources. Ultimately UNDP's greatest role is in the area of knowledge and capacity building. It will employ these expertises to ensure, expand and deepen role for community engagements and managing human and financial resources in alignment with priorities for better infrastructure. It can create accessible data to evaluate and track the engagement of CSOs in the procurement and management of local infrastructure and to establish a criterion for consultations and feedback between government, for-profit providers and local users.

111. UNDP can help build capacity for community based monitoring mechanisms. It will expand disclosure mechanisms and information policies so that there is public access for all stake holders before during and after decisions are made. Because it is not a donor it stands a chance of being an impartial observer. Because UNDP is not pressured to respond to clients or to meet disbursement target set by senior management, its presence does not involve conflict of interests. Its role will be to build local community and local governmental capacity for ownership of government programs. It can be an impartial promoter of innovations, civic engagements, empowerment, capacity, and partnership with other stakeholders. UNDP can elaborate the impact developing programs sponsored by other donors. The

UNDP can maintain a database on infrastructure to provide benchmarking in country analytical work. Finally it can be sensitive to political, cultural and religious considerations, which are not in the purview of other developmental bodies.

112. UNDP can assist in developing sector-wide approaches to development cooperation that promote donor coordination of strategies and approaches and also institutionalize regular dialogue with governments at central and local levels. UNDP can help to develop strategy for community development for each sector of infrastructure. Based on our general concept paper, the next step will be to undertake country specific and sector specific action plan.

## **CONCLUSION**

A strong link exists between infrastructure and good governance. Good governance is necessary for the successful implementation of infrastructure programs to ensure that the poor benefit. Infrastructure programs, in turn, are vehicles that can improve governance. The second aspect of the two-way link between infrastructure and governance rarely receives attention. The key dilemma faced in the effort to make infrastructure work for the poor is that individual projects are small and they must travel a considerable distance before arriving at the isolated habitations of poor people. By the time money and technical resources arrive at the doors of the poor they have passed through many layers of decision makers and implementers who are not responsive or accountable to the people who depend on their authority. To reverse these imbalances and make infrastructure work for the poor, communities must be

given institutional and regulatory capabilities to be fully viable political actors in all decision-making that engages community resources.

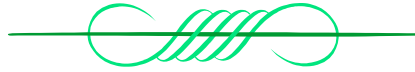
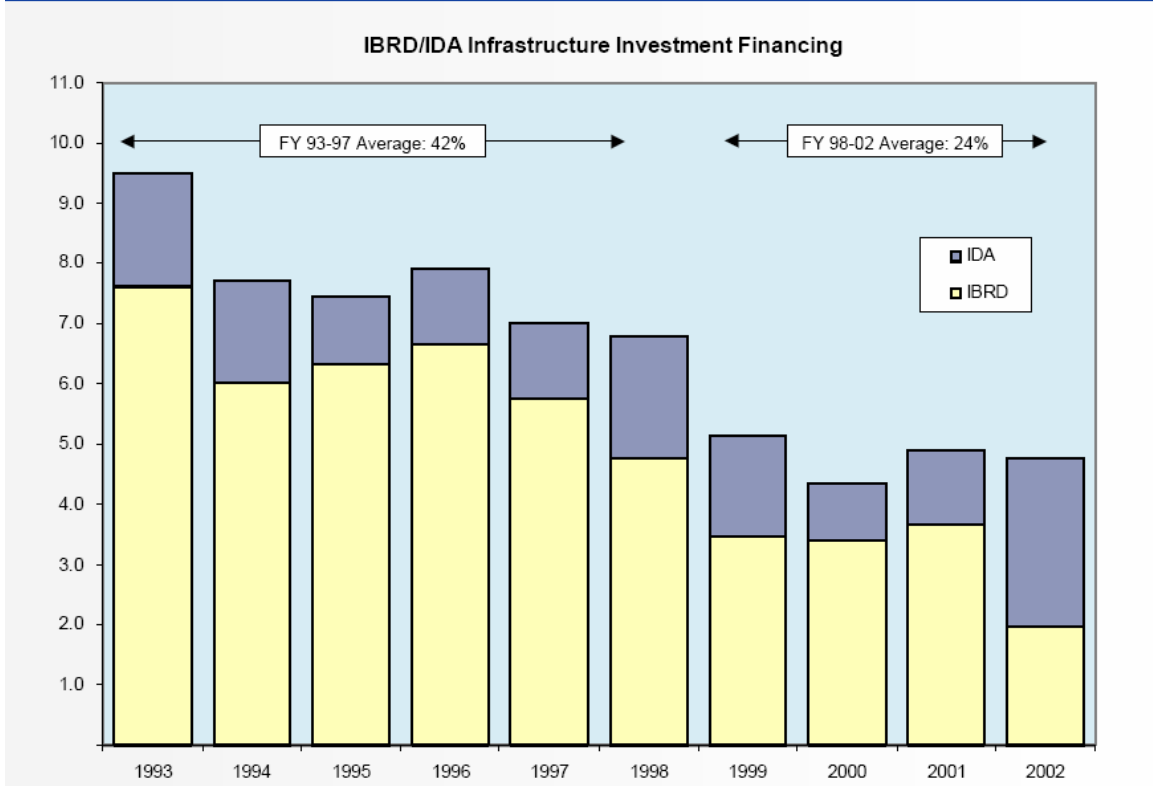


Table 1.

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Source "Infrastructure trends and action plan", World Bank, July 2003.

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