LITERATURE REVIEW OF NON-STATE PROVISION OF BASIC SERVICES

Dominique Moran and Richard Batley
International Development Department, School of Public Policy
The University of Birmingham

12 April 2004
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DFID desk based research commissioned via the Governance Resource Centre, School of Public Policy, University of Birmingham, Birmingham B15 2TT (Tel. +44 (0) 121 414 5037 – email: enquiries@grc.bham.ac.uk)
Introduction

This paper provides a review of recent literature in the field of the non-state provision of services, focusing in particular on how government and civil society relate to the providers of those services (NSPs). The literature review is in two sections. Section one is an overview that draws out common themes and comparisons and highlights potential areas for further research. It is based on Section 2 which comprises three sector-focused appendices covering experience in NSP provision in primary health care, primary education, and basic water and sanitation.

The literature review was carried out with the assistance of a panel of experts from the Centre for International Education at the University of Sussex (CIE), the London School of Hygiene and Tropical Medicine (LSHTM) and the Water, Engineering and Development Centre at the University of Loughborough (WEDC). The panel of experts suggested texts for review and gave comments on the three sector-focused appendices. However, the sector specialists bear no responsibility for the contents of the report.

We were asked to identify alternative forms of non-state provision of services to the public, and action by government and communities to support and control them. This review therefore describes NSPs and forms of government/civil society intervention in the three sectors, focusing on interventions that are intended to benefit poor people. It seeks to illuminate alternative forms of non-state provision of services to the public, and action by government and communities to support and control non-state providers under the themes of:

i) ‘dialogue’ or political processes between state and non-state actors leading to the development of policy frameworks, legislation etc;
ii) systems of regulation of non-state providers; and
iii) systems for facilitating or supporting non-state providers, as far as possible given the resources available.

The particular concern of the review is with literature relating to interventions to support the provision of services to poor consumers by smaller and more informal providers. The review addresses the concerns of the World Development Report (2004) with the three sides of the accountability triangle: the question of 'long route' accountability by which citizens hold the state accountable and the state delivers through 'compacts' with providers; and the direct relationship of 'short route' accountability by which providers are held directly to account by their clients.

There are three main limits on what the review covers. First, it does not consider the literature that evaluates the quality of services or the reasons for consumer choice. Second, it does not review the wider non-sector based literature that refers to the ways in which political systems operate, priorities are decided, interventions are implemented, and poor people may make demands and become involved in implementation. Third, by the nature of a literature review, this paper cannot itself provide answers to policy questions. It does not seek to arbitrate between writers' views or to evaluate the effectiveness or appropriateness of approaches.

This review is a work in progress which will develop further and become more defined as the programme of work of which it is part progresses through country studies to regional seminars and policy briefings.
Section 1: Overview

1. Coverage

The three sector appendices cover the following broad areas: arguments for state and non-state provision, the types of provision that exist, policy processes or dialogue, and the forms of intervention in non-state provision by governments and communities. Within this broad framework there are variations that result from the availability and nature of texts in the different sectors. The area that is least described or analysed in the literature on the three sectors is the one to do with the processes by which the non-state sector may enter into dialogue with government to influence policy.

2. Arguments for state and non-state provision

None of the three sectors is a pure public good where the benefits are collective, nor a pure private good where the benefits of consumption can be captured entirely by private individuals. Public benefits are most dominant in the case of sanitation. The negative external effects on other people of the unpiped and untreated disposal of waste and excreta are high in terms of public health, hygiene and quality of life. The other sectors are essentially private goods with some public goods characteristics that define the formal case for public intervention. Health care services typically confront information asymmetries, where the consumer is unable without guidance to make an informed assessment of the provider; in addition there are certain external benefits that accrue to the wider population from private consumption of health services. Basic education also presents problems that suggest the case for public intervention: information asymmetry, external benefits in citizen- or nation-building, the 'missing market' in credit that would allow individuals to capture future benefits by investing in education. Urban water supplies benefit principally individual consumers, but piped water is also associated with certain market failures that justify public action. Consumption by individuals of clean water benefits public health more generally; moreover, individuals may not appreciate the need to consume clean water. Networked water and sanitation have monopoly characteristics that may lead private providers to under-provide or over-charge unless checked by government intervention.

The fact that there is a case for public (state or civil society) intervention does not mean that the service should be directly provided by the government or community. All three sectors are subject to pressures for reform by involving the non-state sector in order to achieve greater long and short-route accountability. However, the sectors present different problems of control by principals (citizens or policy-makers). Water consumers can relatively easily organise to make demands, and principals (whether citizen/clients or policy-makers) can relatively easily measure providers' performance. Health care, in particular, but education too presents much greater problems of organisation by citizen/clients and measurement by principals; they therefore present greater problems of contracting, regulation and accountability.

All three sectors present another dimension which is hardly developed in the literature. Each carries an important ethical dimension that may stand in the way of 'privatisation', management improvement and internationalisation. In different cultures, water and sanitation, health and education carry meanings that are beyond...
the rational and instrumental and that clearly have a powerful political and ideological significance.

3. Type and scope of non-state providers

Non-state provision of services (NSP) is defined as including all providers existing outside the public sector, whether they operate for profit or for philanthropic purposes. Operators may be communities, NGOs, FBOs (faith-based organisations), private companies, small-scale informal providers and individual practitioners. Observation of the variety of performers is important, partly because it illustrates the complexity of the task of public (state and civil society) intervention.

There are features common to all three sectors, but of varying significance within them. One common characteristic is a mix of formal and informal providers, and a variety of scales of provision, from individual activity to organised commercial practices. Informal providers are defined here as illicit or semi-licit - not formally recognised or authorised by government. Formal NSPs might be private schools, commercial water sale from tankers, and NGO-run medical clinics, whereas informal provision includes for-profit ‘budget schools’, traditional healers, and one-man latrine digging.

While all three sectors have both formal and informal non-state provision, there is a major difference between them in the nature of the service they provide. Education and health care are similar in that personnel are the major asset. While infrastructure in the form of premises and equipment is important, non-state provision more often delivers human skills rather than physical infrastructure. In the water/sanitation sector, on the other hand, infrastructure is the major asset, and non-state provision tends to be provision of this infrastructure (such as standpipes or tankers for water, latrines for sanitation), and/or sale of water. Those health services that might require large-scale infrastructure are either not delivered by non-state providers or only by large well-organised and funded formal private providers.

One of the effects of the human nature of education and health services is the blurring of the boundary between public and private actors - particularly in health care where there are numerous types of small operator. Staff may work in both state and non-state sectors, or behave within the public sector as if they were offering a private service. While this may occur within water and sanitation services, it is less possible for individuals to sell personal services. Blurring may be an important determinant of policy because it may lead to pressure by politicians and officials to leave existing arrangements in place or to expand private opportunities for ‘rent-seeking’.

4. Issues in service provision

It is not possible to generalise about service quality across the non-state sector, but there are some common issues. To a great extent, the NSP activity that exists has grown up in response to state failure to provide services. While consumers may sometimes prefer non-state provision and find it more responsive, very often it is the only option for those who cannot get access to formal, subsidised state provision. NSP in health and education operates at two ends of the social spectrum. On the one hand there is formal, higher quality private provision for those who can afford to opt out of or to supplement public systems. On the other hand, there is often informal (illicit or semi-licit) but accessible provision that is the resort of poor people unable to gain access to or to meet the terms of public systems. The responsiveness of the
informal sector is often allied to higher prices and lower quality. NGO provision is very diverse, ranging from fully formalised faith-based hospitals that effectively act as partners in public provision to schools to small experiments in working with communities. The latter present problems of scaling up.

Specific issues raised by NSP in health care are
- problems of dual practice and informal charging
- concerns over the quality of care provided by unregulated, informal, often 'less-than-fully-qualified' practitioners; and whether and how to seek to integrate them
- low levels of consumer information and capacity to exercise judgement
- weak government capacity to work with NSPs, specifically in contracting and regulation

Issues raised by NSP in primary education are
- the role of not-for-profit community, NGO and faith-based schools and whether and how they link to public sector provision
- the question whether community schools place an undue burden on the poorest
- the growth of unrecognised 'budget' for-profit schools
- private tutoring by public teachers
- approaches to the regulation, accreditation, support and accountability of NSPs

Issues raised by NSP in water supply and sanitation are
- widespread dependence of poor people, especially in Africa on expensive but responsive informal urban water (many linked to public systems) and sanitation providers
- the relatively small impact in developing countries of private provision by large-scale private operators of networked systems
- absent policy dialogue of governments with small providers
- ineffectual regulation of small providers
- weak government capacity to contract out services

5. Relationships and political processes between state and non-state actors

Little sector-based research addresses the question of policy dialogue in the setting of frameworks for intervention by governments or civil society - in regard to the regulation, accountability, facilitation or contracting of NSPs. Some material exists which describes legal regulatory requirements for NSPs, but this information is used to expose levels of non-compliance rather than to deconstruct the processes which led to the drawing up of these requirements. None of the material surveyed for this review described any processes of stakeholder dialogue between line ministries and representatives of NSPs which contributed to the development of regulatory or contractual legislation.

In the health sector, there are prescriptive statements (Berman 1998) about how governments should work to integrate NSPs with public provision and look more comprehensively at total health care provision. Frameworks have been developed (Mills et al 2002) to chart how governments might develop more inclusive policies: analysing existing arrangements and the interests associated with them, supporting consumer information and demand, developing the capacity of providers, and re-
structuring market relationships to put government in a 'stewardship' role in which it would regulate and contract providers.

In the case of education, there are analyses (Bennell 2003) of the relationship between state and non-state providers in South Asia, comparing (i) the Indian government's ideologically based non-engagement with for-profit private schools but willingness to relate to NGO schools, with (ii) the strained relationship in Bangladesh and Afghanistan between NGOs and government, both seeking donor support, and (iii) the shift from an adversarial to a partnership relationship in Pakistan. Hossain et al (2002) analyse how Bangladeshi policy has oscillated between support and discouragement for NGO schools under pressure from donors versus religious groups.

In the case of water supply, there are analyses (Swyngedouw 1997) of the systemic relationship between 'dual circuits of supply' (the primary circuit of public utilities and the secondary circuit run by NSPs for the poor) but these do not analyse dialogue. Much of the debate - engaging academics, donors, governments and NGOs - has been about the management of water as an economic good or commodity, its possible 'privatisation' and the implications that these would have in further including or excluding the poor (Budds and McGranahan 2003).

A general observation is that some level of de jure or de facto recognition of NSPs by the state (or civil society organizations claiming to act in the public interest) is the basis of any positive dialogue or intervention. This determines both the feasibility and the (attitudinal) terms of engagement. Recognition is widely held to be the first step in regulation of NSPs, and is called for in particular in the water sector, where NSPs complain that their lack of recognition prevents them from entering into discussion and negotiation with local governments. However, the issue of officially recognising NSPs, particularly the smaller and less formal, can be fraught with political difficulty. In the health sector, for example, the state recognition of less-than-fully-qualified practitioners, in order to include them in health monitoring processes, is obstructed by interest groups such as professional organisations on the grounds that recognition implies endorsement. In most countries, these professional groups wield considerable political power, and their actions can control government policy in this area.

However, recognition may have unexpected consequences. In the water sector, Collignon and Vezina (2000) found that where recognition took the form of forced registration of informal providers, it served to prohibit certain of their activities, and led such NSPs to circumvent registration by concealing their presence further, working at night or bribing petty officials. Recognition may be a first step to regulation, but there are drawbacks associated with involuntary registration.

6. Forms of intervention

This section will be dealt with under three headings: regulatory approaches, support approaches and increasing accountability.

6.1 Regulatory approaches

Regulation may either suppress market operations or provide market conditions in which their effectiveness, efficiency and accessibility are maximised; in other words it may be market unfriendly or friendly. The government response to small (especially
informal) providers is usually to suppress their activity rather than to enable improvements in their provision. This may in part be due to the political difficulties inherent in officially recognising (and thereby lending credibility to) such providers. It may also be due to a history of public/private distrust, an ideology of state responsibility, professional protectionism, as well as to a concern with external effects. The suppression is rarely effective; the fact that it is ineffective could be seen as a consequence of the fact that it serves rent-seeking purposes to keep small providers in a dependent condition.

Regulation is usually most effective in governing entry into monopoly opportunities or into licensed markets. More important in the case of NSPs (given that they normally operate in competitive markets) and more difficult are regulation of the quality and accessibility of providers' services. Across all three sectors, where regulatory interventions have been applied, they have been most effective in permitting new NSPs to start up by accrediting professions or authorising community schools, drug vendors, private clinics, or water tanker businesses. In many cases, legislation is in place to assess the quality and competence of NSPs on entry to the market. It is implementation rather than legislation that is the key weakness. The instance of Indian drug vendors, covered in the Health Annex, is an example of strict entry requirements, but lack of regulation of subsequent practice. The longer term monitoring of performance against standards and indicators requires procedures and resources for inspection, reporting, and implementation of legislation. These presuppose government regulatory capacity and competence that is very often lacking. Effective regulation also requires broader institutional conditions that are often lacking: stable political and economic conditions, political neutrality, judicial independence and an aware civil society.

The regulation of informal providers is difficult, if not (by definition) impossible. The ‘informal’ nature of an NSP is often defined by its status beyond the reach of government regulation. In the water/sanitation sector for example, informal providers are described by Collignon and Vezina (2000) as ‘beyond the reach of any kind of regulation’. Furthest from the reach of regulation, informal providers tend to be the focus of concern over the quality and price of services.

Some authors have suggested a process of ‘formalisation’ of such NSPs as part of which they would comply with government requirements for official recognition and adherence to standards of provision. However, many small-scale informal providers may have no aspiration to formal status. One method is to create circumstances under which informal providers will choose to ‘go formal’ in exchange for access to credit, information, training and other resources. Authors have suggested this approach for informal water and sanitation providers. Another method is to recruit informal providers into public sector programmes, while simultaneously providing resources and training to them. This has been suggested for less-than-fully-qualified medical practitioners, where they would be involved in nationwide programmes of disease monitoring, and where training would be provided as part of the process. This confronts the difficulty of being seen to endorse potentially substandard practice, and in the case of health care is almost certain to be opposed by professional bodies. In the health sector, franchising schemes have seen success in some situations, and there have been suggestions that these might be extended.

Self-regulation by professional bodies under the general tutorship of government is a widespread model in the health sector, and to a lesser degree education (through voluntary associations of private schools). It builds on the idea that professions would
wish to maintain standards, if only as a way of guarding their exclusivity. A common finding, however, is that they effectively guard entry whilst doing little to police members’ standards.

6.2 Support approaches

The sectors exemplify a variety of models of support to NSPs and their clients. Where small providers operate in a competitive market, there are alternatives to regulation: developing the information and capacity of market actors (clients and providers) or re-structuring the market so as to maximise market opportunities under the broad stewardship of government (Mills et al 2002). Specifically, this includes

- Informing and empowering consumers: Increasing access to information about service delivery options, making services more affordable by subsidies or vouchers, creating demand through social marketing, and creating channels of communication and pressure.
- Enabling and training small providers: Providing training to the providers whom the poor most use, supplying drugs and equipment, franchising them as deliverers of government services, giving access to financial support or credit, and organising contracts to give access to small producers.
- Re-structuring markets: Moving government into a purchasing or commissioning role where arms-length agencies or NSPs take on the role of direct provider; government takes on the roles of contracting providers or licensing and regulating market or NGO provision.

These alternatives generally present two main problems: many have been tested only on a limited scale, and all small initiatives present problems of scaling up.

In health care, evidence of the effectiveness of these approaches is not yet strong. In regard to support to consumers, there is greatest evidence of the effectiveness of social marketing of products but less on the social marketing of services and uncertainty about its impact on the demand for full-priced services. Vouchers have yet to be tested on a large scale and there is little evidence of the effectiveness of consumer legislation or of strengthening consumer information and choice. There is some evidence of the positive effect of training and giving information to small providers, and that this is best undertaken in conjunction with consumer education and training. Working with informal providers by franchising and giving access to drugs and equipment can have the perverse effect that these resources are sold on into the unregulated market. Contracting out of ancillary (cleaning, catering, maintenance) services is widespread but uncommon in the case of clinical services. There is some evidence that governments in Africa are tending to move away from loose 'relational' contracts with mission hospitals to more formal agreements.

In primary education, there is most evidence of support in the case of community schools. These may be sponsored by communities but more often they are set up on the initiative of and with the support (building, finance, management) of NGOs and FBOs. They are usually at the level of small experiments that present problems of sustainability, scaling up and linkage into the state system of awards. In some cases (Zambia, Togo, Senegal) governments have recognised community schools on a large scale allowing 'graduates' to enter into the public system and may give public financial support (embryonically in Pakistan). The state may also accredit and subsidise for-profit schools - for example in much of Latin America and in Indonesia - raising questions of equity and accountability. If the state is paying for private education there is a quid pro quo in terms of the schools' meeting of state-determined standards governing entrance qualifications and educational systems.
and quality. In turn this raises questions about governments' capacity to obtain and analyse information and to enforce standards.

In water and sanitation, the question of support to non-state providers mainly arises in relation to community-managed systems and contracting out. Community managed water supply systems are usually developed with the support of NGOs and/or government. Indeed, they are often effectively implementing agencies for government, lowering the cost of installation and maintenance through community contributions. If they are to be managed well and without favouritism, the research suggests that they need an enabling framework of government or NGO technical support. In the urban context, most cases of community management of water and sanitation are small-scale and specific to communities. However, there are cases in South Asia of large-scale, cross-city programmes managed by communities within the framework of NGO-led programmes and with the support of government.

The characteristics of the water and sanitation sectors make it relatively easy (by comparison with health care and education services) to specify the terms of contracts and to assess contract compliance. Contracting out is, indeed, a widespread practice but mainly in relation to one-of or short-term contracts for particular goods or services (laying pipe-lines, hiring tankers). Much less common are long-term, more complex contracts for private investment coupled with the management of facilities: build-operate-transfer, lease and concessions. Where such contracts are awarded they have often created exclusive rights to run water services that restrict or eliminate the opportunities of small providers. Such contracts can allow continued competition or require that large firms work with small ones and NGOs. However, all such conditions are likely to further restrict the already limited attraction of investing in poor and unstable markets.

Long-term, more complex contracts for the provision of water and sanitation demand not only much greater organisational capacity to make, monitor and enforce contracts, but also demanding institutional conditions and political determination. The same applies in the contracting of health care and education. Contracting out the management of services usually confronts serious opposition, and requires levels of private sector capacity, trust between public and private sectors, clear legal frameworks and stable political and economic environments.

6.3 Strengthening accountability

In much of the literature it is implicit that choice between multiple NSPs and payment for services increase accountability to clients but there is little close examination. There is an opposite view that NGO, community and unregulated for-profit provision are more opaque in their management and less directly accountable to an electorate than government provision and therefore less subject to informed choice and accountability.

The research that directly addresses the question whether 'short route' accountability is strengthened relates to community schools. There is some evidence of a positive chain going from accountability by community management, to increased parental participation to improved school results.
Appendix 1: Health

1. Introduction and scope of the review

The non-state sector in health provision may be defined as including all providers that exist outside the public sector, whether their aim is philanthropic or commercial, and whose activities are intended to treat illness or prevent disease. They include:

- commercial companies both large and small
- groups of professionals such as private doctors, nurses and midwives
- NGOs such as charities, both international and national
- individual providers, vendors and shop keepers
- public doctors who work in the private sector (often their own clinics) out of hours.

The services they provide include:

- hospitals
- nursing and maternity homes
- clinics run by various types of professionals (midwives, doctors, nurses, paramedical workers)
- diagnostic facilities (laboratories, radiology)
- illness prevention and health promotion activities
- patient support services
- drug sales from drug vendors and unqualified static and itinerant drug sellers including general stores (Mills et al 2002)
- “traditional” forms of medical care, such as traditional bone-setting, ayurvedic and homeopathic treatments, acupuncture.

This review considers all of the above, with the exception of hospitals and large-scale commercial companies. It does not encompass services provided either by the individual for the individual, or by the household for the household, i.e. self-diagnosis and self-medication, use of health-related knowledge by household members, or non-marketised reciprocal arrangements such as household care of sick or disabled members. It does, however, include the marketised provision of services between households, as far as available literature allows.

In terms of the literature as a whole on non-state provision, the majority focuses on the formal private sector (such as Uplekar, 2000). Of this literature, most focuses on aspects that are not relevant to this review and that has therefore been ignored: measurements of the size of the sector (i.e. the number of beds, practitioners etc), such as Hanson & Berman (1998), the quality of service provision (Brugha & Zwi 1998; Ogunbekun et al 1999; Reinikka and Svensson 2002) and the determinants of choice of public or private provider on the part of the patient (e.g. Bhatia & Cleland 2001, Andaleeb 2000); self-diagnosis and self-medication (e.g. McCombie 1996 and 2002, Kamat & Nichter 1998).
2. Arguments for state and non-state provision of basic health care

In an economic sense, health care is not a pure public good - though most aspects of public and environmental health are. The market could, in principle, provide health care services and, in doing so would bring the advantages of competitive efficiency and consumer responsiveness. However, the arguments for government involvement rest on the idea that provision by private enterprise alone would incur various forms of 'market failure' to do with (i) medicine's high 'external' or social benefits (avoiding the transmission of disease, reaping the benefits of health for labour productivity), (ii) consumer ignorance of or incapacity to judge between medical treatments, (iii) the fact that the need for health care is irregular and unpredictable, making it difficult for consumers to afford or insure for it, and (iv) equity or 'merit goods' arguments for providing health care to consumers who cannot exercise private choice, due to their poverty, childhood or mental incapacity (Mills et al 2001).

These provide the formal arguments for government (or public/civil society) intervention. However, this does not mean that the intervention must be by direct provision; there is wide evidence of government failure to provide efficient and responsive public services. The intervention may be by managing the market, intervening indirectly to ensure public interest outcomes or contracting non-state providers. Intervention in the health sector presents some particular difficulties that affect the capacity of principals (citizens, clients or policy-makers) to control the providers (Batley and Larbi 2004):

- It is difficult for the principals to know whether the provider has performed well. Health services are qualitative and therefore difficult to measure. This has particular impact on regulation and contracting.
- Clients are likely to be disorganised, individualised and vulnerable - unwilling or unable to hold providers to account
- Formal (public or private sector) providers are informed, organised (in unions or professional organisations) and often with strong political influence.

The widespread existence of multiple non-state providers in developing countries may present opportunities for more competitive, cost-effective, accessible and responsive provision (World Bank 2003). On the other hand, studies quoted in Mills et al (2002) document poor treatment practices, which have implications not only for the individuals treated but also for disease transmission and the development of drug resistance. Alubo (2002) describes a ‘persistent problem of competence and unethical practices’ in Nigeria, going on to say that this creates a situation where there is the ‘potential to cause harm almost on a par with that to do good’. Although NSPs often tailor their services and prices to meet the needs and resources of clients, the use of expensive private services, or treatment for chronic conditions, can drive households into poverty or at least put them at risk and mean that they may go without other vital requirements.

The fact is that there is no neat division between public and private sectors nor, therefore, a clear choice as to which to strengthen. Health care in developing countries is characterised by unorganised markets, unregulated pluralism of provision. The public and private, the organised and unorganised sectors intermesh across the range of health activity (Standing and Bloom 2002). The blurring of boundaries, the multiplicity and informality of providers raise serious questions about the will, information and capacity of governments to intervene (World Bank 2003), and the possibility instead of supporting the development of more effective markets.
3. Intervention strategies to manage dual practice

The blurring of the boundaries between public and private is extremely complex. Mills et al (2002) point out that such blurring may be legal, or not strictly legal, but not controlled. It is important to the NSP study because (a) it includes forms of non-state practice within the state itself, and (b) it therefore creates vested interests in retaining obscure relationships between the state and non-state sectors.

3.1 Formalising and tolerating dual practice

Bloom and Standing (2001) and Mills et al (2002) point out that the boundary between public and private sectors is blurred, particularly in developing countries (and varyingly between them). One option for the government is to explicitly recognise and permit the practices associated with this blurring, or to tolerate them without explicit recognition. Bloom and Standing quote the examples of Chinese government health facilities charging fees and using profits to augment health sector worker income, and the widespread toleration of a variety of ‘coping strategies’ employed by public sector health workers, such as permitting health facilities to generate revenue to pay for minor repairs and fringe benefits to staff, and/or allowing health workers to practise privately in their spare time. There has, they argue, been widespread growth in informal payments to health workers, and people using government facilities are often asked to pay. For example, in Nigeria government nurses hire nurse auxiliaries to work in their place while they undertake more remunerative activities elsewhere. The marketisation of health services has become so ubiquitous in some countries that parts of the state health system are more appropriately understood as government subsidised private services than as a publicly-funded service with minor problems of corruption (Bloom and Standing 2001, p9).

Government initiatives in Tanzania and Zimbabwe have legalised the practice of practitioners working in both the private and the public sectors (Kumaranayake et al, 2000). Governments saw this as a way of increasing the provision of services, and allowing scarce public resources to be diverted to other needy areas, in particular a shift towards more rural and preventative health care in government expenditures.

3.2 Formalizing unofficial fees

Unofficial charges are widespread within public health systems, constituting a form of privatization of the public sector or of ‘rents’ for services offered within it (Gilson 1997, Smithson et al 1997, Mills et al 2001). In countries of the Former Soviet Union (FSU), public sector practitioners charge unofficial user fees for drugs, supplies and procedures all of which the patients are entitled to free of charge, and also offer enhanced services (such as minimally invasive rather than conventional open surgery) for a fee (Ensor 2004, Falkingham 2004). Such practices are normally prohibited but their formalization is another possibility.

With regard to unofficial fees paid within the public sector, Ensor (2004) suggests that where these are charged to close the gap between costs and resources, formalisation of unofficial payments may be a solution. Where formal user fees are introduced to replace unofficial charges, and where their revenue can be retained by health facilities to finance essential supplies and provide some incentive to health workers, this replacement is likely to be successful (World Bank 2003 p.143). However, Ensor stresses that it would be wrong to think that formalisation will
completely eradicate unofficial fees. There is still the likelihood of payments associated with additional services and those arising from a corruption of power. In this case, regulation is necessary. The level of unofficial fee is determined by the potential loss from being found out, and the probability of being caught. The basis of regulation is therefore to increase the cost of accepting unofficial payments. However, this is challenging when the wage without unofficial income is low and the main penalty imposed is the loss of job. Alternative strategies include recourse to criminal sanctions, or self-regulation through a professional body.

Several studies (reported in Batley and Larbi 2004, and Mills et al 2001) show how the introduction of official fees in Africa has not been accompanied by the creation of effective exemption systems and has therefore had the effect of driving the poor out of the public sector and into the informal private sector, without much effect in raising public resources. Such schemes only work where they are accompanied by effective exemption, community financing and insurance systems (Gilson 1997, Gilson et al 2000).

### 3.3 Turning a blind eye

Governments may choose to turn a blind eye to the practices associated with blurred boundaries between public and non-state provision, and there may be political reasons for doing so which set these instances apart from those in which private practice is openly tolerated. Political interests in maintaining calm in troubled professional groups, and in portraying a sense of professional welfare may lead governments to this stance. In a study of doctors from Angola, Guinea-Bissau, Mozambique and São Tome and Principe (Ferrinho et al, 1998), public sector doctors explained their various side-activities (which included university teaching as well as private sector medical care) as means of supplementing their public sector wage. However, while they emphasised the value of this work for their personal and household well-being, the doctors noted that such extra work impacted negatively on their ‘day job’ in the public sector.

Ferrinho et al (1998) point out that in the case of such switching between private and public sector work, there is potential for conflicts of interest (sometimes referred to as “fuzzy monopoly”), with consequences in terms of overall efficiency. By turning a blind eye to the side activities of doctors, neither prohibiting them nor recognising and regulating them, policy makers are able to maintain an illusion of welfare state in public discourse, whilst avoiding major problems with staff, which might have led to industrial action, unrest, and a politically charged situation. It has led to a situation where switching between activities occurs in an unregulated manner. However, the effect of this unregulated switching may not be entirely negative. It may have a stabilising effect on qualified personnel by allowing them to attain a standard of living which is closer to what they expect, while also permitting the attainment of professional goals which are impossible in the public service due to degraded working conditions.

### 4. Strategies to recognise informal providers and integrate them into health care systems

Recognition of informal NSPs by governments may be seen as a first step to their integration with state health systems, but there are problems associated with the initial process of recognition. In India, the vast majority of rural quasi-traditional...
healers have been found not to be legally qualified doctors of any system\(^1\). Most were less than fully qualified (LTFQ) practitioners practising eclectic health care combining methods from a variety of therapeutic systems. They prescribe and dispense medicines, treating patients on a fee-for-service basis. Berman (1998) suggests that such LTFQ practitioners make up the vast majority of private ambulatory health care provision in India (rural more than urban). Governments may take different views of such practitioners. They may, on the one hand, view them as a positive element in the primary health care system, extending access to essential services to lower income and rural populations in familiar settings, at affordable prices and convenient hours. Or they may see them as peddling poor quality or even dangerous medical care to the unsuspecting consumer. A government’s major problem with LTFQ practitioners is the technical quality of the health care they provide, but Berman argues that this large, informal ambulatory health care capacity should be seen as an opportunity for dramatically expanding health care benefits, rather than simply as an impediment to augmenting coverage with publicly provided services.

Berman (1998) recommends integrating NSPs with public sector provision. With reference to LTFQ practitioners in India, he recommends the abandonment of the implicit goal of substituting public for private provision in ambulatory care as unfeasible and inefficient, and suggests improving and integrating the existing private supply into achieving public goals, by

- Integrating private providers, including LTFQ practitioners, with national disease control programmes and health care planning at the local level, where they would contribute to problem identification, screening, case-finding, treatment, referral, patient monitoring and follow-up, community assessment and evaluation
- Training private providers in standard treatment and referral practices

Berman’s (1998) overall conclusion is that the governments of low and middle-income countries like India need to look more comprehensively at their total health care provision capacity and consider how, with limited resources, to make better use of what they have rather than create new capacity which may be unwanted and unmanageable.

However, integration of informal providers has its detractors in the form of influential and politically powerful interest groups active at national and sub-national level. The Indian Medical Association (IMA) has lobbied hard to prevent the recognition, and training, of LTFQ practitioners. Their argument has been based on poor baseline technical quality, and lack of capacity to administer allopathic treatment, but underlying this is undoubtedly the fear that members of the IMA will ultimately lose some portion of their income and professional standing. Under pressure from the IMA, some Indian states have passed (or recently reinforced) legislation that strictly prohibits the selling or prescribing of allopathic medications (a similar law has long existed at the Central level, passed by the Supreme Court). This is likely to have little impact on current practices by the LTFQ practitioners, but it makes it much harder for NGOs or donors to implement programmes aimed at upgrading the skills of LTFQ practitioners. This suggests that Berman’s recommendations will only be implemented against professional resistance (personal communication, Ranson 2004).

\(^1\) India has several major coexisting systems of medicine with official recognition – these include allopathy, ayurveda, unani, siddha and homeopathy.
5. Strategies to improve service delivery in the non-state sector

Mills et al (2002) consider how the operation of the non-state sector can be improved. They argue that the current situation is a result of the interaction between 'consumers' or patients on the one hand, who make their decisions about which providers to use on the basis of the price of alternatives, their own income, knowledge of the different providers and preferences for service with different characteristics; and, on the other hand, providers, who are influenced by the cost of providing services, the price they can charge, their own knowledge and the regulatory environment. Efforts to improve the current situation must therefore

- support consumers (the demand side) through information; subsidies and vouchers; consumer protection, choice and pressure; and social marketing
- influence providers (the supply side) by improving skills and knowledge, training, resourcing and accreditation
- or restructure market relationships by separating purchasers from providers, contracting out, and regulating NSPs.

What follows draws heavily and sometimes directly from recent reviews, especially that by Mills, Brugha, Hanson and McPake (2002) but also Smith, Brigha and Zwi (2001) and Standing and Bloom (2002). This review re-groups and adds material to reflect the priorities of the NSP study.

5.1 Developing policy

The alternative approaches to working with NSPs present certain limitations that challenge the capacity of policy-makers (Mills et al 2002):

- no approach is universally applicable to the wide array of health services
- no approach is universally applicable to all contexts
- information is lacking on alternative approaches, many of which exist only as proposals
- they may require very wide-ranging reforms (particularly in regard to restructuring)
- they may imply sanctioning treatment practices that are contrary to current policy and internationally accepted practice
- many of the alternatives challenge existing vested interests
- many of the alternatives make heavy demands on government capacity and resources
- they are not easily scaled up from exemplary cases.

Therefore, the selection of strategies should be based on analysis of local context, including the training, skills-mix and beliefs of available providers, the constraints they face, peer influences, provider networks and the degree to which providers are organised within professional bodies. Similarly Smith et al (2001) suggest steps to be taken by decision-makers in the selection of appropriate strategies, including understanding:

- the basis of existing policy
- the financial and capacity constraints
- the key stakeholders
- existing forms of non-state delivery and the poor’s use of these.
Mills et al (2002) conclude that the evidence from low income countries is not yet strong, but that governments need, ideally, to consider combining a range of approaches in working with NSPs, rather than relying on single strategies. So, they contend that the most successful strategies combine working with providers (for example, training and skills development) and influencing consumers (for example, through patient education schemes).

They recognise the conundrum that, while the poor are likely more frequently to use informal, illegally practising providers, working with the more organised formal private sector - doctors, nurses and pharmacists - is a more feasible starting point for governments. Especially when working with unorganised individual providers, successful projects are resource intensive. Careful judgements therefore need to be made on the relative return to investment in improving non-state sector activities as opposed to strengthening the public sector. Training and investment in a stronger formal sector, both private and public, and restructuring the market so as to strengthen the purchasing and regulation functions of government, may displace the informal sector, but this is likely to be a very long term process. The challenge remains largely unaddressed of how to bring the informal sector into an overall public policy net.

5.2 Influencing and supporting consumers

A number of approaches exist to supporting consumers in their interactions with the health care marketplace. They tend to have one or more of the following aims: to improve consumer information; to make services or products more affordable through some form of subsidy; to create new institutions that give consumers greater authority to challenge care of poor quality; to create channels of communication through which pressure from civil society (consumer groups, the media) can be brought to bear; and to strengthen the opportunities for patient exit options, so that consumer choice has real resource consequences for providers.

Evidence is strongest on social marketing, and shows that it has achieved major increases in coverage for some important interventions, such as family planning, the treatment of sexually transmitted infections, the use of insecticide-treated mosquito nets, hand washing and water purification. However, there remains much debate about whether social marketing strengthens the private sector by creating new demand that spills over into demand for full-priced commodities or whether, instead, it crowds out the private commercial sector (Hanson et al 2001). It is also unclear to what extent such approaches can be extended beyond the delivery of products to social marketing of services.

Targeted distribution of vouchers that are exchanged for services or products from a private provider can address problems of access as part of a social marketing programme or can be implemented on its own. There are a few examples with some positive experiences - for example, health services for sex workers in Nicaragua (Gorter et al 1999) and subsidies for mosquito nets in Tanzania (Armstrong et al 2002), but vouchers have yet to be tested on a large scale, and the logistic requirements are likely to be considerable. Lack of evidence is also the case with other measures to influence consumers, such as consumer protection legislation, strengthening consumer groups, and allowing greater choice of service provider.
5.3 Influencing providers

Providing training
Particularly for small NSPs, government provision of training is an option to ensure quality of care. Most private providers receive no guidance from the public sector on diagnosis and treatment, so improving knowledge and skills is clearly possible. One aim is to reduce the dependency of NSPs on biased information provided by pharmaceutical companies (Kamat and Nichter 1997). Mills et al (2002) quote examples where training has improved diagnosis and counselling practices of informal providers in India, the provision of anti-malarials by shopkeepers in Kenya (Marsh et al 1999), and the management of diarrhoea and acute respiratory infections by private medical practitioners in Mexico (Bojalil et al 1999).

Berman (2000) argues that the advantage of training is that it can be given to those providers, often informal, whom the poor most frequently utilise, and upon whom they rely where other sources of care are not available. However, Mills et al (2002) point out that one problem for governments seeking to train informal NSPs is that this may involve recognising illegal practices, thus threatening the interests of strong formal professional lobby groups when efforts are made to scale-up successful projects to the national level. There are also problems of long-term impact - improvements due to once-off training may be short-lived, and follow-up and supervision in the private sector is difficult for an under-resourced public sector to achieve. Mills et al (2002) recommend the involvement of service users in the training of providers, making the effect of training more sustainable and making a stronger link between the service provided and that demanded.

Resourcing small providers
Private providers may lack access to essential diagnostic treatments and services. One approach has been to provide them with pre-packaged drugs for common conditions. However, Mills et al (2002) quote some perverse outcomes, such as drug vendors supplied with such packages marketing them to street vendors who sell individual tablets at higher unit cost to the poorest customers. Such strategies require a high degree of monitoring, which may be difficult to justify where the supply of drugs in the public sector is poor.

Accreditation and professional ethics
Private providers may engage in what they know to be unethical practices in order to increase income, and while regulatory approaches may highlight these practices, Mills et al (2001 and 2002) argue that they have done little to control them. Weak government capacity for applying regulation (see also World Bank 2003) has promoted interest in strategies that reward NSPs for good practice, the principle underlying provider accreditation schemes. However, accreditation, even more than regulation, requires high capacity for monitoring NSP practices, is resource intensive, and works best in mature health systems with well-organised larger health facilities, rather than the solo informal providers that the poor frequent (Smith et al 2001).

Drawing on the work of Bennett and Franco (1999) and Segall (2000), Mills et al (2002) suggest that an approach that could have greater impact in the longer term is for the public sector to work with provider representative organisations to promote professional ethics, building on non-financial incentives such as providers’ desire for social recognition and prestige. These could be used as entry points for governments to promote rational drug prescription and evidence-based care approaches without having to put new systems in place. However, Mills et al (2001) themselves find that
professional self-regulation very often fails because professionals have no interest in exposing their members’ failings and because self-regulation is rarely effectively policed by government.

The failure of self-regulation is illustrated in the work of van Lerberghe et al (1997), who describe the crisis which resulted from the de-regulation of Lebanon’s private health care system. There arose major inefficiencies, distortion of the health care system, focus on secondary care and technology and non-sustainable costs. The lesson for Lebanon was that reliance on a self-regulated system of private health care providers had not produced a health care system that was capable of responding to immediate demand, nor of providing continuity of care. This was despite the fact that Lebanon has more than three times the Middle East average figure of physicians per head of population.

Franchising

Some successful projects have adopted a comprehensive approach, improving providers’ knowledge and skills, providing them with resources to apply what they have learned, and assisting users to recognise good care, through widespread marketing of a brand or symbol of quality. Examples are the Clear 7 Project for STIs in Uganda, and the Green Star Project for family planning services in Pakistan (McBride and Ahmed 2001), in which the quality of clinical care was monitored by external assessment, with significant resources devoted to promoting the service brand among potential users.

Grouping existing providers under a franchised brand, supported by training, advertising and supplies, is a potentially important way of improving access to and assuring quality of some types of clinical medical services. While franchising has great potential to increase service delivery points and method acceptability, a number of challenges are inherent to the delivery model. Controlling the quality of services provided by independent practitioners is difficult, positioning branded services to compete on either price or quality requires trade-offs between social goals and provider satisfaction, and responding to the motivations of clients may lead to organisational choices which do not maximise quality or minimise costs (Montagu, 2002).

Mills et al (2002) also point out that weak and under-resourced public sectors would find these measures difficult to replicate and finance at a national scale, and that governments should be cautious of conferring official approval on the quality of care of trained private providers unless sound monitoring systems are in place.

5.4 Re-structuring market relationships

Working with non-state partners implies a change in the role of government from direct provision to managing relationships with others that take on the role of direct providers: autonomous public hospitals and clinics, as well as private and community providers. In principle government retains responsibility for the coverage, quality and coordination of services. This can imply a comprehensive re-structuring of the entire system of health care into a system of purchasers and providers, where government takes on the purchaser role, as in the UK. In developing countries reform has generally been less comprehensive (Mills et al 2001). Even so, increased working though NSPs and arms-length public agencies implies that government takes on new 'stewardship' roles to guide, contract, regulate and support these other bodies.
Regulation

Regulation is usually most effective in governing entry into monopoly opportunities or into licensed markets. Particularly in the case of NSPs operating in competitive markets, the quality and accessibility of the services they subsequently provide are much more difficult to regulate. An example of this situation is licensed drug vendors, one source of over-the-counter and prescription medicines. In urban India, drug vendors are prolific, and supply a range of medicines as well as prescription-only and proprietary drugs. The licensing system is strict: a licence to stock and sell medicines has to be procured from the Government of India, and a licence to operate a pharmacy is only granted to a qualified pharmacist. In addition, a pharmacy must maintain a refrigerator to store perishable medicines, and separate cash memos for different types of medicine.

However, research by Kamat and Nichter (1998) shows that, while initial licensing is strict, there is little monitoring of the performance of drug vendors once a licence has been granted. It is common practice in India for pharmacists to return prescriptions to customers after supplying medicines since they are used more as an aid to find the right medicine than as a means of controlling the sale of prescription-only drugs. The same prescriptions may therefore be used many times, and outdated and invalid prescriptions honoured. There is also evidence of drug vendors providing prescription medicines without prescription, selling part prescriptions, and recommending particular products motivated by bonus and other incentive schemes from pharmaceutical wholesalers. Drug vendors often sell ‘high power’ medicines in response to demand from patients who are unwilling to pay more for a long course of milder drugs than for a one-off, cheaper dose of powerful medicines, regardless of the side-effects. Kamat and Nichter (1998) suggest that measures to introduce change in pharmaceutical practice in India will not work unless consumers become better informed about and more critical of the use of drugs.

Kumaranayake et al (2000) analyse the network of regulations governing (formal) private activity in the health sectors of Tanzania and Zimbabwe, and its appropriateness. They find that most of the existing regulation is embedded in legal frameworks that have failed to keep pace with the realities of the health sector. They find that there are gaps in the legislation in Tanzania and Zimbabwe, particularly in the areas of consumer protection, and the markets for health insurance, laboratory and other ancillary services. However, it is important to have the basic legal mechanism in place early on in the marketisation process, since it is very difficult to add it later when interests have become established and can resist (Pitayangsarit et al 2000; Mills et al 2002).

In a study of regulatory practice in India, Sri Lanka, Thailand, Ghana and Zimbabwe, Mills et al (2001) identify the key problem as being not the existence of elaborate regulatory frameworks but their weak implementation. For example in Zimbabwe, several pieces of legislation governing formal and traditional practitioners, drugs and public health were largely unenforced and inspectorates were under-staffed. In all countries, except Thailand, there fundamental problems of capacity to regulate: systems of record-keeping and information collection were weak, and private sector interests among health care providers and professionals tended to oppose tighter regulation and could exercise their influence by their presence within government as politicians and officials. A systemic cause of weakness in the application of regulations on the quality of professional performance was that the medical
professions themselves were dominant within the regulatory institutions (Hongoro and Kumaranayake 2000). Only in India and, to a more limited extent, Zimbabwe was there anything like a counter-lobby for stronger regulation, based on a strong consumer movement and consumer protection law.

**Contracting**

Contractual relationships are not new in the health sector: buildings, equipment, and drugs have always been purchased from private providers (Larbi 1998). Typically these 'contracts' have consisted of one-off purchases in the market by central tender boards or ministries, by districts or hospitals, rather than formal contractual arrangements.

A study of contracting in several countries of Africa and Asia (Mills et al 2001, Batley and Larbi 2004) showed that there have been attempts to extend the range of activities that are contracted out, particularly in the African countries that have been most exposed to donor pressure. However, contracting continues to apply largely to non-core ancillary activities as opposed to clinical services where the employment of the more qualified and organised workforce would be threatened (Gilson et al 1997). In the Asian countries studied - India, Sri Lanka and Thailand - there have been long-standing practices of contracting non-clinical ancillary services in fields such as catering, laundry, cleaning, security, equipment and grounds maintenance. Generally, the decision to contract has not been driven so much by policy reform agendas as by pragmatic decisions made incrementally (Bennett and Mills 1998).

Non-clinical support services are commonly contracted out for one year. In principle, contracts are awarded competitively, but in practice, in all the countries the number of firms that actually bid is small, even where, as in India and Thailand, there is a large number of potential bidders. Possible explanations include collusion between firms to restrict competition, the non-transparent award of contracts, and low prices fixed by government against which contractors can bid (in Thailand and Mumbai, India) (Mills et al 2001, Batley and Larbi 2004).

Among support services, formal contracts are more effectively made and monitored in relation to services that are more easily specifiable: for example, security and the maintenance of grounds and equipment. Although service contracts in the sphere of clinical services are much fewer, they also focus on services that can quite easily be specified and monitored. In Tamil Nadu, India, and in Thailand the use of high technology diagnostic services is contracted by hospitals from private firms (Bennett and Mills 1998). Trust-based relational contracts apply more commonly to services that are difficult to specify.

The relationship in many African countries between government and church-based hospitals and dispensaries has been one of informal, trust-based arrangements - more in the nature of a joint venture than a formal contract. Traditionally, governments have given licences with block grants (Zimbabwe) or subsidies for the staffing of church health facilities (Ghana) without any serious specification of the service to be provided in return (Russell et al 1997, Smithson et al 1997). Ministries of health have counted on the goodwill and competence of the recipients who, in turn, have expected to be trusted. These are ‘relational’ contracts, governed not by specific terms but by an understanding that their informality was justified by faith-based commitment and motivation. However, there is a delicate balance between trust and abuse of freedom. The Government of Ghana has agreed with the church authorities that there would be a block grant with a two-year rolling contract.
specifying the services to be provided and the monitoring arrangements. Similar steps have been taken in Uganda (Reinikka and Svensson 2002).

Where contracts with NGOs or firms have been implemented effectively, they have had some success. Compared with government services or those put out to non-state providers without competition, competitively contracted services have been found to perform better (Mills et al 2001). Contracted clinical services were generally cheaper and better quality than the directly provided services, and never worse. Support service contracts - for cleaning, catering and maintenance - presented a more qualified conclusion. Costs were lower but quality was also sometimes lower than the public service. The research identified a 'cost quality trade-off' where contracts were being let by governments at such a low price that the quality of the service was being driven down and few bidders were willing to compete for the contracts (Mills et al 2001).

The key capacity weaknesses of government bodies making contracts were found (Mills et al 2001) to be the lack of:

- Cost and quality information to enable decisions about what services to contract and to negotiate contracts
- Budgetary frameworks and financial control mechanisms that can be used to monitor expenditure against plans
- Performance indicators to permit monitoring
- Clarity about the responsibilities (negotiation, contract specification, monitoring, payment) of organizations within the 'task network'. One result was the lack of influence of the recipients (hospitals) of services in framing contracts or monitoring contractors (Bennett and Mills 1998).

At least as important, however, in restricting government capacity to contract are institutional weaknesses:

- Opposition by public service unions
- Weak non-state actors unable to compete for contracts
- A history of mistrust between government and non-state actors
- Centralised bureaucratic systems that limit the freedom of managers to make or influence contracts
- Corruption and non-transparent tendering.
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Appendix 2: Education

1. Introduction and scope of the review

The non-state sector is involved in education through the provision of education to under-served areas by NGOs, as well as through for-profit private institutions catering for the élite. Non-state schools may have originated through the privatisation of state schools, as part of which the ownership and administration of such schools passes into private hands (Kwong, 2000) or, more frequently, have been established independently of state schools by organisations including NGOs, faith-based organisations and private individuals or boards. Rose (2002) argues that more recently, two key trends in the role of the non-state sector in education have expanded NSP. Firstly, liberalisation of the economy generally, as well as the education sector specifically, provides opportunities for increased NSP involvement and has encouraged demand for internationally-recognised qualifications (sometimes offered by overseas or franchised providers). Secondly, the Education for All agenda has placed emphasis on the expansion of basic education, putting pressure on the resources available for state education and the quality of education offered in state schools. The non-state sector appears to have grown in some countries to address this, often through informal forms of provision which are frequently unregistered and unregulated by the state.

This section of the literature review focuses on the non-state provision of primary education and the acquisition of basic competencies. It draws on examples from junior secondary education where this has lessons for primary education. In terms of non-state providers, it looks at private providers primarily motivated by profit, including formally-established private schools (often serving the élite), as well as informal provision (sometimes in dwelling houses or set up as 'bush schools'), community, NGO and faith-based provision.

2. Arguments for state and non-state provision of primary education

In most respects the benefits of education accrue to individuals rather than to the collectivity. In that sense this is a private good which can be provided by the market. The providers of education can exclude non-payers and the consumers can capture the benefits for themselves in terms of the development of their human capital: better employment opportunities, income and fulfilment. However, there are reasons why government would intervene (Willmore 2002). First, education has 'merit goods' characteristics: without command, guidance or support, individuals may make wrong judgements about the value of education for their children. Second, they may not have the information or competence to make judgements about the quality of education providers. Third, they may not have the capacity to pay: there is usually a 'missing market' in credit to allow individuals to invest in the future benefits of education. Fourthly, education is a public good in the sense that it provides some benefits to the wider population that would not be captured if consumers were left to make private decisions. Society has a stake in the citizen-building or nation-building aspect of education. Also common standards that allow the screening and scaling of educational performance could not exist without some non-market intervention in establishing a common syllabus and examination system.
These provide the formal arguments for government (or public/civil society) intervention. However, this does not mean that the intervention must be by direct provision; there is wide evidence of government failure to provide efficient and responsive public services (World Bank 2003). The intervention may be by managing the market, intervening indirectly to ensure public interest outcomes or contracting non-state providers. As in the case of the health sector, but probably less strongly, intervention in education presents some particular difficulties that affect the capacity of principals (citizens, clients or policy-makers) to control the providers:

- It is difficult for the principals to know whether the provider has performed well. Education services are qualitative and therefore difficult to measure, although there are clearer possible input and output measures than in the case of health.
- The clients are indirect (children not parents) and relatively powerless. However, parents are more able to organize locally and are probably less vulnerable to the pressures of providers, if they do so, than in the case of health care.
- Formal (public or private sector) providers are informed, organised (in unions or professional organisations) and often with strong political influence.

Much reform proposes the clarification of the relationship between client and provider by giving schools more autonomy from government and making them more directly accountable to clients through the payment of fees and/or through parental or community control (World Bank 2003). This can be achieved within the public sector but non-state provision may seem to make the relationships clearer.

However, defining the non-state sector is not straightforward, given the different possible permutations of public and private responsibilities for service provision, financing and regulation, and therefore the complexities of distinguishing between private and public sphere (Rose 2002; Bray 1999). Even where schools are owned and managed by non-state providers, they are often subsidised by the state paying the costs and exercising the functions of curriculum development, inspection, examination and teacher training. In some instances, the state may also contribute towards the payment of teachers' salaries in non-state schools. In most cases, the state attempts to maintain some control over all education institutions (both state and non-state) through their regulation, although the extent to which this is possible varies (Rose 2003). On the other hand, state education in some countries relies heavily on household contributions, and those contributions can be of the same order as fees charged by non-state institutions (see, for example, Bray 1996; Bray 1999; World Bank 2003). Furthermore, voucher systems may provide state resources for children to attend non-state schools and, within state education institutions, there may be contracting-out to private organisations of some aspects of the service.

Schools established (but not necessarily financed) by communities are sometimes classified within non-state provision, as are a number of different institutional providers that operate through residential, distance or mixed mode provision. Moreover, teachers employed in state schools may work as private tutors outside school hours, supplementing free provision of education for those who can afford it (Bray 2003). In short, the boundaries between state and non-state provision are often blurred.

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2 The way in which state schools are financed potentially has implications for the equity, the efficiency and the effectiveness of schools. However, this review does not cover non-state financing or support of households through payment of fees to state schools. For some of the debates on this, see Jimenez 1987; Colclough 1991; Colclough 1996; and Rose 2003.
Differentiating between these different aspects is important in considering the opportunities and constraints facing the poor. However, the literature frequently does not make the distinction clear, covering ‘private’ or ‘non-state’ schools as a whole, without differentiation. For example, UNESCO data has one category for ‘private schools’ which only includes those registered, and the range of private providers included within this category varies between countries. A further complication is that in some country contexts, such as India, the ‘commercialisation’ of education has been formally prohibited, thus making the identification of ‘for-profit’ providers more challenging. In these contexts it might initially be assumed that private ‘for profit’ education provision does not exist, although in practice ‘edupreneurs’ often find ways around the legal constraints, as discussed below.

3. Type and scope of NSPs

3.1 Not-for-profit provision

Community schools
There are two main models of community involvement in schooling – the creation of new community-managed schools and the strengthening of community management to revitalise existing state schools. For the purposes of this review, we are concerned in particular with the first model – community schools that are created and managed by the community. In these cases, communities have significant responsibilities with respect to construction, financing and management. Amongst these schools, there are two options: schools may resemble the state sector in terms of curriculum, textbooks, teaching styles, exams and so on, or they may follow alternative systems in any or all of these areas (Rose 2002, 2003, 2003b, World Bank 2003).

Some community schools have been established ‘spontaneously’ by communities themselves, while others are supported by NGOs, donors or faith-based organisations. In some cases, donors (such as DFID or USAID) channel their funds through international NGOs (such as Save the Children), which in turn work with local NGOs and communities to provide community schools. There are significant differences between community schools with NGO, donor or FBO support and those without, mainly in the arena of resources, but the relative roles of communities and supporting organisations vary from school to school. In terms of non-state financing of non-state education, there are different models of cost sharing between the communities and the supporting organisations. Where governments set up umbrella organisations to register community schools, NGOs sometimes shift their support from the schools themselves to the umbrella organisation, as is the case in Zambia with the Zambian Community School Secretariat.

Rose (2002) argues that the promotion of community involvement often places an increased burden on the poorest people, and on the most disadvantaged within them. She argues that, although community involvement might be desirable, it should not be seen as substituting for the state’s role in providing for social needs. In addition, Miller-Grandvaux and Yoder’s (2002) review of experience in Africa indicates that neither communities nor governments have the resources to support community schools adequately on their own.

NGO schools
Miller-Grandvaux and Yoder (2002) point out that NGOs seek more than simply to provide resources for schools. They also seek to influence governments’ education
policies in various ways such as by changing specific priorities, changing the policy process, and so on. However, in this review we are concerned specifically with NGO education provision.

Miller-Grandvaux and Yoder show that NGOs have been instrumental in many countries in boosting efforts to increase access to education through the provision of formal and non-formal education. Their focus is often on children who are excluded from the formal system, including working children, children from destitute households, girls, nomadic groups etc. The non-formal education provided attempts to overcome the constraints faced in the formal system by, for example, ensuring that education centres are provided closer to homes, allowing for flexibility in the timing of the school day and year, adapting the curriculum to address local realities, and recruiting teachers locally so that they have an understanding of the environment. These teachers often receive limited pre-service training, and are paid a lower wage compared to those teaching in state schools.

South Asia in particular has a long history of indigenous NGOs working in education. In Bangladesh, a recent increase in primary enrolments and a closing of the ‘gender gap’ have been partially attributed to the work of NGOs, in particular BRAC, the Bangladesh Rural Advancement Committee. BRAC provides schools mainly in rural areas, for the poorest children, and positively discriminates in favour of both female students and women teachers. Nath and Chowdhury (2002) report that about half of the children from formal schools in Bangladesh have failed to satisfy the country’s minimum criteria of basic education, whereas, nearly 70 per cent of the BRAC school children satisfied these criteria. The positive impacts of NGO provision can include improvement in education provision for girls, both in terms of enrolment and educational achievement. Other NGOs also operate in Bangladesh, with four hundred active in the education sector. However, not all will share the same standards of service delivery. In addition, possibilities of extending coverage to all children out of school are likely to be limited. Even in Bangladesh where NGO non-formal education is relatively well established, only 8.5 percent of children in primary education are enrolled in non-formal centres (Nath and Chowdhury 2002). The BRAC model has been extended to other countries including Ethiopia (World Bank 2003).

Where NGOs work in educational provision, they commonly bring resources with them. For example, NGOs might supply capital investment like tin roofs for school buildings, pay teachers’ salaries, or take over the running of a school. Local NGOs might act as conduits for resources from donors. However, while NGOs generally work ‘for the people’, they are not accountable to them in a financial or political sense (DFID/AKDN 2003).

Faith-based schools
Tietjen (2000) writes that religion has always played ‘major and multiple roles in education and schooling, as provider, legitimiser and policybroker, influencing national educational policies, curriculum and finance’ (2000:91). In most of the world, she writes, religious bodies are be significant providers of primary education, and in some countries with an official state religion, such as Bhutan, Brunei, Mauritania, the church and state converge with every school offering religious instruction and supported by public resources. Islamic schools are omnipresent through the Muslim world, as are Christian schools in former European colonies. However, the World Bank (2003) points out that most of the shift to private education in Pakistan is to non-religious schools: Islamic schools account for only 1 percent of urban students. Mission schools are major providers of primary and secondary education in Africa.
For example, in Malawi, faith-based organisations (FBOs) provide education at primary, secondary and tertiary levels and they own 71% and 46% of primary and conventional secondary schools respectively. Over 2 million children there could be benefiting from the education provided by FBOs (MIM and IPAD, 2004).

Religious schools are widespread and the array of FBO types is enormous. Tietjen categorises these, and some of her categories are as follows:

- **International private voluntary organisations and foundations (PVOs)** work on a large scale, implementing activities in numerous countries, e.g. the Adventist Development and Relief Agency, World Vision, Jewish, Catholic, Islamic and other denominational groups. These are usually organised by country programme, and coordinate their activities by sector – such as education.

- **Local faith-based NGOs and benevolent associations** are national or municipality-based organisations which work in the area in which they are located. They may be united under a regional or international umbrella according to religious affiliation, such as the Jesuit-founded 'Fe y Alegría' programme implemented in 13 Latin American countries by autonomous national NGOs.

- **Individual religious institutions** comprise national or municipality-based churches, mosques, temples, religious orders and missions working at the national or local level. Writing about Latin America, Somers et al (2001) argue that most non-state schools in the region are established as non-profit, and many are operated by religious organisations. In this region, the Catholic Church is a major non-state provider.

Primary school provision is by far the most significant education activity of PVOs, local NGOs and religious institutions. Religious institutions may provide schools simply for their own parishes or communities, but the scale can be much larger, with PVOs and faith-based NGOs sometimes supporting large scale interventions, such as Fe y Alegría’s over 500 education centres in 12 countries. At primary level, these three types of organisation fund and operate primary schools for the poor, and also for refugees and orphans. Many of these schools deliberately target girls’ access to education, and target service provision on activities benefiting women.

3.2 For-profit provision

**Elite private schools**
In many countries, élite schools include those provided by international bodies to provide schooling with internationally recognised qualifications for the children of expatriates. Locally established élite non-state schools also exist for the very small proportion of the population who can afford them. Since élite private schools usually charge high fees and do not directly serve the needs of the poor, they are not a focus of this review. It could be argued that these schools indirectly benefit the poor if they free up limited state resources for those who most need them. On the other hand, there are also considerations of the social divisiveness inherent in private education.

**‘Budget’ non-state schools**
It is often assumed that private ‘for-profit’ schools only serve the élite, but researchers have found that this is not always the case. In India, for example, Kingdon (1996) reports that private unaided schools (as opposed to private aided schools which receive some state funding) serve poor areas. She quotes examples...
of research in India which has remarked upon the very low levels of income at which demand for private schooling exists. Tooley and Dixon (undated) describe these schools as 'budget' private schools.

Budget non-state provision includes schools established informally, or without formal recognition, to cater for those left out of the state system. Kitaev (1999) describes the establishment of ‘bush’ or spontaneous schools in sub-Saharan Africa, which cater for particular groups of the population who do not have access to state school often for reasons of cost and/or location. Student groups include the urban poor and remote rural populations as well as nomadic groups; teachers are low-paid or are paid in kind. Kitaev concludes that much more research is necessary to illuminate their role in the private education sector.

Informal provision of this kind appears to have mushroomed in response to EFA, particularly in countries (including Malawi and Uganda) where primary school fees have been abolished, resulting in a massive increase in the demand for schooling, with potential implications for access to and the quality of education provided. The growth has mainly occurred through the initiatives of ‘edupreneurs’ in urban areas capturing the dissatisfaction with the apparent deterioration in quality of state schooling. These schools, which are sometimes set up in dwelling houses by teachers who might also be teaching in state schools, are often second-chance schools which have limited facilities offering an even lower quality of education than provided in the state system. Since they are provided informally, and not registered, they are unregulated by the state. The reason for children attending these schools is often the lack of any alternative, rather than as a result of choice between state and non-state providers (Rose 2002).

Alternatively, based on experience in Andhra Pradesh (India), Tooley (2001) argues that non-state provision of this kind is better quality than state schools, because of its accountability to parents. At the same time it is lower cost, because teachers are paid lower salaries compared with those in state schools (Tooley 2001). Private schools in India often pay lower salaries than state schools, because the Government of India sets high minimum qualification requirements for teachers in state schools. Other possible reasons for their lower cost may be that there is excess supply of teachers so they are willing to work for lower wages, or that teachers also have jobs in state schools so the salary from their work in non-state schools is a supplement to their regular salary. In India, there is official prohibition of the ‘commercialisation’ of education, but Tooley and Dixon (undated) report that this does not seem to impinge upon the actual behaviour of schools, except in terms of their reporting of accounts, and in the associated payment of bribes. However, all of the schools they researched, while operating at relatively low cost, made a profit according to the figures they gave the researchers. Because of the illegality of ‘commercialisation’, many of the schools kept two record books, one for the government inspectors, and the other for their own use.

Although fees are relatively low in these ‘budget’ schools, it is evident that they remain beyond the reach of the poorest. Tooley and Dixon (undated) note, for example, that fees for one child are approximately six percent of a rickshaw puller’s annual salary, and many households have a number of children who they would like to send to school. They report, however, that some of the budget schools included in their sample provide free places for the poorest in the community. This raises questions about the possibilities of expanding provision of this type beyond the urban areas where it is most apparent.
There are indications that non-state provision of this kind is reaching saturation point in some countries. In relation to secondary schooling in Tanzania, while only five percent of children attend any kind of secondary school, there are signs of a slowdown in the expansion of non-state provision of ‘second-chance’ schools suggesting possible market saturation at current prices and perceived quality of service (Lassibille, Tan and Sumra 2000).

‘Budget’ non-state sector provision raise important questions about whether tighter regulation by the state is needed to protect the poor who might be accessing these services, or whether local accountability is a more effective way of monitoring the provision. Comprehensive information is, however, not currently available to get a picture of the coverage of these budget schools and the possible impact of state or community intervention.

**Private tutoring**

In many countries, private tutoring is provided to supplement state provision. In some cases, this might be offered by teachers in state schools after-hours to groups of children studying in a formal space (possibly in the school itself) and might function on a regular basis. In other cases, private tutoring is offered in a more ad hoc, informal fashion often to individual children at a time. As such, private tutoring highlights some of the complexities of state/non-state provision and financing of education.

Bray (1996) found that private tutoring was widespread in East Asia, occurring most frequently in urban areas. Some tutors specialized in this activity and took it as a full-time occupation, but most was undertaken by teachers employed in the public sector working outside school hours to earn extra income. In some societies this type of work was an economic necessity because teachers’ salaries are very low, but official directives in Myanmar and Cambodia have endeavoured to impose controls on private tutoring. The growing scale of tutoring has also created official unease in Indonesia. Restrictions had not proved easy to enforce, however. Among the most problematic cases were those in which teachers were employed in state schools but gave private tutoring to the same pupils in the same subjects and sometimes even in the same classrooms. This was common in Cambodia, for example, where the midday break between shifts in double-shift schools was used for this purpose. Tutoring was provided in the evenings and early mornings, on weekends, and during school vacations.

Bray (1996) argues that private tutoring has both positive and negative sides. It gives pupils more individual attention and increases the salaries of poorly paid teachers. On the negative side, in most settings private tutoring appears to reinforce inequalities by favouring rich and urban populations. It may impose a heavy burden on household budgets and, in some settings, an element of blackmail is involved, particularly when teachers give private tutoring to the same children whom the government employs them to teach during school hours. Bray highlights the need for more thorough research in this area to determine more accurately its nature, extent, and the implications for government control.
4. Policy dialogue – how do governments decide what interventions to make?

Governments have many reasons for intervening in non-state provision of education, and political concerns can play a powerful role. Non-state educational provision may be seen as a threat to the state’s control, as has been the case in Bangladesh (Hossain et al 2002). The Bangladesh government, constrained both by donors against limiting NGO provision and by popular sensibilities against confronting the religious institutions that saw NGOs as being in conflict with Islamic education, adopted a number of alternative strategies to deal with them.

Bangladesh state policy with regard to non-state provision of education has been erratic in response to these political pressures. Non-state provision by private enterprises, communities, NGOs and FBOs has at times been encouraged and supported by the state, but at other times the policy has been to exert control over the nature and pace of the development of the education system. This control has acted against the overall goal of increased access to education. The government is under pressure to show willing to control NGO activities as a hangover from early 1990s fears that NGOs were ‘anti-Islamic’. This pressure was evident in the 2001 election when both parties pledged to nationalise NGO schools. Recent tactics with regard to madressahs or Islamic schools have been less overtly about control, with different regimes taking different stances according to their different approaches to national identity. Policies with regard to private for-profit institutions are that the government readily claims authority, but cannot always exercise control. Large public subsidies to private education appear to be a source of political capital, a way of demonstrating the high priority afforded to education. In return for the subsidy, private schools must adhere to formal rules and procedures such as the government curriculum, but there is little evidence of improvements in quality (Hossain et al 2002).

The nature of the relationship between non-state providers and the state varies widely, and has ramifications in terms of both government interventions in non-state provision, and the standard of state provision itself. Strained relationships can lead to sensitive policy situations. The World Bank (2003) shows how the choice whether to support religious schools in the USA, Latin America, Pakistan and Nigeria has little to do with their effectiveness and more to do with the politics of state relations with religious institutions.

Bennell (2003) shows how the relationship between state and non-state providers varies considerably among countries in the South Asia region. The relatively large size of the NGO basic education sector in Afghanistan and Bangladesh is widely perceived as a consequence of the failure of the state to create sufficient schooling capacity to enrol all children. Consequently, relations between these NGOs and the state have often been strained, especially when they are both directly competing for resources from the same donors. In India, legal constraints on the ‘commercialisation’ of education continue to frustrate the development of a supportive regulatory framework and, in effect, government has turned a blind eye to the rapid expansion of unrecognised, for-profit primary schools. However, NGOs are generally regarded as being an acceptable partner because they are ‘between state and market’ and do not threaten the state’s monopoly provision of formal education.

3 In Bangladesh, over two-thirds of primary school children are enrolled in state education, 15% in registered and unregistered non-state primary schools, of which 8.5% in NGO-operated schools, 5.9% in religious schools, and 2.9% in other types (Nath & Chowdury, 2002).
In Pakistan, relations between NSPs and the state have traditionally been adversarial, but the government is currently making concerted efforts to develop strong partnerships with the private sector.

Governments may also have reasons for promoting public education, resisting any engagement with the non-state sector and, indeed, for prohibiting its operation. It can be argued that education has public goods characteristics: the transmission of common values to children, assurance against the potentially damaging choices their parents might make over their education, and the promotion of equality of opportunity (Willmore 2002).

5. How do governments intervene?

With regard to the ways in which governments can work with non-state providers in service provision in education, many of the same models of evaluation, accreditation, and so on which characterise governments’ efforts to control and regulate the standard of education provided in private for-profit schools, also apply to community schools, and schools supported by NGOs and FBOs. However, Closson et al (1997) argue that the multiplicity of actors involved in the promotion of non-state education requires interaction amongst a diverse set of interest groups or stakeholders, and that governments will have to improve their ability to coordinate activities and functions, where they become more a facilitator than a provider.

Although there are similarities between the ways in which governments intervene in the for-profit and the not-for-profit sectors, for clarity, this review considers government interventions in for-profit and not-for-profit schools separately.

5.1 Governments working with NSPs

Governments’ reasons for intervening in non-state educational provision vary, but they often centre on issues of quality and accessibility. The assumption here is often that the non-state schools provide a service of lesser or different quality to that available in state schools, with the implication that they must somehow be assisted to reach the standards of the state sector. Where the opposite is true, i.e. where non-state provision is found to be better than that in the state sector, authors have argued that the state should attempt to learn from the successes of the non-state experience. An example here is that of BRAC in Bangladesh. Nath et al (1999) find that the standards of basic education achieved in the BRAC schools outstrip their counterparts in the state system, and they therefore suggest that, in terms of Bangladesh’s aim to impart basic education for 80 per cent of school-aged children, major improvements in the state sector would be necessary if these schools were to become as effective as BRAC ones. They also suggest that joint collaboration by government and BRAC in the management and supervision of the schools and teachers training should be seriously considered.

Sayed and Rose (2001) indicate three possible approaches to the regulation of non-state education. Firstly, to allow market providers to regulate their own activities, an approach which has been used with poor results in the higher education sector in Nigeria and South Africa. Secondly, not to allow any institution to operate as a private provider (as was previously the case in Tanzania and Mozambique). This rejectionist approach only works if the state has the capacity to act against NSPs. Lastly, Sayed and Rose (2001) discuss the ‘governance approach’ where the state recognises and...
acknowledges the existence of the NSPs but seeks optimal ways of regulating their activities. Regulation of NSPs can vary – directed towards fees charged, adequacy of financial provision, facilities available, curriculum, qualifications of teachers, and class size, as is in Tanzania. In South Africa as elsewhere, non-state provision of education is influenced not only by legislative provisions of the Ministry of Education, but also in relation to more general taxation and labour laws. In practice, regulation of the NSPs is often most apparent in determining what schools can teach, in particular to keep them in line with state schools and pupils in non-state schools often sit national examinations, but non-state schools are often allowed to supplement the stipulated curriculum with, for example, religious education for faith-based schools.

5.2 Governments working with not-for-profit providers (community, NGO and FBO schools)

Government relationships with community schools in sub-Saharan Africa and Asia vary widely but, as in the health sector, some of the positive approaches raise problems of scaling up and equity:

Discouragement of non-state schools
In Chad, community schools are created and financed by village communities to make up the shortfall in state provision. Here, the government offers no financial support and does not encourage the proliferation of these schools because of the perceived low quality of the teaching (Miller-Grandvaux & Yoder, 2002).

Recognition and accreditation
One strategy for government intervention in community schooling is to operate a system of accreditation or recognition, and there are examples of different, systems in operation. In Zambia there is a non-governmental schools secretariat which works with the Ministry of Education to accredit the country’s 700 community schools. In Togo, community schools which make up 20 percent of all primary schools have only recently been officially recognised. In Senegal, quality of education is an issue. Community schools are not considered to provide ‘formal’ education (i.e. equivalent to that provided in the state sector), but a flexible system of recognition allows their graduates to enter the public system (Miller-Grandvaux & Yoder, 2002).

Partnership models
Through research into six community schools in central Botswana, Tsayang (1996) reports a poor level of understanding of the workings of a partnership model between the community school and the government, with community representatives and government policymakers alike unsure of how to make the partnership work. The policymakers made little effort to explain the government’s role to the community. Tsayang (1996) suggests the use of a talent bank, and training of all involved in the functioning of government-community school relations as a possible way forward. However Tsayang highlights an issue of concern in Botswana, that when government becomes involved with community schools, community interest in them wanes. The World Bank (2003) describes a positive example of government approval and support for NGO-run schools in Ethiopia, but there remained doubts about scaling up the programme given that much had depended on a few motivated individuals.

In India, the local governments of Mumbai and Vadodara entered into an agreement with an NGO to hire local women to act as mentors, taking catch-up classes for students who were falling behind, at the cost of just $5 per child per year. This
constituted a recognition of the practice of tutoring that has already been mentioned (Banerjee et al 2003)

Financial support
In some cases, governments have taken a hand in encouraging the setting up of community schools, with the intention that eventually they would become self-financing private schools. For example, in the Balochistan province of Pakistan, the provincial government, as a pilot project, invited parents in selected neighbourhoods to form Parent Education Committees (PEC). These PECs would then develop proposals for new ‘private’ fellowship schools receiving a subsidy for a specified period, the subsidy decreasing over the period. Several years after their instigation, six of the original eleven schools remained financially sustainable. Considering the possibility of scaling-up these experiments into a more general policy, the researchers (Alderman et al 2003) find that the cost to the government of setting up this type of school was lower than for a state school, given that some of the resources were contributed by the community and parents. They conclude that for the cost of establishing one state school, the government could set up three or four fellowship schools, and that such a programme could be a viable option for educating the urban poor⁴.

Conversion of community schools to state schools
As part of Mali’s educational decentralisation process, there is a move to transform its community schools into state schools which receive community funding. Ten percent of Mali’s primary children are enrolled in community schools that increasingly resemble public primary schools. (Miller-Grandvaux & Yoder, 2002)

Governments intervene in community schooling for a variety of reasons. Where community schools are discouraged, or at least, where recognition and accreditation are not offered, this is usually the result of concerns over the quality of education provided. Where community schools are encouraged and supported, some authors have argued that this is due to an assumption that community schools cost less to run than public schools. However, Miller-Grandvaux and Yoder (2002) argue that the exact role of governments in community schools requires further study. While the cost of community education is lower for governments in many cases, actual costs per pupil are the same as those for public schools students or even higher in some cases, but that these costs are covered by NGOs. Alternatively communities are effectively taxed, and there are equity issues involved in expecting poor people to pay for education. They argue that community schools cannot be self-funded and self-reliant entities, and that eventually, to become sustainable, they must obtain government resources. However, there is a risk that government involvement will negatively affect the process, losing the community dynamic of the alternative system.

Based on a study in Mali (Birdsall and Orivel 1996), the World Bank (2003) identifies the benefits of parental contributions (in cash or kind) to the value put by them on education, but accepts that there are difficulties in creating exemption mechanisms for the poorest.

⁴ However, a parallel but significantly different pilot project in rural areas did not meet with the same level of success.
5.3 Regulation of for-profit providers

In general, a tension is evident between lighter regulation to enable the private sector to operate unfettered; and tighter regulation to avoid the continued explosion of low quality non-state education (Rose 2003). While the former allows second-chance schools to proliferate, the latter has tended to impose the state model on the non-state sector (for example by following the same curriculum and examinations). But, unless standards are sufficiently uniform, possibilities of linkage and transfer between the public and private systems are broken.

Regulation can be costly both in terms of time and financial resources, raising questions about whether there are really savings in public expenditure as a result of increased private sector involvement in education (Levin 1999, cited in World Bank 2002). Furthermore, for state regulation to be successful, considerable information about different providers and their services is needed. As indicated, such information is often not readily available, and requires time and effort in its collection. Collecting and disseminating information about the non-state sector is, therefore, another role in which the state will have to be more actively involved if increased reliance on private providers is to be encouraged. This raises serious questions of government capacity.

Prohibition of for-profit education provision

In some cases, such as private tutoring carried out by public sector employees, the state may wish to prohibit this activity. However, as Bray (2003) notes, such a policy is unlikely to succeed. Governments may also choose to ignore such phenomena, because they are unable or unwilling to tackle them.

Accreditation of for-profit schools

Governments can control the entry of for-profit schools into the education ‘market’ through the issue of permits or authorization to operate a school, or a more rigorous accreditation process. Wolff and Castro (2001) found a two-stage accreditation process, the first stage concerned with minimum requirements, and the second comprising an evaluation which would enable access to public subsidies such as vouchers. In India, Kingdon (1996) describes the system of government recognition of non-state schools, the main motivation for which on the part of the schools is the ability to issue a valid Transfer Certificate to students leaving the school, in order that they may gain access to another school. Both private aided and private unaided (PUA) schools – where the aiding comes as government financing – seek this recognition. To qualify to award the Transfer Certificate, PUA schools must be a registered society, have an owned rather than a rented building, employ only trained teachers, pay salaries to staff according to government prescribed norms, have classrooms of a specified size and charge only government-set fees.

Self-regulation of for-profit providers through voluntary associations

An alternative to public regulation is the creation of voluntary associations of private schools, with accreditation committees. However, Wolff and Castro (2001) show that, although these are effective in developed countries, in Latin America they function as interest groups rather than as arbiters of institutional and educational quality.

Accurate representation of quality

One particular aspect of private school regulation identified in Latin America by Wolff and Castro (2001) is the ‘truth in advertising’ law, whereby private schools must deliver what they promise, backed up with statistics.
Price control
Price controls are seen by Wolff and Castro (2001) as ill-advised, defeating the purpose of price signals as a means of ensuring economic efficiency. When prices are forced down, they argue that schools cut corners and are discouraged from expanding; when forced up, they increase their profits artificially. In terms of price, Wolff and Castro argue, the best policy would be to encourage entry into the market (such as through quick accreditation) as well as publicizing objective information on school quality.

Monitoring and evaluation
Effective regulation depends on the existence of a systems for assessing performance. In their study of Ghana, Closson et al (1997) find that monitoring and evaluation of the private for-profit sector is ‘falling through the cracks’, and that in some cases the state has neither the information nor the skills or the will to evaluate or monitor, especially as the number of unregulated for-profit institutions rises.

5.4 Support for for-profit provision

Government subsidy for for-profit schools
According to research by Wolff and Castro (2001) in Latin America, most private schools are subsidised in one way or another by the state – the state financing of non-state provision. This may take the form of direct subsidies, vouchers or training for teachers. State financing of non-state schools sometimes takes place because, if education is seen as a quasi-public good, subsidizing private education supports the expansion of education at lower cost than establishing new state institutions. It can encourage diversity and competition by increasing choice; and in some cases, it helps target poor students in basic education (by subsidising their costs directly).

Scholarships and loans are tools used in the secondary and tertiary sub-sectors (Wolff and Castro, 2001), but vouchers also operate in the primary sub-sector. King (1997) reports that private ‘for profit’ schools in Indonesia on average receive 70 per cent of their funding from the state, with regional variation meaning that private schools in Java receive 87 per cent of their funding from state subsidy. However, some for-profit schools avoid government funding. Few Private Unaided schools in India want to apply for government grant-in-aid funding since it brings them under state regulation and therefore removes the possibilities for private managers to charge profitable fees and derive pecuniary benefit from the school.

Subsidising for-profit schools out of general taxation raises issues of equity and accountability. If the state is paying for private education there is a quid pro quo in terms of the schools’ meeting of state-determined standards governing entrance qualifications and educational systems and quality. In turn this raises questions about governments’ capacity to obtain and analyse information and to enforce standards (World Bank 2002 and 2003).

6. Communities working with NSPs

6.1 Support to community schools
In their study of community schools in Africa, Miller-Grandvaux and Yoder (2002) identify different ways in which they are supported by NGOs or FBOs. Spontaneous
community schools may receive subsequent support but, more often, NGOs and FBOs have had a role in setting up the schools. NGOs (and FBOs) often seek to involve the local community in running schools as a reflection of their values or as part of the advocacy and capacity building aims of their intervention. There are many different models of cooperation. NGOs might support the community school by paying teachers’ salaries, providing support for teachers, or providing management training for the community school management committee. If an NGO is involved with a community in the first stages of construction of a school, they may work together to obtain building materials. In Mali, Miller-Grandvaux and Yoder (2002) report that many community schools receive help from NGOs, but that the communities themselves usually pay the teachers’ salaries.

6.2 Accountability to communities

There is much more information on the development of accountability to communities in the case of public rather than non-state schools. Most of the broad, general prescriptions could apply equally to non-state providers - maximising information to parents, involving parents and communities in school management, and directly delivering educational services, paying fees and retaining them at school level (World Bank 2003).

Research in Pakistan has shown that community participation in non-state provision of education can improve the quality of provision, and the level of accountability of provider to community. Experiments in community participation in rural and urban areas across Pakistan indicate that participation improves the quality of education because parents contribute more to the school in terms of time and resources, and because teachers become accountable to parents for observable results. When parents trust local teachers in local schools, the research report shows that they are more willing to contribute money, time and effort to the school. Enrolment and test results are higher when parents appoint and monitor teachers, form committees to ensure the smooth running of schools, come to award ceremonies, and assume other responsibilities. However, where parents have felt they have had little power to improve the poor quality of the system, their response has been to withdraw their children and their support from the school (World Bank 1996).

The écoles communautaires de base (ECB) of Senegal are another important case of community participation in non-state provision of education (Miller-Grandvaux & Yoder, 2002). But here the NGO, community and state roles are so thoroughly intertwined that it is difficult to distinguish lines of accountability. While they offer non-formal education, ECBs are included in the country’s campaign for universal basic education, in so far as students who graduate from ECBs are allowed to pass into the public school system. Many of the ECBs are financed by the Government of Senegal's Projet d’appui au plan d’action (PAPA) under the Ministry of Basic Education and National Languages, financed by CIDA. Each school is supported technically and financially, most often by an NGO called an ‘operator’. Communities determine curriculum, construct and manage the school, and determine the school calendar. A school management committee and sometimes a cellule école-milieu (a body made up of local authorities, the management committee, teachers, resource persons representing an organization or traditional chiefs, civil servants, NGO animators, leaders of women’s groups, etc.) manage the school, monitor the students and teachers, implement income-generating activities, collect school fees and mobilize human resources. Responsibility for an ECB is transferred to the community over four years, if the system is operational. Supervision and monitoring would then
take place from a distance for up to a further two years to make any necessary corrections. Only one ECB cycle has been completed to date so the experiment has not been evaluated. However, the buildings remain precarious, ECBs have no clear legal status and do not award final certificates, and students are not yet able to pass into middle school. Parents are said to prefer ECBs over state schools because the former offer religious education.

6.3 Accountability and parental participation

Suzuki’s (2000) research in Uganda found that levels of parental participation, such as bringing children to school and contributing to school development funds, are affected by the perceived accountability of school management. Accountability is enhanced by access to information which is itself increased through parental participation in planning and monitoring school developments. Factors affecting parents’ perception of non-accountability in schools were found to include lack of transparency, power imbalance between (head) teachers and parents, and weak representation of parents on school management committees. This in turn led to parental sanctions in the forms of non-payment of contributions and withdrawal of children from school.

Non-state provision may have the capacity to make these forms of short route accountability more effective than in the state sector, because of the (possibly) greater proximity of schools to communities and the more direct dependence of schools on local contributions. As in the case of state education, where governments are the source of finance they might strengthen short route accountability by making finance depend on parents (vouchers) or student numbers (World Bank 2002, 2003). However, these arrangements are largely unevaluated in the case of NSPs.
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Tooley J & P Dixon (undated) Providing education to the world’s poor: A case study of the private sector in India


1. Introduction and scope of the review

Water and sanitation are often delivered together in the case of state provision, but rarely in the case of non-state provision. It is first necessary to distinguish between ‘networked’ and ‘non-networked’ services. Networked services require pipe networks which are external to the household, whereas non-networked services are discrete pieces of infrastructure. Systems of water supply distribution pipes are an example of networked infrastructure; the household septic tank and hand-pumps are examples of ‘non-networked’ infrastructure. For the majority of households in low-income countries, the solutions to sanitation in both rural and urban areas are likely to be non-networked, whereas urban water supply is likely to be primarily networked, or at least to be indirectly connected to the mains supply. Cotton et al (2002) point out that the different features of water and sanitation provision have implications for how they can be dealt with institutionally, particularly in the context of involving the non-state sector.

The focus of this section of the literature review is on drinking water and sanitation. Drinking water is taken to include both urban and rural water supply and sanitation, urban networked and non-networked waste-water and excreta disposal, and sanitation marketing. In terms of NSPs in these sectors, the review has been specifically directed to focus on smaller urban water supply firms, and the links between small independent providers and formal systems, rural community water management, and small firm and community management of urban sanitation and latrines.

2. Arguments for state and non-state provision of drinking water and sanitation

Urban water supply is not a pure public good. It is possible to exclude non-payers from benefiting and to charge for levels of consumption; the principal benefits accure to individuals so provision can be made through the market. Metering, widely applied in developing country cities, enable exclusion of non-payers and charging according to the level of consumption; surrogates for the measurement of consumption can be constructed. However, water supply is subject to other forms of market failure which, historically, have been used to justify public ownership. Networked water and sanitation are classical examples of natural monopoly, resulting from high investment costs and enormous economies of scale, which make it extremely difficult for alternative suppliers to compete. Without some intervention by government, the private monopoly provider is therefore likely to over-charge or under-provide. The case for some form of public intervention is reinforced by water's positive (health and productivity) externalities, and by its status as a merit good up to the level of consumption for basic necessities. (Nickson and Franceys 2003)

Public benefits are dominant in the case of sanitation. The negative external effects on other people of the unpiped and untreated disposal of waste and excreta are high in terms of public health, hygiene and quality of life. In this case, it is unlikely that people paying for their private benefit in a free market will be enough to finance the comprehensive provision from which all will benefit. Therefore regulation, subsidy
and obligatory taxes or fees are likely to be necessary to achieve an adequate level of provision. (Budds and McGranahan 2003)

While piped water and sanitation approximate monopolies, they are not complete natural monopolies. Typically, the monopoly features of water are enhanced by legal and historical commitments and social attitudes. Natural monopoly is backed up by 'unnatural' practices which put legal restrictions on the right of private investors to compete with the state in dam design and construction, access to alternative supplies of drinking water through private wells and private vendors (Mudege 1997). However, in the case of developing countries, governments may seek but rarely have the capacity to prohibit other forms of provision that compete, for example, with municipal piped water supply.

The tendency in developed and developing countries is to break up technical monopolies by encouraging

(i) the 'unbundling' of the steps in supply (water production and storage, purification, primary and secondary distribution systems)
(ii) competition 'for the market' in the case of concession and lease contracts
(iii) contracting out of aspects of a public or private supply monopoly
(iv) adopting or strengthening regulatory systems to promote competition, standards of water quality and coverage, and prices that allow producers to be viable and consumers to afford the service.

The shift in international thinking to limit state monopolies and to recognise the role of private providers is supported by the view that water is an economic good: "Managing water as an economic good is an important way of achieving efficient and equitable use, and of encouraging conservation and protection of natural resources" (WMO 1992). This does not necessarily mean that water should not be managed by public bodies but that the prices of public or private provider prices should be set to reflect the cost of production. However, it seems more likely that a private firm, concerned about its own survival, would operate like that.

According to the 'new consensus' (Serajgedin 1994, World Bank 1994), decisions about the volume and quality of service consumed should be taken by those who experience the costs and the benefits. So, in the case of private goods where the benefits of consumption are restricted to the immediate consumer, ideally private consumers would pay the full cost and then make their decision about what they can afford: a private good would then be privately financed through user charges. Household water supply would be generally regarded as a largely 'private good'. Household sanitation, on the other hand, has much more than private impacts; transmission of waste away from homes and neighbourhoods and cities and disposing of it cleanly into rivers has public good qualities. There is therefore a strong case for public finance or for collective mechanisms to allow those affected (the stakeholders) at neighbourhood, city, region and river basin level to get together to decide what level of sewerage treatment they want to pay for.

The question is therefore not whether the 'collectivity' should intervene but how. The decision about standards and prices may be made in collective (government or civil society bodies) but the service may be provided by a regulated private monopoly, licensed competitive providers or by a government monopoly that contracts out particular tasks. The commitment to involving non-state providers is generally based on the idea that they have additional resources or more effective motivation than the
public utilities that are widely regarded to have failed, especially for the poor (Brocklehurst 2002). Putting provision into a competitive environment may strengthen the relative power of principals (citizen-clients and policy-makers) over providers but, by comparison with the health-care and education sectors, principals are probably relatively strong in any case (Batley and Larbi 2004):
- Principals are relatively well able to measure and know whether the provider has performed well in terms of the quantity and quality of the service
- Clients use the service regularly and can organise on an area basis to make demands on providers
- Formal (public or private sector) providers are informed, organised and often with strong political influence, but informal providers can be relatively easily known and trusted.

A wide variety of non-state providers exist in the water and sanitation sector, from the private sector (large or small scale) to NGOs and community based organisations. The incentives and motivation for each of these institutions to deliver a service can vary, from mainly financial reasons in the private sector, to altruistic motives in faith-based NGOs and community groups. The question is whether governments are able to understand these motives and then to find appropriate incentive mechanisms that will enable NSPs to improve and expand their services.

3. Type and scope of NSPs

3.1 Water supply: urban

In many low-income areas in Sub-Saharan Africa and Asia, people do not have their own utility piped water connection and rely on water obtained from NSP. A study of ten cities in Africa (Collingnon and Vezina, 2000) reported an average of 47 percent of households used small water providers or traditional sources such as dug wells, as their main sources of water. By contrast in a number of surveyed South Asian cities only about 5 to 10 percent of households were served by small water providers (Mackintosh, 2003). A high percentage of households had their own tubewells or used municipal tanker water to augment the utility supplies. Water NSPs in a number of South East Asia cities serve between 20 to 45 percent of households (Mackintosh, 2003).

In the urban water sector NSPs can be divided into two distinct types: (Water Utilities Partnership (WUP), 2003)

**Independent service providers** are not connected to the utility pipe network and may even compete with it. They generally obtain their water from alternative sources such as their own borewells, then distribute through a pipe network, or through carriers or a single supply point. Many independent providers are unauthorised or unregulated. The WUP study looks at examples of private water networks that are totally separate from the city mains in Kampala, Lusaka, Ouagadougou, Bamako, Nairobi, Dacca and Manila. Some of these independent service providers obtain water from unsafe sources such as unprotected springs and wells, which can present health risks for consumers.

**Intermediate service providers** include private providers or community based organisations, delivering water in unserved areas. Intermediate providers generally obtain water from the utility piped network and either (i) install and manage network
extensions or water points in unserved areas, or (ii) buy, carry and deliver water direct to customers willing to pay them (ibid). There is good potential for improved collaboration between utilities and such Intermediate Service Providers as, if their connections are legal, they are utility customers and are part of the same supply chain. A wide variety of this type of NSP has emerged to fill specific market niches in urban water supply. Plummer (2002b) has identified the advantages to poor people of these alternative forms of provision, in terms of the greater flexibility of supply arrangements and payment systems. They include:

- **Resellers of home water (informal standpipes).** Many households with individual connections to formal water supply (either private or publicly provided, mains or wells) resell water from their homes, serving a limited number of households in the surrounding area, or selling to handcarters.

- **Standpipe or water kiosk operators.** Private standpipe operators can distribute up to 35 percent of a city’s water (Collignon and Vezina, 2000). In many cities, water kiosks are run by NSPs. There is an important distinction to make between publicly constructed equipment whose operation is contracted to a vendor, and equipment constructed with private financing at the initiative of a for-profit private provider.

- **Water carriers and carters.** These include non-motorized door-to-door water delivery on bicycles, by hand carters, or using animal traction, of between a few litres and about 500 litres at one time. The cost is higher than supply from a household mains connection or a standpipe, but has the advantage of convenience.

- **Watertankers.** Provided to high volume water consumers with cisterns – households and municipal buildings and private firms in both Africa and Asia (WUP 2003, Mackintosh 2003, Collignon and Vezina 2000).

- **Local sub-network providers.** In most African cities there are some small secondary water networks operated by NSPs. For example, small water networks connected to the city mains exist in Nairobi, Blantyre, Cotonou and Abidjan, and supply water to urban neighbourhoods where the public standpipe service is scarce or non-existent. The supply of water in informal settlements through local networks that are not owned or managed by the utility, but by private or civil society actors, is increasingly recognised as an important means of getting water to low-income households (WUP, 2003). This is particularly true where the utility is reluctant or unable to provide services in informal settlements. The utility typically provides water up to the meter on their pipeline at the periphery of the settlement. The NSP takes responsibility for water distributed to one or more water points in the informal settlement, from where they sell water to consumers. The NSP may generate some income from the difference between the value of water sold and the value of water purchased from the utility.

Apart from the private firms and individuals that may legally or illegally provide these services, NGOs play a role in urban non-state water supply. In the first instance, NGOs can use the techniques that have proved effective in their work in rural areas, such as accessing groundwater through hand-dug wells and springs where topography allows. At a technical level, however, they have learned that there are differences between the urban and rural contexts. In the urban context, using groundwater is risky when on-plot and on-site wastewater disposal takes place, so many NGOs have recognised that piping in clean water makes more economic sense than piping out wastewater to prevent contamination of groundwater supplies. NGOs have also been able to bring their experience of working with communities, playing the role of intermediary between the government utility and the urban poor. Nickson
and Franceys (2003) show how NGOs can work with a large private water concession (e.g. in Buenos Aires) to adjust water systems and change arrangements to suit poorer customers.

### 3.2 Water supply: rural

In the rural water sector, provision by NSPs is usually delivered in the form of point sources such as handpumps, wells and protected springs. In Uganda for example, extension of rural water has involved the implementation of a multitude of village-level water supply projects by private and NGO contractors across the country. The government reports that between 1998 and 2001 one million people have been connected to relatively safe water from pumps, wells and springs (Barungi et al 2003). The capital provision of a hand-pump or access to a spring however is only part of the process, with O&M also required to keep the service running, and this is mainly managed by village committees and local government.

### 3.3 Urban sanitation provision

In most cities in the developing world with ailing public sector provision of water and sanitation, a fleet of small-scale providers, many operating within the informal sector, provide services to poor people (Plummer, 2002a and b). Most households in African cities (70-90%), and virtually all poor households, deal with their own human waste by building their own latrines or septic tanks or hiring others to do it. The public sector is generally ineffective in this activity, so NSPs dominate the market\(^5\) and offer services tailored to customers' needs and incomes, for the tasks that households choose not to carry out themselves. These include masons who build latrines, manual latrine pit cleaners, suction truck operators for septic tanks, and manual or mechanised drain and latrine ditch cleaning services.

Non-networked sanitation solutions range from a simple pit or ditch, lined or unlined, with or without a platform slab, to a water closet with provision for flushing with a soak pit for the waste, or, at the high end of the market, a two-stage lined septic tank. NSPs are involved in the construction and upkeep of these sanitation systems. They may also be involved in municipal roadside and stormwater drain clearance. Both household and municipal work is affected by seasonal variations such as rainy season overflows of pits and drains (Collignon and Vezina, 2000).

Although the profile of NSPs varies significantly from city to city, as they have developed in response to local conditions and social, institutional, political and legislative constraints (Plummer, 2002a and b) some authors have developed typological lists. The list which follows is drawn mainly from the work of Solo (1999, 2002), Plummer (2002a) and from Collignon and Vezina's (2000) study of ten African cities\(^6\).

- **Automated cleaning services.** NSPs are often involved in pumping liquid sludge out of lined latrine pits and septic tanks using suction trucks, often purchased second hand from Europe at a quarter of the price of a new vehicle. Septic tanks should be pumped every 3-5 years, lined latrines once or twice a year.

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\(^5\) An estimated 60-90% of the market share is provided by independent sanitation providers in the 10 African cities studied – although much of this goes unrecorded (Collignon and Vezina, 2000).

\(^6\) Kampala (Uganda); Canakry (Guinea); Abidjan (Cote d’Ivoire); Bamako (Mali); Cotonou (Benin); Nairobi (Kenya); Nouakchott (Mauritania); Dar es Salaam (Tanzania); Dakar (Senegal); Ouagadougou (Burkina Faso)
• **Manual cleaning services.** Manual cleaning is the most common means of maintaining household facilities and is often the only way to deal with latrine sludge in many un-serviced areas, where roads are too narrow for the pumping trucks and where unlined septic tanks accumulate dense, dried out waste material that is not suitable for mechanical pumping.

• **Latrine construction.** Latrines are constructed by a variety of NSPs. Septic tank cleaning enterprises, masons (house builders) or manual labour can be used.

• **Pit digging.** Unlined pits are dug either by hired hands or family labour, and may either be cleaned and reused, or closed when full and replaced with another unlined.

• **Public latrine and shower operation.** Some municipalities have entrusted management of these facilities to independent private operators who are responsible for paying the facility’s water bill. In other cases (e.g. Sulabh International in India), NGOs run these facilities practically independently (Nickson and Franceys, 2003).

• **Sanitary marts.** Sanitary marts can help to ensure that supply and demand are effectively balanced. They provide a range of services, which can include information and advice on technical options, credit facilities, hygiene promotion with the supply of complementary products (soap and other cleaning materials), as well as the direct supply of latrine construction components (WSP, 2000a; WSP, 2000b).

• **Low cost sewer systems.** Community groups with the assistance of a local training institute developed their own low cost sewer system in Orangi, a high density informal settlement in Karachi, Pakistan. The community groups constructed their own toilets and the sewers in the lanes between their houses. The larger trunk sewers are the responsibility of the government agency (Hassan, 2001; Ahmed and Sohail 2003). This is a rare example of such community initiatives in large-scale sewer construction. At a much smaller scale, households perhaps with the assistance of community groups connect their sullage water into open drains in the lane outside their houses and then cover those drains, so it becomes an informal sewer. There are also examples in Brazil of private developers providing sewers in housing estates that are connected to septic tanks (Reed, 1995).

4. **Relationships and political processes between state and non-state actors**

Access to and control over water, and, consequently, urban socio-environmental conditions are shaped by social, economic, and political power relations. The way in which governments deal with issues of access to and control over water has been shaped by a paradigm shift from supply-side to demand-side management, with implications for the way the state views non-state actors, NSPs. This has implications for the ‘politics of water’ with some starkly contrary views on the implications for inclusion and equity.

In her paper on water provision in Cape Town, Smith (2000) gives an overview of the political economy of urban water. Studies of water resource management in developing country cities identify dual circuits of supply: the primary circuit served by the state through a public utility, and a secondary circuit run by NSPs. Each circuit operates within a different social geography: higher income users are usually located in areas connected to formal water supply which is underpriced considering the
infrastructural and labour expenses associated with its provision. The usual system of offering such provision at a single rate means that prices charged are not high enough to pay for the expansion of the system to new users. New low income users therefore have little option but to turn to NSPs, operating in the secondary circuit. The secondary circuit can be viewed as operating in opposition to the primary circuit. Run by NSPs, it provides water to low-income communities, particularly in rapidly urbanizing areas located at the fringes of the city. The spatial mismatch of the two circuits is a product of their interdependence. Although each circuit operates under vastly different technologies, as Swyngedouw (1997) has argued, the interrelationships between primary and secondary circuits is dependent on social relations that institutionalise unequal access to water resources.

Reflecting this analysis, there are rival policy views on the effect of the subsidisation versus the commodification of water. The first position (World Bank 2004, Serageldin 2004) is that public water companies, dominated by supply-oriented management, typically run structural deficits as the price charged for water is a fraction of the cost of supplying it. This results in a perpetual loss of state revenues, which threatens the maintenance of the primary circuit and the financial resources necessary for extending existing water networks to the disenfranchised. According to this argument, subsidies to those who benefit from consumption of public supplies are at the cost of (a) the viability of the entire system and (b) poorer would-be consumers who do not have access to piped supplies (Nickson and Franceys 2003). The excluded population depends on patronage to obtain water connections, while existing recipients benefit from the low tariffs. Nickson and Franceys 2003 describe a 'low-level performance equilibrium' between urban consumers and producers of unsafe drinking water delivered at unpredictable times, in exchange for a minimal tariff which may not always have to be paid. The answer is in the recognition of the economic value of water as a commodity whose cost of production is charged to consumers - a demand-oriented approach managed through market mechanisms.

In a second view, this demand-oriented approach (depending on the commodification of water) is itself problematic; this view is associated with widespread NGO-supported mobilisation against 'water privatisation' (International Solidarity Committee 2001). The removal of subsidies and involvement of the private sector, in practice, has not benefited low-income households and threatens to further marginalize them. If user fees absorb disproportionate amounts of household incomes, the privatization of water will only exacerbate existing inequalities. Moreover, the interest of private operators in entering the market is limited by the low capacity of consumers to pay and by the risk of investment in much of Africa and Asia. (Budds and McGranahan 2003)

Smith’s study of Cape Town claims that South Africa's emerging institutional framework for market-priced water supply will make it increasingly difficult to amend structural inequities in the distribution of water provision (Smith 2000). Nickson and Franceys (2003) and World Bank (2003), on the other hand, show how subsidies targeted on tariffs for basic water consumption have been effectively introduced in South Africa, and how prices for all have reduced following the introduction of a private water concession in Buenos Aires.

The review by Budds and McGranahan (2003) of the literature on water privatization concludes that the majority of the population of the South continue to be served by the public sector or small-scale or informal providers, and that the majority of funding will continue to come from the public sector. Plummer (2002a and b) argues that
informal and small producers can be linked to large-scale public and private companies through contracts to extend services beyond the core of cities. Nickson and Franceys identify how large private firms have linked with NGOs to develop approaches for the extension of their services in ways and on terms that are sympathetic to the poor’s water needs and capacity to pay. On the basis of experience in Cochabamba in Bolivia, Marvin and Laurie (1999) argue for the involvement of CBOs and water users in the extension and management of water networks; and increased consideration of smaller-scale water projects that cater to demand-oriented technologies. There are more examples in the literature of private companies than public authorities entering into this sort of policy dialogue with small producers.

Collignon and Vezina (2000) found the absence of any dialogue between NSPs and public authorities to be striking, and to affect the government’s level of knowledge about the non-state sector, and its ability to regulate it. They attribute the silence in part to the lack of professional associations to represent the NSPs, but also to a “studied lack of interest on the part of the authorities” (Collignon and Vezina, 2000:50). They were found to turn a blind eye to the presence of NSPs, neglecting to designate sites for proper disposal of septic waste, or to make use of providers’ intimate knowledge of demand in siting new standpipes. As a direct result of this lack of dialogue, the authors found that a specific problem for NSPs was a lack of public space and the absence of approved dumping areas. In Bamako, for example, they found that, although there was no lack of NSPs ready to finance latrine construction and handle facilities management, there was no municipal land available for the construction of latrines for high demand areas such as train stations and markets. High rates of urban growth require rapid and continual response to the growing demand for public services. However, where public policy to deal with urban growth is lacking, unplanned and illegal settlements can mushroom, and their location can make them difficult to service. While this situation presents opportunities for non-state providers, it also raises the cost of delivering services. Practical steps to remedy the situation include local-level communication among sector actors, recognition and contracting out, access to civil works contracts, better financial management and recognition of professional associations. These steps, however, relate primarily to formal NSPs – and Collignon and Vezina (2000) recognise that another step may be easier access to formal sector status.

5. Governments intervening in NSPs

Nickson and Franceys (2003) argue that using the bureaucratic skills of contract preparation and regulation may be a more appropriate task for governments than trying to run a customer-oriented business. In this case, government’s duty is to:

- establish a regulatory system with a prime responsibility to provide adequate service provision for the poor
- enter into public-private contracts that ensure early service coverage extension to the poor and that pay the private operator according to the number of functioning individual connections provided in designated areas

We will add examination of government's possible role in supporting non-state providers.
5.1 Regulation of NSPs


Recognition of NSPs
Despite the prevalence of small-scale non-state providers in many countries, most utilities in Africa have exclusive (monopoly) authority to provide services within defined areas. Small-scale providers are usually regarded with suspicion by utilities and municipalities, they are often not legally recognised and therefore operate illegally with little regulation and quality control. In some cases this ambiguous operational framework has led to collusion between providers or with utility staff (WUP, 2003). If support is to be provided to NSPs, their operations need to be officially permitted, so that they can collaborate with government agencies. Increasingly, local authorities and utilities realise that the lack of recognition of NSPs works against the consumers they are trying to serve and are therefore supporting independent water supply arrangements (ibid). The Collignon and Vezina study found that governments typically did not provide official recognition of NSPs' and that the latter were liable to receive fines from government agents. This interference served to increase the level of risk for NSPs, and thereby to discourage investment.

Encouraging formalisation of informal NSPs
Most independent actors in the urban water and sanitation sectors are informal, in the sense of not being formal companies, not being authorised or recognised by government and not paying taxes. Collignon and Vezina (2000:55) argue that they thus remain “beyond the reach of any kind of regulation that could improve service delivery”. Authorities' responses tend to be hostile – attempting to rule out informal provision or enforce registration, leading NSPs to circumvent government and conceal their presence, working at night, or bribing petty officials. The authors recommend a different approach which they argue would encourage these informal NSPs to ‘turn formal’, involving:

- Simpler and fairer taxation, rather than flat fees which encourage arbitrary administrative action and bribery
- Social security arrangements designed as self-run mutual aid funds, rather than requiring contributions to a national fund with high overhead charges
- Better legal protection for formal sector enterprises through a business court outside the national legal system
- Ready access to commercial loans based on greater confidence on the part of the financial sector.
- Exploring opportunities for mutually beneficial collaboration between utilities or municipalities and NSPs.

The Water Utilities Partnership for Capacity Building (2003) argues that the regularisation of informal domestic water resale could encourage resellers to be more professional, make the resellers’ investments more secure and enable the utility to reduce the number of illegal connections and unaccounted for water. (WUP, 2003).

Government organisation for regulation
Water utilities are typically publicly operated and regulated (if at all) directly by government departments. Regulatory functions (over water quality, safety and price; and over urban sanitation - WUP 2003) are often split amongst a number of agencies at different levels. In only a few cases, mainly where privatisation is planned and
donors are present, does regulation work effectively (Batley and Larbi 2004). The 'regulation' that otherwise operates is to suppress prices in the political interest (Nickson and Franceys 2003, Budds and McGranahan 2003). Credible regulation implies that there is third party standing between the provider and consumer to set or interpret the rules (World Bank 2003). However, beyond the middle-income countries of Latin America, Southeast and East Asia, there is only a handful of independent water regulatory agencies - e.g. in Mozambique, Zambia and Ghana. Experience in Europe and Latin America has shown the extent to which the role of such agencies and the degree of their independence can have a major influence on the quality of the services offered, in particular to low-income households (Collignon and Vezina 2000).

Organisational capacity for regulation
Batley and Larbi (2004) write that problems in establishing an organization with a clear mandate, specified duties and powers, with autonomy to take decisions and respected in their implementation hinder regulation of water provision. Typically, these conditions exist in law but not fully in practice. Lack of staff with expertise in accounting, economics and finance stands in the way of effective price regulation. Typically regulatory bodies have been staffed by administrators from government or by staff with an engineering background from the old public company. The new skills are in short supply and salaries that will attract and retain are unlikely to be paid in the public sector. Batley and Larbi argue that regulation of prices also requires a high quality of information about the economy and about the firm being regulated, and that this is difficult to obtain where accounting standards and economic indices are weak and, particularly, in conditions of economic instability (Price Waterhouse 1994).

Institutional conditions for regulation
Batley and Larbi (2004) write that the institutional conditions external to the regulatory organization but necessary to its operation are even more exacting than organisational capacity, particularly in the context of developing countries. They cite conditions such as instability of the political economy; difficulty in establishing a leadership and organization that is independent of political control, disinterested between government and operator, and also not self-serving; problems in maintaining separation from political influence; weak demands of civil society; doubts about the independence of the judiciary; and an imbalance of knowledge, experience and power between the regulator and the firm being regulated.

5.2 Contracting NSPs

Experience
In the contracting of water and sanitation provision, problems most frequently arise with complex and long-term contracting. In a study of several Asian, African and Latin American countries (including Ghana, Zimbabwe, India and Sri Lanka), Batley and Larbi (2004, based on Nickson and Franceys 2003) found that, in South Asia and Africa, there were very few cases of longer term and more complex contractual arrangements getting off the ground. This was in spite of factors that should favour contracting in the water sector: strong international advocacy of and support for contracting in the sector; the measurability of water supply that facilitates contract design; and the fact that forms of organisation for water delivery are typically relatively simple and mechanistic.

The contracting out of engineering works and the laying of pipe-lines is long-established practice in the management of public water companies everywhere. For
example, in Bulawayo, Zimbabwe, all but minor works are carried out by contractors (Batley 1998). There are examples of the extension of these practices into the routine operations of public companies, as a first move towards the commercialization of their operations. For example, Chennai Metropolitan Water Board was one of the few Indian water boards to cover its operating costs, aided by contracting out ancillary services, for example by hiring staff cars and water tankers. Also in India, the Hyderabad Metropolitan Water Supply and Sewerage Board contracted out bill delivery and cash collection to the private sector. (Franceys 1995, Franceys and Sansom 1999)

Among poor developing countries, there are fewer cases of longer term and more complex contractual arrangements getting off the ground. One example in India is the Hyderabad Metropolitan Water Supply and Sewerage Board, which has introduced private sector management of its sewerage treatment plant. Chennai Metropolitan Water Board had gone further, since 1993 contracting out the operation of 14 sewage pumping plants, in order to bypass the poor performance and absenteeism of its public sector staff. Small firms were able to take on these opportunities with minimal capital outlay, since they received cash payments up front. Before the water system of Santiago in Chile was fully privatized virtually the entire water company was managed on the basis of piecemeal service and management contracts to achieve a very high level of efficiency (Franceys and Nickson 2003).

Build-operate-transfer contracts are used to finance capital investment in infrastructure. The level of investment required for a major water supply scheme makes the risk particularly acute. The risk is augmented by any weakness in the legal infrastructure of the country, the stability of the currency in which revenues will be earned, and the capacity of the public utility to earn the revenue by collecting customers' payments. A BOT to develop new water supplies for Hyderabad Water Supply Board failed on these grounds. The Board was unable to convince the international bidders that the revenue and payments for their water would be forthcoming. Build-operate-transfer schemes have been more successful in middle than low-income countries. Nickson and Franceys (2003) cite the case of Malaysia where the Water Department of the Ministry of Infrastructure Development undertook a BOT for development of water supplies for Kota Kinabalu. Even here, the state government that negotiated the contract and took a 20 percent stake in the company was unable to obtain adequate revenue collection from users and had to cover its annual deficit by a soft loan from the federal government.

Lease contracts are proposed for Ghana's two largest cities, Accra and Kumasi, but have been bogged down in uncertainties about the transparency of the contracting process and in public opposition to what is perceived as the 'privatization' of water (Nickson and Franceys 2003). In Sri Lanka, concessions have been proposed for two tourist areas and a freeport industrial area, but there are doubts whether concessions can be viable in such limited areas. In Tamil Nadu State, India, a concession is planned for the water supply and sewerage of Tiripur Area Development Project, through a complex partnership between a BOT operator, a financing institution, and local, state and central governments. (Franceys 1995, 1998; Franceys and Sansom 1999)

A successful case is that of Buenos Aires, where a concession agreed in 1993 was the first of a new global wave of concessions. An international water company, Ondeo, led a consortium which successfully managed the extension of water and sewerage systems, reaching poorer sections of the population at reduced tariff rates,
and achieving a good return on its investment. However, even in this case, the macro-economic crisis of 2001, followed by a 300 percent devaluation of the local currency, left the international operator appealing for reparations through an arbitration tribunal (Nickson and Franceys 2003). The same company has suffered losses from its operation in Manila. In the even more risky environment of Mozambique, another large operator, Saur International, has withdrawn from a consortium, selling its share for a symbolic one Euro to Aguas de Portugal. Saur argues that as a result of "a marked increase in risk in developing countries there is a need for financial solutions including substantial grants and soft funding…" (Talbot 2002).

Organisational capacity for contracting
Batley and Larbi (2004) find that the capacities demanded by higher level contractual arrangements put strains on government. The piecemeal contracting out of service and management activities to multiple contractors, as in Chile, demands not only a sustained capacity to maintain a continuous cycle of contracts but also to monitor and coordinate them; the information demands are high. Build-own-operate and concession contracts, in India and Sri Lanka, have stalled on the incapacity of governments to demonstrate that the legal, financial and market conditions exist to justify private investment. They add that long-term contracts lasting 20-30 years require government to think in unaccustomed ways to specify the outputs expected, the measures of performance to be used, the way in which risks will be distributed between government and contractor, and arrangements for regulation and conflict resolution. In their turn, bidders require evidence, based on information that rarely exists, of the condition and commercial performance of the existing water system.

Institutional conditions for contracting
Despite the internal problems of contracting which Batley and Larbi (2004) identify, they point out that the capacity to contract was not mainly limited by internal but by external factors. Policy and legislation could be developed, perhaps with external advice; and contract design and management skills could be learned or augmented by hiring in consultants. On the other hand, long-term contracting implies major institutional barriers to change including

- civil society opposition to the ‘privatisation’ of water (e.g. in Ghana, Sri Lanka and Bolivia),
- lack of political backing for contracting,
- lack of private sector capacity, and a lack of government capacity to limit private sector risk (such as the inability to guarantee conditions of macro-economic and political stability)
- unclear legal frameworks within which contracts would be embedded
- instability in the political and economic environment.
Exclusivity and sub-contracting

Two types of exclusivity clauses are common in large Public Private Partnership contracts such as concessions. The first is flexible exclusivity, in which the operator is allowed to delegate the right to provide the service, which has been used in Manila and Cote d’Ivoire. The second is absolute exclusivity (where the operator is not allowed to delegate service provision) which has been used in Jakarta and Gabon. In the view of the World Bank's Water and Sanitation Programme exclusivity is seldom necessary or justifiable. If alternative non-state providers can offer cheaper or more appropriate services they should be allowed to do so. Exclusivity rights for the main operator or service provider should be limited, in order to allow alternative providers to offer services to the poor (WSP and PPIAF, 2002).

Typical concession or lease contracts for city-wide water operators grant long (30 year) monopoly rights, often prohibiting the pumping or sale of water within the contractor's service area. The effect of such arrangements is to limit competition, and along with it the incentive to innovate and diversify service provision (Plummer 2002a and b). NSPs may wish to bid for civil works contracts to extend piped networks or to build pits and tanks, and for service contracts to collect sludge or clean drainage ditches. However, they are kept from participating by the large size of job lots, sometimes so large that they can be handled only by a few large or international enterprises, and sometime by backroom deals between a few large contractors and the civil servants awarding the contracts. Lack of access to this market, according to Collignon and Vezina (2000), marginalises the small contractors because such public contracts, especially externally financed ones, make up more than 80 percent of the work in the sector.

5.3 Supporting NSPs

Creating an enabling legal environment

Governments can create an enabling environment for NSPs by supporting trade associations for intermediate providers, and the formation of such associations is also a useful indirect means of regulating NSP practices. Tanker and vendor associations established in countries such as Côte d’Ivoire, Ghana, Nigeria and Benin have enabled small scale providers to enter into dialogue with utilities, thus improving the terms and conditions under which they work. Such associations can help to improve professionalism and capacity building in the sector by: (WUP, 2003:90)

- Establishing common rules and procedures (and by promoting their acceptance)
- Recognising and protecting private investments
- Creating a forum for dialogue (and collaboration) between the authorities, the utilities and the alternative service providers (who are too numerous to be handled on an individual basis).

In Ghana the public utility supported the creation of tanker-owners association. These associations negotiated significant improvements including:

- Improved access for the trucks to reliable utility water filling stations
- A preferential bulk price for tanker drivers purchasing large volumes of water
- Agreement that the association regulate water quality and price (through the periodic inspection of tanker cleanliness and the requirement to display prices at the filling station).
However, associations can also become cartels that seek to limit competition from new entrants, so it is important for the regulatory authority also to promote competition and encourage new entrants to the market. It is argued by some that top-down regulation should be minimised and self-regulation needs to be encouraged to ensure fair competition (WUP, 2003). On the basis of their study in Africa, and Latin America respectively, Collignon and Vezina (2000) and Solo (2002) recommend that legal security must be strengthened, official recognition and contractual relationships with civil authorities introduced, and transparency and competition enforced, in the future relationship between governments and NSPs. This, they argue, is the foundation of a fair institutional and legal environment.

**Direct financial support**
Local government may provide direct financial support to NSPs. For example, Sulabh in India is an NGO provider of sanitary services that works in partnership with municipalities which often pay the capital costs as well as power and water tariffs. Sulabh provides sanitary blocks with an average of ten seats per block. A full time caretaker ensures cleanliness and users also have access to soap, and in some units to showers and storage lockers. For this service users pay a small fee. Using this approach, Sulabh, a not-for-profit NGO, has been able to establish 4000 such units each serving upwards of 600 people every day. Any surplus generated is reinvested in a variety of social welfare programmes (Nickson and Franceys, 2003).

**Creating an enabling credit and financial environment**
In many cases, governments do little to facilitate development and formalisation of NSPs, and a particular hindrance is restricted access to credit. The modern banking system in many Africa countries does not offer loans to small NSPs, except for the purchase of equipment which then acts as collateral for the loan. Smaller NSPs therefore rely on traditional means (money lenders, family savings etc) for finance. The informal sector is thereby constrained in its rate of expansion due to the lack of access to larger loans. Previous donor funding of lines of credit restricted to small and micro-enterprises has not, in Collignon and Vezina’s findings, created any motivation for banks to develop a commercial lending strategy for the urban informal sector. They argue that the sector would be better served by measures to improve bank loan administration policies and procedures generally, and to broaden loan eligibility terms in order to respond to market demand. Solo (1999) also points out that small privately owned providers do not qualify for loans from donor agencies or banks. NSPs must be careful to limit their risks by undertaking only short-term investments that can be recouped in a short period, generally less than two years. They do this out of necessity to protect the investment.

**NSPs changing their own behaviour**
Solo (2002) adds that, while governments must change their ways of dealing with NSPs, NSPs themselves must also improve by networking to make themselves known and respected, developing their strength through association and business training and using it to lobby and defend their rights while being prevented from creating cartels, set new entry barriers or restrict service areas.

6. **Communities working with NSPs**
Systems of community design, management, payment and contribution to works exist quite widely and are said to enhance short-route accountability (World Bank
2003). The key question is whether they can be 'scaled up' or replicated into sustainable systems (Parker and Skytta 2000).

6.1 Rural and small town community water management

Rural community water management, led by NGOs, governments or donors, has attempted to decentralize the control of water and sanitation services to the most local level. It is inspired by the view that, while central and local government agencies have been able to build, they have failed to maintain services (Schouten and Moriarty, 2003). The consultation of communities and their involvement in the construction and maintenance of water systems is intended to give ownership and direct accountability between users and service providers (Barungi et al, 2002). Moreover, community participation and management, in principle, makes it possible to reduce the costs of building, operating and maintaining supplies (Collignon and Vezina 2000; Vezina 2002). The alternative of private sector development and management is usually not viable because of the lack of economies of scale in small or scattered communities.

There are examples of communities successfully running local services (e.g. the project in Hitosa, Ethiopia, supported by WaterAid and now run locally). However, despite being widely advocated as prerequisites for sustainable development, social mobilisation and community participation are frequently treated as dispensable components of the task. Research from rural Uganda (Barungi et al, 2003) suggests that the involvement of rural communities is often lacking in NSP and that the rural poor are seen mainly as recipients of, rather than contributors to the management of water supplies. In many instances, the village water and sanitation committees that manage their water sources report to village councils that in turn report to local government. In such cases it is questionable whether community water management groups can be regarded as NSPs.

Even where community management schemes do operate, Vezina (2002) finds that they may not make the financial savings or gain the local ownership that is expected. Being largely inexperienced, community-based water committees tend to manage their water supplies at the least cost. They do not optimise their functioning, for example by extending systems to sell more water and attain economies of scale. On the contrary, their approach is generally to minimise expenditure, sometimes even at the expense of preventive maintenance. Tariffs barely cover running costs, let alone replacement and refurbishment. It may not be realistic to expect a small community to tie up a large amount of its assets as savings when there are more pressing needs. The management is often in the hands of a small group that may not be representative of all the users. This small group often monopolises control of the finances. In the event of misappropriation, close social relations make sanctions difficult, and non-payment for water by some is perceived as normal. When a major breakdown occurs, the community may not be able to deal with it, because the savings have been spent for another purpose (Vezina, 2002).

Without politically neutral technical support, community management approach may translate into a compromise between the interests of the different social groups in an area. Schouten and Moriarty (2003) therefore argue that community management needs an enabling framework of technical support, policies and laws in which to be implemented. This point is picked up in the urban literature.
6.2 Community water and sanitation management in large cities

In the big city context, poor people outside the reach of household piped water systems may obtain water through individual arrangements with independent operators, as described above, or through some form of community management usually with the support of NGOs and with some degree of support by government. Even where government is formally absent, communities generally manage in a tacit arrangement with the political system (Solomon 2000).

Tovey (2002) shows how communities in Delhi that tap illegally into public water supplies manage the distribution of water to slum-dwellers in a carefully calculated way to reflect (a) the investment made by some residents in making the illegal connection (drought of surplus conditions), and (c) the needs of residents. Most of their actions were found to be structured by rational incentives upheld by moral beliefs. Incentives were shaped by the external political economy. The costs and benefits of co-operation were affected by communities' wider political networks, their access to de facto rights of occupation, their information and vulnerability to uncertainty. Slum communities and multiple state actors were found to be engaged in an informal co-production relationship which benefited all parties while keeping slum dwellers in a state of dependence. The external policy environment has the power to shape co-operative incentives even where the relationship is non-transparent.

Ahmed and Sohail (2003) describe an open partnership between residents of Orangi township, the local and provincial government and the Karachi Water and Sewerage Board (KWSB). This was a stop-gap agreement for the supply and management of water to informal areas, while wider discussions about the re-organisation and privatisation of KWSB continued. The city and provincial administration used tankers to extend water supply, first through KWSB and then, when this met with obstruction from local politicians and commercial operators, through the Pakistan Rangers, a para-military force. The water is supplied to underground tanks managed by mosque committees, community elders or local philanthropists, who are given the task 'with the consent of area residents'. This is a temporary arrangement pending reform of the public system but local people fear that, when the Rangers depart, local political groups will exercise their influence to prevent reform and retain their control of community water supplies. (see also Orangi Project 1995)

The WaterAid-Bangladesh Urban Programme works with seven NGO partners to promote community-managed water points and sanitation blocks in 150 slums of Dhaka and Chittagong. It is unusual in its scale, given that most community-managed/NGO programmes tend to be local and to face problems of scaling-up. Programmes begin with hygiene education and community mobilization, activities that are expected to create demand for the programme’s water and sanitation facilities and a willingness to pay for them. Government’s role is limited mainly to the approval by water and sewerage authorities of water points that make legal connections to water-lines. WaterAid upholds the conditions of the agreement with government (e.g. full cost-recovery) and trains and supports the partner NGOs. The NGO finances the initial construction of a water point that comprises a ground tank with a handpump, and water is then paid for according to consumption, or per household. Each type of facility (water point, tubewell or latrine) is managed by a water committee of residents which delivers payment, with NGO assistance, to a bank account held jointly with the NGO. From this account the metered bill is paid to the utility that is willing to accept the NGO as guarantor. However, participation in the
committees is dominated by local leaders and those who can pay, rather than by the poorest. (Hanchett et al, 2003).

This Bangladeshi system is said to suit all the actors. The utility is pleased to have paying customers, the municipality is pleased to supply the land for the tank to ensure water for at least some poor residents, and the poor have access to a water connection and can purchase small quantities of water frequently (Enayetullah 2002, in Nickson and Franceys, 2003). Similar roles have been adopted by NGOs elsewhere for local community managed pipe networks, in Blantyre, Nairobi, and Dar es Salaam (WUP 2003).

Another programme that has achieved a scale of operations that is unusual for NGO and community-managed projects is the SPARC programme for the community design, building and management of toilet blocks (Burra, Patel and Kerr 2003). It has reached more than half a million low-income urban dwellers in eight Indian cities. SPARC is an Indian NGO that works in alliance with the National Slum Dwellers Federation and Mahila Milan ('women together'), often part-funded by donors and local government. Local communities, particularly of women, influence the design and often build, pay for and manage facilities. Municipal collaboration varies from just giving permission to providing water connections, land and electricity.
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