Community-Based Development in the Context of Within Group Heterogeneity

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Abstract : Community-Based Development (CBD) is being currently proposed as the main avenue to fighting poverty and circumventing the shortcomings of state-directed aid resources. Largely as a response to critiques of top-down development, most bilateral donors and big international organizations have indeed started to include participatory elements in the design of their large-scale development assistance programmes The most important advantage usually associated with these programmes consists of the informational gains arising from the proximity of local decision-making bodies to the target populations. By contrast, one serious potential difficulty lies in the vulnerability of such programmes to capture by local elites. The paper examines these two aspects critically in the light of economic theory and principles and reviews whatever empirical evidence is available. On the one hand, it appears that informational advantages of the CBD approach are not always as decisive as they might seem. On the other hand, the elite capture problem is not a priori more serious in a decentralized than in a centralized approach . Political economy models lead to indeterminate conclusions and to have to be content with identifying factors that are more or less conducive to effectiveness of decentralized development.

The paper then proceeds by discussing the possibility of mitigating the elite capture problem through various reputation mechanisms, both multilateral and bilateral. Problems raised by multilateral mechanisms are brought to light with a special focus on aid disbursed by foreign donors to local communities or groups. Attention is therefore turned to a bilateral, local leader-disciplining mechanism that relies on a sequential disbursement procedure supported by a fraud detection technology. One of the conclusions reached on the basis of such analysis is that too quick and massive a rush on CBD may prove self-defeating in the sense that the share of aid resources actually reaching the poor will be low if donor agencies are impatient to achieve results. Furthermore, stiff competition among foreign donor agencies engaged in CBD is likely to yield the same perverse result. This is so not only because competition tends to make reallocation of aid funds more costly in the event of a detected project failure (in the sense of elite capture), but also because of the presence of careless agencies which, for various reasons, do not implement the sort of sequential disbursement mechanism envisaged.

Introduction

That community participation leads to improved project performance and better targeting compared to top-down service delivery and poverty-reduction approaches has become a sort of received wisdom today. The idea is not new. On the one hand, it has been continuously advocated by development scholars during the last two decades (see, e.g., Chambers, 1983; Hirschman, 1984; Cernea, 1985; Ostrom, 1990; Baland and Platteau, 1996). On the other hand, not only has it been attempted during the 1950s by the Ford Foundation and US foreign assistance programmes (by 1960, as many as sixty countries were concerned by this community development thrust) before being abandoned (Holdcroft, 1984), but it is also purported to be the key approach of Non-Governmental Organizations (NGOs) working in developing areas. What is striking today is that, largely as a response to critiques of top-down development, most bilateral donors and big international organizations have started to include participatory elements in the design of their large-scale development assistance programmes (think, e.g., of the World Bank's Social Investment Funds, or of participatory development programmes sponsored by IFAD, the International Fund for Agricultural Development), or to channel substantial amounts of aid money through international or local NGOs (Stiles, 2002). The move to put participation and empowerment of the poor squarely on the agenda is especially noticeable in the case of the World Bank which has made the so-called Community-Driven Development (CDD) one of the cornerstones of its Comprehensive Development Framework. The World Development Report 2000/2001 ("Attacking Poverty") duly reflected this shift of approach (Mansuri and Rao, 2003).

Given the high hopes placed in community-based development (henceforth called CBD), and the determined attempts to scale up projects based on this new approach, it is important to assess the strength of the case that is made in support of it. Such an assessment is all the more necessary as the empirical evidence available, so far as we can judge from recent surveys (Conning and Kevane, 2002; Bardhan, 2002; Mansuri and Rao, 2003), does not unambiguously confirm the view that CBD projects are more effective than more conventional approaches in terms of efficiency, equity (reaching the poor), and sustainability. NGOs themselves, contrary to a widespread belief, have not produced impressive results, even with respect to alleviation of poverty and promotion of participation (Carroll, 1992; White and Eicher, 1999: 33). The same agnostic conclusion emerges from a recent review of empirical studies of decentralized delivery of public services. For the author, indeed, although the studies available suggest generally positive effects of decentralization, “it is hard to draw conclusive lessons” (Bardhan, 2002: 200). Caution is required because most studies are essentially descriptive and point to correlations rather than carefully tested causal relationships.

Too often, the success of CBD is almost taken for granted and the arguments seem to be so evident that they do not even need to be spelt out and discussed. It is not surprising, then, that few reliable evaluations of participatory development projects (based on representative samples with treatment and control groups, as well as baseline and follow up data) have been undertaken, even among NGOs that have followed the approach for several decades (White and Eicher, 1999: 19). Regarding the latter, the evidence produced tends to be anecdotal or based on unqualified generalizations and, more worryingly, whatever evaluations exist are almost never released for public scrutiny. As for the interventions funded by the World Bank, they have also been inadequately assessed, a fact deemed “inexcusable” by Mansuri and Rao (2003).

In addition, when evaluations take place, they tend to be biased in a direction favorable to CBD projects. Indeed, a “praise culture” is pervasive among all the actors involved who have a tendency to “resist the presence of evaluators and make efforts to influence their work and present results that will provide a more favorable impression” (Mansuri and Rao, 2003 :

30-31). The consequence of this dearth of reliable evaluations is ineffective learning-by-doing where it is badly needed. Added to the above-noted inconclusiveness of the empirical material on hand, the potential presence of positive evaluation biases must guard us against embracing the CBD approach with too much haste and enthusiasm (Platteau and Abraham, 2001, 2002, 2003). The fact of the matter is that the available evidence simply does not justify the speed with which many agencies, especially large bureaucracies, have started to implement CBD. As pointed out by Bardhan (2002: 187), "the idea of decentralization may need some protection against its own enthusiasts".

More particularly, approaches that use rapid disbursement procedures to channel substantial external resources toward local development are bound to seriously undermine the welfare and long-term objectives of CBD. Such a point has been explicitly recognized in a recent report assessing the effectiveness of the World Bank's Social Funds (2002). The relevant conclusion is worth quoting at some length :

> "While social fund projects have been successful in channeling substantial external resources toward local development, disbursing rapidly and achieving their physical output targets, their impacts on outcome and welfare variables, and on community capacity building and social capital, have been mixed… Many social funds that were initially set up as emergency response mechanisms are now being called upon to shift their focus to longer-term development impact and institutional development objectives, but this transition is proving difficult to implement in some cases… social funds are liable to meet the same constraints as other kinds of interventions and may lose the strengths on which their reputation has been built. For example, building capacity and social capital at the community level are time- and human resource-intensive processes, making disbursements potentially slower and less predictable. Experience suggests that the constraints to accomplishing this transition should not be underestimated and the tradeoffs should be explicitly addressed" (World Bank, 2002 : 48; see also Edwards and Hulme, 1996; White and Eicher, 1999).

The issue of whether CBD is more effective than more centralized approaches to tackle poverty can actually be framed in terms of a trade-off between information advantages and the risk of 'elite capture'. If the former advantages outweigh the latter risk, the case in favor of CBD seems strong. Yet, if the risk of elite capture is important and the information advantages are not too significant, the ground for embarking upon CBD becomes quite shaky. In the second section of the paper, the trade-off is described in more detail while in the third section, its relevance is further appraised in the specific context of foreign aid relations.

The fourth section turns to the question as to how the entrenched elites that are likely to misappropriate aid resources could be disciplined through an appropriate mechanism. This issue is addressed within the framework of aid projects financed by donor agencies from developed countries. As the discussion in this section will show, the issue is complex: there is a serious risk that in the competition prevailing among donor agencies to get access to local communities quickly, many resources transferred from rich to poor countries are eventually misappropriated by local leaders. The last section concludes. All throughout the paper, it must be noted, the focus is on the problem of 'elite capture'. This follows from the fact that CBD is essentially aimed to relieve poverty and promote widely spread rural development more effectively than has been achieved in the past through more centralized approaches.

Trade-off Between Information Advantages and 'Elite Capture': A Statement of the Problem

The main advantage associated with CBD lies in the better knowledge of local conditions and constraints (environmental, social, and economic) that communities or user groups possess as well as the dense network of continuous inter-individual interactions that constitute community life (often labeled 'social capital' in the recent literature). As a result of these two features, communities are assumed to be better able than a central government or an external donor not only to set up priorities, identify deserving beneficiaries, design projects, select techniques and inputs, but also to enforce rules, monitor behavior, and verify actions. Also, people's motivation to apply effort and to contribute resources is expected to be stronger when they are let free to choose their objectives and their ways to achieve them rather than being told from above what to do and how to do it.

Note carefully that if, in theory, a central agent might procure for itself the same information advantage of proximity by posting local agents in the field, there is apparently no way in which it could avail itself of the 'social capital' available in a community. Even the first possibility is likely to be thwarted by considerations of political accountability. As a matter of fact, "local politicians may have more incentive to use local information than national or provincial politicians, since the former are answerable to the local electorate while the latter have wider constituencies, where the local issues may get diluted" (Bardhan, 2002: 191). The political accountability argument, however, is less pertinent when applied to a context in which external donors rather than central governments are the purveyors of funds.

The other side of the coin is that local governments or communities may be more prone to capture, and thus less accountable than central governments (or external donors) and, if that is the case, decentralization can also be subject to misappropriation and targeting failures. In the words of (Bardhan, 2002: 192): "Political accountability in poor countries is particularly affected by the likelihood of corruption or capture by interest groups. While local governments may have better local information and accountability pressure, they may be more vulnerable to capture by local elites, who will then receive a disproportionate share of spending on public goods".

It is in fact plausible to argue that, at least in situations of high inequality, the poor and the minorities are more easily oppressed by local power groups that can easily collude beyond the control of higher-level institutions and the attention of the media. Moreover, social capital may be harnessed against rather than in favor of vulnerable segments of the population. This is because "…the multiplex interlocking social and economic relationships among local influential people may act as formidable barriers to entry into these cozy rental havens"

(Bardhan, 2002: 194). Facing these strong collusive networks, the poor are often helpless as their own networks, typically geared to cope with immediate subsistence problems, are not in a position to dispute the power wielded by the rich. It is in these circumstances that they may naturally look to the central state for protection and relief (ibidem: 188). And if the central government is not responsive to their needs, their predicament persists.

Such is therefore the conventional presumption: the lower the level of government, the greater the extent of capture by vested interests. If it is correct, the information advantage of CBD programmes would be compromised by their greater diversion to the benefit of local elites (Bardhan and Mookherjee, 2000a: 135). The case for CBD would then hinge on the relative strength of the two opposing effects.

Bardhan and Mookherjee (2002) have developed a tight framework to analyze the trade-off between the two conflicting aspects of centralized versus decentralized systems of service provision and delivery (in the context of infrastructure services such as roads, water, electricity or telecommunications). In the centralized system, authority is assumed to be assigned entirely to bureaucrats whose objective is to maximize their net incomes, that is, bribes less the cost of delivery. These bureaucrats behave like unregulated monopolists. The effect of decentralization is to shift control rights to a local government which, under the pressure of electoral forces, seeks to maximize a weighted sum of welfares of two types of local users: elites and non-elites. Two other assumptions are crucial to their theoretical exercise: elites value the service provided more than the non-elites, and the phenomenon of capture of local governments is reflected in the fact that the former class of beneficiaries receive a higher welfare weight.[1]

[1] Galasso and Ravallion (forthcoming) have likewise assumed that a community is maximizing a positively weighted sum of utilities featuring the situation of two population groups, poor and non-poor. Communities are thus assumed to be able to achieve an efficient allocation of the resources put at their disposal by a central agent (the so-called Project Office) which does not observe how much is going to the poor in each area but takes the behavior of

What the authors show is that decentralization tends to expand service deliveries as authority is devolved to those most responsive to user needs. Yet, with local elite capture in the above-defined sense, there is a tendency for the local government to over-provide the service to local elites at the expense of the non-elites. The amount of such over-provision actually increases with the degree of fiscal autonomy granted to the local government. This is due to the fact that with local tax financing there is the risk that the captured local government may resort to a regressive financing pattern (the non-elite bear the tax burden of providing services to the elite). Therefore, restrictions on the ability of local governments to raise local taxes can be justified on efficiency and equity grounds. User fee mechanisms, on the other hand, ensure that decentralization welfare dominates centralization, irrespective of the degree of local capture. This is because no one being compelled to use the service user charges impose a limit on the extent of cross-subsidization of the rich by the poor. Here is an obviously distressing conclusion if the problem is to relieve poverty by catering to the poor's basic needs (food, health, and education). Indeed, the latter do not have the ability to pay for the services intended for them (or bribes to the bureaucrats). In such cases, as is shown in Bardhan and Mookherjee (2000b), the extent of elite capture at local level relative to that occurring at the central level is a critical determinant of the welfare impact of decentralization.

In still another paper, Bardhan and Mookherjee (1999) have investigated theoretically the determinants of relative capture of local and national governments in the context of a model of (two-party) electoral competition with probabilistic voting behavior and lobbying by special interest groups (the non-poor are organized in a lobby and can make campaign contributions).

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communities into account while setting the budget allocation between them. The weights on the utilities of the poor and the non-poor are interpreted as 'capture coefficients' arising endogenously in a probabilistic voting model with differences in voter information between the poor and the non-poor. The authors also postulate that the weights depend on characteristics of the poor and non-poor, as well as the local political and economic environment, and the programme itself.

One interesting result is that relative capture depends on heterogeneity with respect to levels of local inequality and poverty: decentralization will tend to increase elite capture in high inequality localities (since higher inequality reduces the level of awareness of the poor, decreasing the level of their political participation) and lower it in low inequality ones. Nevertheless, while there are several factors that tend to increase the relative proneness to capture of local governments, other factors have the opposite effect. The contrasting roles of these diverse factors (cohesiveness of interest groups, degree of voter ignorance at the local level, relative extent of electoral competition, etc.) suggest that it is unlikely that local governments are universally vulnerable to greater elite capture. The extent of elite capture at the local level "may well turn out to be context- and system-specific", which creates the need for empirical research to appraise the potential pitfalls of decentralization in various settings (Bardhan and Mookherjee, 2000a: 139).

Theory, therefore, does not enable us to obtain clear-cut answers to the question of the relative desirability of decentralized versus centralized development. However, it has the merit of drawing our attention to crucial factors, such as within community heterogeneity, that impinge upon the comparative effectiveness (in both efficiency and equity terms) of the two approaches. One of the few serious attempts to test the sort of models discussed above, if we except the study by Galasso and Ravallion (forthcoming) to which I shall return later, is that of Foster and Rosenzweig (2002). These authors use a model of two-party (the poor and the non-poor) representative democracy with probabilistic voting in which local governments must choose to allocate public resources among different public goods for which the preferences of the poor presumably differ from those of the rich. A key prediction of the model is that, in villages with democratic governance, an increase in the population share of the landless should result in outcomes that are, *ceteris paribus*, more favourable to the poor, that is, greater road construction or improvements (which are relatively labour-intensive) and smaller public irrigation infrastructure (which benefits the landed households especially). The prediction is borne out by the econometrics applied to a twenty-year panel data set from 250 villages in rural India.

Caution is nevertheless needed in the interpretation of such results in so far as they are based on a comparison of predicted and realized outcomes in the absence of strong direct testing of the underlying assumptions. In particular, there is doubt about whether improved roads benefit the poor more than irrigation infrastructure. Thus, "it is often the case that non poor households corner most of the wage work opportunities within their home village, especially when this work is provided by government agencies at an official wage rate that is two to three times the traditional village rate" (Kumar, 2002: 776). Moreover, we would obviously like to know more about how village democracy works in actual practice. Indeed, in order to show that democratic governance enables the poor to express their preferences and make them prevail, there is no escape from analyzing the concrete process through which they raise their 'voice' in the relevant institutions.

By relying on formal voting processes and formal rules of electoral competition, political economy models also ignore other, potentially effective local accountability institutions. It is thus revealing that in non-democratic countries such as China and Korea ingenious mechanisms exist at local level to develop trust and cooperation within the ambit of incentive-based organizations and bureaucratic procedures, whereas in democratic countries such as India local-level accountability mechanisms are often quite deficient (see, e.g., Wade 1985, 1990). In fact, because of the multiplicity of intervening factors (see Agrawal, 1999: Chap. 3, for other considerations), the abstract stylization of political economy models does not easily lead to reliable testable propositions.

Note finally that, when we contemplate decentralized or participatory development as practiced by external donors rather than by central governments, the picture appears to be somewhat more neat. As a matter of fact, to the extent that external donor agencies can be deemed to be genuinely committed to relieving poverty, the risk of elite capture on the central level is unambiguously lower than the same risk on the local level. A trade-off between information advantages and the risk of elite capture is then certain to exist, and if the latter is high compared to the former, the desirability of CBD should be called into question.

Trade-off Between Information Advantages and 'Elite Capture': Discussion in the Context of Foreign Aid Relations

At this stage, it is useful to bring out a number of considerations that should help us assess, with special reference to relations between external donors and target communities, the relevance of the trade-off described in the previous section. Let us first consider the information argument.

The Information Advantage of Communities: Some Qualifications

While it is no doubt true that communities or user groups possess information advantages over an external donor agency, several problems may arise that are generally overlooked in the CBD literature. People may not have a clear perception about critical dimensions of poverty reduction strategies; their views may diverge from those held by donor agencies, especially if the poor have internalized the values of the local elites; or, people's preferences may be heterogeneous, giving rise to conflicts of interest.

To begin with, members of a community may not have reached a consensus on some critical dimensions of an aid programme. In particular, they may not agree on who is poor and who is not, or on the nature of the more important problems to be addressed and how best to do it. For example, Bergeron, Morris, and Banegas (1998) have shown that in Honduras when different randomly selected subgroups of community members were asked to establish wealth and food security ratings, the correspondence between the rankings obtained was quite weak. The author's own experiment with wealth and power rankings in fishing villages in South India (Kerala state) led him to a similar conclusion. Moreover, his experience with NGO's work in participatory development in West Africa has shown that villagers are not always clear or correct about the causes of their problems, what their priorities should be, and what strategies ought to be followed to meet those priorities. Confusion or ignorance is especially likely when the matter concerned is rather technical or complex.[2] These are the kind of circumstances that make people especially prone to being influenced by external agencies, in the sense that they tend to demand the sort of things that they know will appeal to these agencies, especially so if they are simply asked to answer an invitation to submit subproject proposals.

If participation is to mean anything in such a context, the intervention of outside facilitators is required. Their role should consist of initiating and supervising a process whereby a community can form an opinion about a list of valid objectives, a suitable sequencing of their realization over time, as well as a coherent and feasible action programme to achieve them through appropriate methods. This process will be necessarily slow because it is essential that the facilitators do not impose their own ideas on the people. Instead, they must carefully listen and then make suggestions intended for stimulating discussions within the community that will drive the members to think of critical issues and eventually agree on some way to address them.

[2] On the basis of data collected on 132 community-maintained infrastructure projects in Northern Pakistan, Khwaja (2002) has shown that increased community participation positively effects performance for non-technical project decisions, yet has the opposite effect for technical decisions. Infrastructure maintenance is also better in non-complex projects, or in those made as extensions of old ones.

This is obviously a highly subtle work that requires facilitators with the right kind of motivations and combination of qualities as well as patient donor agencies ready to wait before disbursing funds. These two conditions are rarely met in reality. For one thing, facilitators are too often young, poorly paid and inexperienced individuals who are driven by incentives which are not well aligned with the needs of the CBD projects. For another thing, project implementers, especially (but not exclusively) when they belong to large aid bureaucracies, are typically concerned with showing rapid results while increased participation does not necessarily improve project performances, at least in the short and medium term (White and Eicher, 1999: 18; Isham, Narayan, and Pritchett, 1995; Khwaja, 2002; Mansuri and Rao, 2003: 27-28). Too often, participatory planning is an ideal that exists in speeches rather than in reality. Aid agents initiate a process of analysis within the target community that ends up as soon as posters reporting the 'agreed upon' objectives and methods have been taken to the agency to form the basis of its project interventions (Vivian and Maseko, 1994; Birch and Shuria, 2001).

In contrast to the case considered above –although in actual practice the two situations may be rather hard to disentangle– community members may have a clear and consensual perception about who needs to be helped, what is the cause of their predicament, what is to be done and how it should be done, yet their views and preferences may diverge substantially from those held by the donor agency. Thus, it is often observed that the intended beneficiaries pay much less attention to long-term, strategic considerations (including the building of autonomous organizational capacities), and attach much bigger weight to immediate improvements of life conditions, than external aid agencies. Also, they tend to place too much hope in externally-provided resources and to demand that the scale of development activities is increased beyond the limit of their own absorptive capacity. More fundamentally, meaning systems may differ so widely between donors and target groups that the very concept of development at the heart of the donors' approach may not be understood by these groups (Laurent, 1998).

Community members may also have an idea of eligibility that is not consistent with the one held by the donor agency. Thus, poor members deemed undeserving because they are known to be lazy, frequently drunk, or undisciplined, or because they have broken some local social norm (a son who has not shown respect to his father, or a daughter who has separated from her husband and returned to her native village against the wishes of her parental family) will be considered non-eligible to aid relief whereas the donor agency thinks contrariwise on the basis of other criteria or principles of justice. In so far as the undeserving members have internalized the values and norms prevailing locally, a community-versus-donor preference dichotomy is observed. When such is the situation, discussions are required in the hope that the stances of the two parties will converge without the donor imposing its will. But this is a time-consuming process (Birch and Shuria, 2001), and the danger always looms that the intended beneficiaries will again strategically adapt to the demands of the donors and pursue their own agenda while using the aid resources. In the words of an anthropologist with a long field experience in mossi villages of Burkina Faso:

> "Confronted with the hegemonic 'project' of the donor, the local population, for fear of losing the aid offer, prefer to remain silent about their practices and aspirations. This is because these practices and aspirations are perceived to be so far away from those of the donor that they are better not disclosed. Such is the vicious circle of development cooperation: the fear of avowing the discrepancy between the two views because it could lead to the discontinuation of the aid relationship, has the effect of strengthening the donor's confidence in the validity of its approach" (Laurent, 1998: 212 – my translation).

A further complication arises when preference heterogeneity exists within the target community. Thus, rural communities are often concerned with preserving a sense of social inclusiveness that leads them to exclude certain segments of the poor while insisting on the eligibility of the rich (Conning and Kevane, 2002: 386). Immigrants of more or less recent origin, nomadic people, erstwhile slaves in caste societies, widows may thus be precluded from benefiting from an external intervention. In a recent study of Southern Sudan, it has thus been found that local views about who should benefit from famine relief efforts were very much at variance with those of the aid workers, which caused a lot of problems in the implementation of the project (Harragin, 2003). A similar difficulty emerges from another study dealing with a CBD project designed to promote community-organized and funded schools in Kenya (Gugerty and Kremer, 1999). A more optimistic conclusion has however been reached in still another study that found a good matching in rural Bangladesh between wealth-ranking judgments arrived at through a Rapid Rural Appraisal technique, on the one hand, and ratings obtained by using standard socioeconomic indicators from a household survey, on the other hand (Adams et al., 1999).

Tagging, –i.e., categorical targeting that offers eligibility to all members of a group defined by an easily identifiable characteristic or trait (Conning and Kevane, 2002: 380)– by the external agency seems to be the obvious manner to surmount such a divergence. Unfortunately, things may not be so simple. For one thing, there are many ways whereby community members can subvert a programme if they think that it runs against some local social norm. These ways may not be easy to detect for the external observer, especially if the benefits received by, say, nomads or migrants, are not openly taken away from them but cancelled out through the withdrawal of some other benefit that they were previously enjoying. For another thing, by imposing eligibility or other criteria that are not compatible with the local culture, the external agency may cause tensions within the community that may hamper its ability to act collectively in other circumstances. Again, time is needed to overcome such differences.

Preferences can differ not only between community insiders and marginalized groups whose membership is questioned, but also among the community members themselves. The question as to how heterogeneous preferences are aggregated then comes to the fore. Rather than through majority voting, decisions tend to be made by the elite alone or, else, through unanimity voting (see Platteau and Abraham, 2002, 2003). In highly differentiated societies, mechanisms whereby a consensus is forged among contending parties are almost always a tool used by the elite to impose its own views behind a screen of democratic discussions. It is evident that when this happens the dominating community preferences will differ from those of the donor agencies. From a case study on the Jamaica Social Investment Fund (funded by the World Bank), Rao and Ibanez (2001) thus concluded that the overall quality of the match between local preferences and project achievements was poor. Only in two of the five communities studied was the project obtained consistent with the preferences of a majority in that community. Furthermore, better educated and better networked people were more likely to obtain projects that matched their preferences.

Because disadvantaged people can be easily manipulated by powerful and experimented elites, granting them reserved seats on a village council along the line of a positive discrimination strategy is likely to prove insufficient. In the presence of asymmetrical social structures, there is no other solution than empowering under-privileged groups, that is, mobilizing and organizing them in such a way that they can assert their rights to participate in decision-making even if that implies challenging existing social structures and antagonizing the elite. This is quite an arduous task, one that goes much beyond the usual understanding behind CBD. As aptly noted by Brett (1999: 12-13): "…participatory systems are rarely a response to demands from local people who may well be locked into hierarchical and deferential structures, but rather promoted in response to western values imported by donors. This obliges local communities to develop different kinds of organization from those they have used in the past, thus demanding new skills and the ability to overcome local opposition if they are to succeed". Participatory development, therefore, "cannot be treated as a process in which facilitators merely 'enable' local people to do what they would have wanted to do anyway" (ibidem; in the same vein, see Platteau and Abraham, 2002; 2003).

One may wonder, in particular, whether big bureaucracies with the kind of incentive systems that they have are really equipped to perform such a delicate job. In this respect, the evidence is worrying. Project facilitators tend to easily fall prey to the local elite either because they are in a rush to show results and therefore gloss over local power relations (Mansuri and Rao, 2003: 27-28), or because they are too weak to resist their pressure and the donor agency is not backing them properly.

Elite Capture and Development Brokers

The problem of 'elite capture' is especially serious as donor agencies are enthusiastically rushing to adopt the participatory approach because they are eager to relieve poverty in the most disadvantaged countries and/or because they need rapid and visible results to persuade their constituencies or sponsors that the new strategy works well. Clearly, such urgency runs against the requirements of an effective CBD since the latter cannot succeed unless it is based on a genuine empowerment of the rural poor (see, e.g., Rahman, 1993; Edwards and Hulme, 1995). If the required time is not spent to ensure that the poor acquire real bargaining strength and organizational skills, 'ownership' of the projects by the beneficiary groups is most likely to remain an elusive objective, such as has been observed in the case of the World Bank's Social Investment Funds (Narayan and Ebbe, 1997; Tendler, 2000: 16-17).

The perverse mechanism that risks undermining CBD is triggered by the temptation of donor agencies to skip the empowerment phase by asking intended beneficiaries to form groups or partner associations and to 'elect' leaders to direct them. As pointed out by Esman and Uphoff (1984: 249):

> "The most prominent members are invariably selected and then given training and control over resources for the community, without any detailed and extended communication with the other members about objectives, rights, or duties. Creating the groups through these leaders, in effect, establishes a power relationship that is open to abuse. The agency has little or no communication with the community except through these leaders. The more training and resources they are given, the more distance is created between leaders and members. The shortcut of trying to mobilize rural people from outside through leaders, rather than taking the time to gain direct understanding and support from members, is likely to be unproductive or even counterproductive, entrenching a privileged minority and discrediting the idea of group action for self-improvement" (Esman and Uphoff, 1984 : 249).[3]

Confirming the prediction of Esman and Uphoff, several studies have concluded that the formation and training of village groups in community-based projects have the effect of encouraging the entry of wealthier and more educated people into leadership positions because of the attractiveness of outside funding (Gugerty and Kremer, 1999, 2000; Rao and Ibanez, 2001). In point of fact, a major problem confronted by the community development movement of the 1950s lay in its inability to effectively counter the vested interests of local elites (Holdcroft, 1984: 51). Being adept at representing their own interests as community concerns expressed in the light of project deliverables, local leaders often succeed in deluding the donors into thinking that their motivations are guided by the collective good (Mosse, 2001; Harrison, 2002; Ribot, 1996, 2002). Their demands are replete with the sort of pleas and vocabulary that strongly appeal to the donors and, in order to create the appearance of participation, they may go as far as spending resources to build community centers, hold rallies, and initiate showcase labor-intensive activities (Conning and Kevane, 2002: 383).

In lineage-based societies, local chiefs and elders from dominant lineages are ideally positioned to 'capture' the benefits of CBD projects. Instead of 'father figures' clinging to their traditional duties of guaranteeing people's livelihoods, redistributing wealth and settling conflicts in such a way as to maintain the existing social order, the erstwhile elite often become

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[3] In the light of this diagnosis, Cernea's contention that "NGOs insert themselves not as a third and different/independent actor, but as an emanation and representation of the

transformed into greedy individuals who show all the less restraint in enriching themselves at the expense of their community as they are actually legitimated by outside actors (Platteau and Abraham, 2002)[4]. As many NGOs working in SubSaharan Africa have experienced, local chiefs who are de facto 'elected' as representatives of their village community tend to require that any equipments or facilities made available through external assistance should benefit to them as a matter of priority. When the aid agency concerned resists such a demand, they often succeed in concealing their misbehaviour from its scrutiny.

Mismanagement of aid transfers can obviously occur in class- or caste-based village societies in which landed elites use their dominant economic, social, and political position to appropriate for themselves whatever portion of the resources that they need and to let the poor have the leftovers only (Sara and Katz, 1997; Conning and Kevane, 2002; Bardhan, 2002). In their study of a decentralized food-for-education programme in Bangladesh, Galasso and Ravallion (forthcoming) found that the programme was mildly pro-poor, in the sense that a somewhat larger fraction of the poor received benefits than did the non-poor. They also found evidence of local capture, particularly in highly unequal or in remote villages.

The traditional elite are not the only category of persons to benefit from the newly channeled resources since they are frequently involved in tactical alliances with educated persons and politicians operating outside the village domain. Thus, in SubSaharan Africa, it is a frequent practice for chiefs to coopt new elites in their village 'associations', for example by creating neo-traditional titles that are then sold to the new rich eager to acquire a political base in the countryside (Geschiere, 1994: 110; Bayart, 1989).

The urban, rather than the rural elite may be responsible for initiating the process that deflects CBD from its intended purpose. Witness to it is the rapid multiplication of national

community" (Cernea, 1988: 10), appears almost surrealist.

[4] In some areas, they have been accustomed to just doing that since colonial or pre-colonial (slavery) times (see Bayart, 1989).

NGOs that are created at the initiative of educated unemployed individuals, politicians, or state employees who may have been laid off, or deprived of access to key logistical resources, as a result of structural adjustment measures. Acting as 'development brokers', political entrepreneurs have been quick to understand that the creation of an NGO has become one of the best means of procuring funds from the international community (Bierschenk, de Sardan, and Chauveau, 2000). In the words of Chabal and Daloz (1999):

> "…a large number of key political actors have now shifted their operations to the local level, which currently enjoys wide international favour and receives substantial assistance…[] a massive proliferation of NGOs … is less the outcome of the increasing political weight of civil society than the consequence of the very pragmatic realization that resources are now largely channelled through NGOs… Indeed, NGOs are often nothing other than the new 'structures' with which Africans can seek to establish an instrumentally profitable position within the existing system of neo-patrimonialism… Above and beyond the new discourse of NGO ideology…, the political economy of foreign aid has not changed significantly. The use of NGO resources can today serve the strategic interests of the classical entrepreneurial Big Man just as well as access to state coffers did in the past… Furthermore, NGO-linked networks are inevitably intertwined with those emanating from the state" (Chabal and Daloz, 1999 : 22-24, 105).

Thus, in the case of Benin, a West African country especially spoiled by the donors, we learn that local NGOs and associations, which are often "empty shells established with the sole purpose of capturing aid", have multiplied within a short period of time to number several thousands. Many others wait to receive the approval of the ministry of interior (Le Monde, 26 February 2001). In non-African countries also, NGOs often constitute "an opportunistic response of downsized bureaucrats, with no real participation or local empowerment" and, inevitably, program officers themselves become involved in the creation of community institutions (Conning and Kevane, 2002: 383-84; see also Meyer, 1995; Bebbington, 1997; Gray, 1999). Such a risk is obviously high when self-conscious, organized local communities do not actually exist prior to the opening up of new development opportunities by state agencies or international donors (see Li 2001, for a well-documented illustration of this possibility), while the latter presume their existence on *a priori* grounds (McDermott, 2001).

Of course, not all local leaders are opportunists ready to divert foreign aid from the intended beneficiaries. Several studies actually point to substantial variations in targeting effectiveness across villages (Ravallion, 2000; Jalan and Ravallion, forthcoming). Interestingly, intra-village inequality is often found to be inversely related to this effectiveness (Galasso and Ravallion, forthcoming), confirming the prediction derived from Bardhan and Mookherjee's political economy model (see supra) and suggesting that unscrupulous leaders tend to have more margin of manœuvre in highly unequal communities. It is true that, even in such communities, dedicated leaders may play a constructive role for the benefit of their people. Unfortunately, however, opportunistic leaders are numerous enough to constitute a serious threat to CBD. Before delving into this point, it is useful to provide some evidence of elite capture in the context of decentralized development experiences.

Misappropriation of funds by local governments

In Indonesia, the new devolution system has resulted in a situation where the provincial regents "exercise their new administrative and financial clout so imperiously that locals refer to them as 'little kings'. Stories abound of reckless extravagance or outright corruption… regents have simply seized companies belonging to the central government, or imposed arbitrary new rules on businesses. Fears of decentralization run amok are beginning to replace fears of Indonesia's disintegration" (The Economist, February 15-21, 2003: 54-55). In Nepal, decentralization created opportunities for elites to dominate decision making at the local levels (Bienen et al., 1990: 72-73). In India, as testified by one of the best documented studies available regarding one of the most comprehensive attempts at decentralization (Kumar, 2002), under present Joint Forest Management (JFM) arrangements, the poor are net losers and likely to remain so over a 40-year time horizon. If they participate in JFM, it is just to "state their loyalty to the village leadership". In behaving thus, "the poor ensure that they can partake of at least some village institutions, and they build up their stocks of social capital" (ibid. 776). In Bangladesh, under Ershad's decentralization reforms, although people were mobilized at the local (upazila) level, the decisions over allocation of resources continued to be made by elites of politically based factions that controlled the local governments (Westergaard and Alam, 1995; see also Das, 2000 and Véron, 2001 about the interference of patronage politics in the participatory planning programmes of the Kerala state, India).

Turning our attention to SubSaharan Africa, we learn that, in Senegal, municipal bodies or rural councils used the new prerogatives accorded them under the decentralization scheme to get involved in dubious dealings such as sales of rural lands to touristic and other business interests without consulting the communities concerned as they should have done (Mosse, 2001). In Uganda, to take a last example, participatory planning appears to be "more a matter of form than substance". As a matter of fact, local participation is reduced to a minimum, being "limited to counterfeit mechanisms of enfranchisement such as the 'Participatory Poverty Assessments' so alluring to Uganda's donors, which provide the desired facade of consultation" (Francis and James, 2003: 334-36). While important resources are channelled to local governments through conditional grants that leave little room for genuine people's participation in decision-making (such grants are essentially decided in a technocratic, top-down manner), other resources are made available through unconditional grants and locally generated revenue that create an ideal ground for the exercise of unfettered local patronage. Revealingly, Reinikka and Svensson (2001) found that in the period 1991-1995 only 13 percent of the total flow of educational funds granted by the central government for non-wage expenditures in schools (for textbooks, instruction costs, etc.) actually reached the schools after having transited through the local intermediary bodies. The majority of the schools did not receive any money on account of these non-wage educational expenditures.[5]

What must be stressed is that the attitudes involved partake of the logic of clientelistic politics characteristic of the African continent (and other poor regions, such as Bangladesh, Nepal, and Haiti, for example). For those at the very bottom of the social order, the material prosperity of their betters is not itself reprehensible so long as they too can benefit materially from their association with a patron linking them to the elites" (Chabal and Daloz, 1999: 42). As a result, abuses of power are tolerated so long as the patron is able to meet the demands made by his clients who are concerned above all with ensuring their daily livelihood. Ultimately, it is thus because they overlook the genuine nature of the links between elites and commoners, rulers and ruled in poor areas that international donor agencies overestimate the capacity of CBD to deliver development gains more effectively and more equitably.

A rush for CBD does not only entail the risk of creating and reinforcing an opportunistic rent-seeking elite, but it also involves a serious bias in the selection of communities. Indeed, communities within easy reach tend to be privileged while they are not the most needy precisely because of their easy accessibility. They are better off since they have good access to markets, education facilities and all sorts of information. Note that their advantage in attracting donors' funds under participatory programs does not lie only in comparatively low transportation and other transaction costs, but also in their greater ability to set up an appropriate collective structure and 'elect' a leader speaking foreign languages.

The Difficult Challenge of Disciplining Local Leaders

[5] Note that problems of misaligned incentives, conflicts of objectives between higher-level principals and middle-level agents, manipulation of the rules of the games, and so on are not

The Problems With Multilateral Reputation Mechanisms

Consider the following analytical framework. We have three sets of actors, namely donor agencies (henceforth designated by *A*), local leaders or intermediaries (designated by *L*), and the grassroots (designated by *G*) who are the intended beneficiaries of the aid transfers. Agent *A* will not disburse funds unless it has received evidence that a cohesive group of people exists through which these funds can be channeled. A group is represented by an 'elected' leader, *L*. How the money is being shared within the group or community is not observed by *A*, but *A* acts strategically taking the behavior of *L* into account while making its decision to support or not to support a given community. As for the strategic interactions between *L* and *G*, following the logic described in the story told above, they can be essentially depicted as an ultimatum game. That is, *L* has the first move and makes an offer to *G* regarding the apportionment of the aid fund. Then, *G* has to say whether they accept the offer or not, knowing that its rejection would mean the collapse of the group consensus required to receive aid from *A*. In such a game, as is well-known, it is in the interest of the second mover (*G*) to accept the proposal made by the first mover (*L*), and the latter's (*L*'s) interest is therefore to set the share accruing to the former (*G*) at as low level as possible. This is so because *G* do not wield sufficient leverage to dispute the self-asserted right of *L* to appropriate a large share of the aid proceeds. In fact, as illustrated in a case study material described elsewhere (Platteau and Gaspart, forthcoming), *G* may not resent *L*'s disproportionate share in so far as their own situation has simultaneously improved.

This is obviously a depressing result in view the CBD's objectives. One would therefore like to conceive of some mechanism that could discipline local leaders. The one which immediately comes to mind is the multilateral reputation or sanction mechanism (MRM)

confined to developing countries. A recent example is a study of the Job Training Partnership documented by Greif (1989, 1994) with respect to relationships between traders (see also Platteau, 2000: Chap. 6; Aoki, 2001: Chap. 4). Applied to our problem, the mechanism would work as follows. Operating within a repeated-game framework, a donor agency would adopt the strategy whereby its grants money to a local leader, but only provided that he or she is not known to have cheated another agency some time in the past. If money is thus disbursed and the benefiting leader is later found to have cheated the agency, the latter dutifully reports the fraud and communicates the name of the malevolent leader to the other members of the donor community. Before embezzling funds, a leader would thus be incited to think twice because by cheating today he or she would spoil his or her reputation for future interactions with the whole donor community. The multilateral reputation strategy can be shown to be an equilibrium strategy. That is, if a leader expects every donor agency to adopt such a strategy, his or her interest is to share the aid fund equitably among the intended project beneficiaries. Knowing that reaction, the interest of all donor agencies is to cling to the multilateral reputation strategy. Honest behaviour therefore gets established as a (Nash) equilibrium.

There are several problems with such a mechanism, however.[6] The first one stems from the fact that the information conditions that must be fulfilled for it to work are extremely stringent: information must circulate perfectly between donor agencies. This is unlikely to be the case in reality, because they are in large numbers, scattered around the developed world, and very heterogeneous in terms of several key characteristics (size, ideology, methods, time horizon, etc.). These are hardly ideal conditions for a dense information network to exist.

To establish a private third party to centralize information (as suggested, for example, in the Law Merchant system analyzed by Milgrom, North, and Weingast (1990) is not a

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Act in the U.S. (see Courty and Marschke 1997).

[6] We ignore the awkward problem that, in order to counter the leaders' temptation to embezzle funds, donors should in theory give them a flow payment or rent each period, and this flow should be at least equal to the interest on the one-off embezzlement of stock they could carry out!

solution to the problem caused by the costliness of generating and communicating information. As a matter of fact, such a system can effectively work only if donors have an incentive to detect fraud and report fraudulent experiences to the third party, so that the black list of dubious intermediaries in its hand is exhaustive and regularly updated (otherwise, donors would not be induced to consult it). Yet, in so far as the detection and reporting of a fraud once it has occurred entails costs but brings no benefits to the individual agency which has been cheated, such an incentive does not exist. Unless, of course, donor agencies are so genuinely committed to the cause of poverty relief that they are not concerned about whether poverty is reduced by themselves or by another aid agency (the critical argument of a donor's utility function is then the extent of general poverty relief rather than the relief accomplished by its own efforts).

To create the adequate incentive, the third party should be able to exercise pressure on the detected fraudulent leader so as to make him or her return the stolen money. A provision that unless a donor makes appropriate queries with the third party about the reliability of its current partner, it will not be entitled to use the system to obtain compensation would also make it in the interest of donors to query about past dealings of the partner-leader considered before disbursing money. As a result, so the theory goes, the threat against potential leaders would be effective and, if caught, a fraudulent leader would be prompted to comply with the third party by returning the money stolen (so that his name is removed from the black list). This said, Milgrom, North and Weingast have nevertheless shown that honesty will be established as a (symmetric sequential) equilibrium under the above mechanism only if a number of conditions are met, in particular, the cost of information query, the cost of appeal to the third party, and the cost for the latter to recover the stolen money from fraudulent local leaders ought not to be too high. Unfortunately, these assumptions are likely to be violated in the case considered here, especially because the agents implied live at great distances from one another, and all kinds of information are costly to acquire, including evidence about fraud in the opaque context of alien cultural environments. The mechanism is therefore not self-enforcing.

A second problem lies in the fact that leaders may not be actually concerned with preserving their reputation because their time horizon is short and they could be quite happy with running away with the money stolen from one single project. In other words, the payoff from dishonest behaviour is so large compared to the payoff from honest behaviour that honesty cannot be induced at equilibrium.

Finally, one key actor has been missing from the foregoing discussion, namely the ultimate purveyors of funds (designated henceforth as *P*) from whom donor agencies obtain their financial resources. They are taxpayers for national and international organizations, or taxpayers and the general public mobilized in fund-raising campaigns for NGOs. These ultimate purveyors of funds create a further link in the game, giving rise to a new space of strategic relationships between donor agencies and themselves. A serious dysfunctioning of the MRM arises if donors expect their ultimate sponsors to react negatively to news of embezzlement in their projects, for instance, by reducing their contributions to their CBD activities. In these circumstances, a donor organization has an incentive to refrain from reporting the acts of malfeasance detected in its projects. This is because it may entertain the hope that other agencies would candidly reveal their own bad experiences, or because it fears that, if it would convey the information, others might not have done it and would then exploit the situation in their own advantage. That the above risk is real is evident from the atmosphere of secrecy that surrounds the activities of many donor organizations, including NGOs. To reduce such a risk, there is no way out of improving the general public's understanding of CBD processes and the possibility of failures, so that honest donors which openly admit of cases of cheating are not unfairly sanctioned to the benefit of more opportunistic ones.

Central funding bureaucracies (such as the European Community or the Cooperation administrations of national governments), rather than the scattered contributors to fund-raising campaigns organized by NGOs, could apparently help tame the opportunism of local leaders through indirect measures aimed at donor agencies. One way of achieving coordination would consist of introducing a rating of donor or aid agencies that would be systematically used by these bureaucracies to decide which agencies deserve to be financially supported. But, again, things do not look simple once the question of the yardstick on which to base the rating is raised. Resorting to measures of outputs, such as improvements in the levels of living of the poor inside the communities chosen, is an ideal procedure but is likely be too costly to be feasible, especially in the case of NGOs with their typically diverse and long-term objectives (see Edwards and Hulme, 1996). Moreover, such measures could introduce biases in the selection of communities by the rated agencies. As a matter of fact, the latter would be induced to choose communities in which poverty can be more easily reduced for other reasons than the prevailing power structure (e.g., easy accessibility).

Disciplining Local Leaders Through Sequential Disbursing of Aid Money

Since MRMs would be extremely difficult to establish and operate, one must resort to bilateral reputation mechanisms (BRM) to mitigate local leaders' opportunism. In fact, it can rightly be argued that the behavior of many aid agencies is more sophisticated than the one just described. In point of fact, in the absence of an effective MRM, aid agencies ought not to disburse any money in one shot since they anticipate that most of it will end up in the pockets of the local leader. If some of them are nevertheless observed to disburse funds quickly, it is either because they do not have a proper understanding of the one-period game being thus played[7], or because they are not single-mindedly pursuing the objective of poverty alleviation. (For example, in spite of all their pro-poor rhetoric, they are also concerned with reproducing themselves as job- and income-providing organizations in the West).

Fortunately, other aid organizations proceed in a more gradual manner by disbursing the aid budget in successive tranches, it being understood that the disbursement of a given tranche is conditioned on the leader's proper behavior with respect to use of previously released funds.[8] It must be carefully noticed that inherent in such a strategy is the recourse to a fraud detection mechanism without which local leaders would not be incited to behave. Such a mechanism is necessarily costly, yet it is now in the interest of an aid agency to incur the related expenses since as a result of these expenses it can hope to better achieve its own objective of poverty relief (fraud detection is incentive-compatible).

There is a serious problem with the aforementioned bilateral mechanism, though. Indeed, as we know from repeated game theory, as long as the duration of the game is finite, and no matter how high is the number of periods in the game, the equilibrium outcome will be the same as that obtaining in the one-period game (Kreps and Wilson, 1982 ; Kreps, 1990 : 536-43)[9]. The effort, including the monitoring resources, spent by the donor agency over the successive stages of the project will be of no avail. Assuming that the local leaders are selfishly rational, they will embezzle funds from the very beginning and, knowing that, aid agencies should refrain from disbursing even the first tranche of money. True, if the aid

[7] Imperfect knowledge of the game typically arises when aid agencies tend to underestimate the leverage of the local leader within the group, or to overestimate his or her degree of altruism as a result of the leader's cunning ability to deceive them or of their own naivety.

[8] Of course, as is evident from previous discussions, slow disbursement procedures can be justified for other reasons than the need to control 'elite capture'.

[9] For the sake of simplicity, assume a two-period game (the argument can be generalized to any number of periods). Since he or she cannot be punished beyond the second period, the local leader has an incentive to embezzle the second tranche. Knowing that, the aid agency will not actually disburse the second tranche. But, then, the whole reputation mechanism collapses because the leader is no more disciplined in the first period. Therefore, the first tranche will not be disbursed either.

agency interacts with communities over an infinite (or indeterminate) period of time, this awkward result can be avoided. But this is hardly a consoling thought inasmuch as CBD aid, in particular, is precisely aimed at making communities self-supporting after a certain period of time and the limited duration of the external intervention is better made clear from the beginning. (It is only in the context of decentralized development when aid transfers to local governments are anchored in a framework of fiscal decentralization that there would be an endless round of disbursement periods creating the conditions of an infinitely repeated game.)

The hard logic following from strategic rationality on the part of all the actors involved (*A*, *L*, and *G*) has thus taken us back to where we started. But if the logic is inescapable, the assumption of strategic rationality is nevertheless questionable. This is not only because actors may not perfectly anticipate the future consequences of their actions and the reactions of others, or because they may entertain doubts about the rationality of the persons with whom they interact (in which case we know that even in a finitely repeated game, cooperation may be established as an equilibrium), but also because some social norms may exist that have the effect of constraining rational calculations.

In the case considered, the existence of a norm of intertemporal fairness adhered to by the grassroots may make the BRM effective even in the context of a finitely repeated interactions between the donor agency and the local leader. The reason becomes evident if such a norm dictates that a division rule adopted during one period may not be changed at will by the leader during a later period, especially if the change is made at the expense of the commoners. In other words, *L* is not allowed to reduce the share of aid transfers accruing to *G* over the successive stages of a project. In a two-period 'CBD game', he or she will thus be unable to strategically lower the share allotted to *G* between the first and the second rounds. As a result, since the granting on the second tranche is conditional upon *L*'s proper behavior in the previous round and since the probability of fraud detection can be assumed to increase with the extent of the embezzlement, the portion granted by *L* to *G* will be the minimum share compatible with an acceptably low risk of detection at the end of the first round, and this share will be applied again during the second round. Clearly, the norm of intertemporal fairness serves the function of granting a genuine bargaining power to *G* during the second round.

This is not sufficient, however. For the BRM to be effective, *G* must also be able to perfectly enforce *L*'s promise to pay them the agreed share of the aid transfer once *A* has released the money. The story told earlier about a CBD project in a Sahelian country seems to attest that enforcement was not the real problem: villagers did not feel cheated by their predatory leader and actually voted for him again even after his malpractices had been fully revealed and confessed. The idea is therefore that *G* are empowered enough to enforce *L*'s promise but not enough to actively debate the sharing rule with him. If *G* were not empowered enough even in the first sense, they would be doomed to be seriously exploited by their leader and there is not much that could be done to relieve their poverty until they will have acquired a better ability to defend their rights and assert themselves through time-consuming conscientization processes. On the other hand, if they were empowered enough in both senses, the sharing rule would be determined as the outcome of a bargaining process between *L* and *G*, and not by *L* only[10].

The game-theoretical model corresponding to the above-discussed leader-disciplining mechanism has been described in detail in Platteau and Gaspart (2003). In their two-period model, *A* decides the way to allocate the available aid budget beween two successive periods, as well as the amount of monitoring expenses on which the effectiveness of fraud detection partly depends. Given the amounts of the first and second aid tranches as well as the size of

[10] Assuming that the sharing rule resulting from such a bargaining process is large enough, disciplining the local leader with the help of a BRM would not have the effect of raising the share of aid money accruing to the intended beneficiaries. To achieve its objective, the aid agency could therefore rely on the bargaining strength of the latter. To be sure, some

the monitoring effort made by *A*, *L* chooses the share of the aid transfers that he or she will hand over to *G*, among whom a norm of intertemporal fairness is known to prevail.

While making its decisions, *A* faces the following trade-off. On the one hand, *A* would like to disburse as much money as possible during the first period because it is impatient to see the poverty of *G* alleviated. On the other hand, *A* wants to defer its disbursement of aid till the second period, since late payments serve to discipline *L*. Indeed, the higher the amount of the second tranche relative to that of the first, the more *L* is encouraged to use the aid transfers according to *A*'s prescriptions (that is, for the benefit of *G*). But note that the amount granted under the first tranche must be positive so as to ensure that *L*'s behaviour can be effectively tested before making a decision about whether or not to disburse the second tranche.

One important result derived from the comparative-static of the model is the following: the more impatient the donor agency –that is, the more *A* discounts the benefits enjoyed by the target population during the second period–, the smaller the amount of the second aid tranche relative to that of the first tranche, and the lower the share accruing to *G*. In other words, because the subjective cost of waiting is higher, *A* is less ready to use the leader-disciplining mechanism and to postpone disbursement of aid funds. As a consequence, *L* is less effectively induced to behave during the initial period, holding monitoring expenditures constant. At the new equilibrium, however, the amount of these expenditures is being increased. The net effect of these two opposite forces is shown to be detrimental to *G*: the share appropriated by *L* increases and the absolute amount of aid money that will accrue to *G* if there is no detection of fraud by *A* is smaller. The latter result is a direct consequence of the fact that the share appropriated by *L* has risen while monitoring expenses, which are subtracted from the gross aid budget before transfers to *G* are made, have been increased to substitute for the smaller use of the conditional mechanism of aid disbursement.

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embezzlement would still occur, but the agency would not be able to do better by using a

Requiring rapid results in the anti-poverty struggle is therefore counter-productive. Its main effect is indeed to enrich and consolidate local elites, much in the same way as windfall incomes from natural resources can be a curse because they give rise to greater rent-seeking activity (see, e.g., Tornell and Lane, 1998). At the limit, if *A* is very impatient, the share accruing to *G* will tend to a value as low as that obtained under a one-shot disbursement procedure. All characteristics of the aid institutional environment that cause donor agencies to rush to the help of local groups and associations should be a cause of worry. In particular, financial procedures and budgeting with a short-term horizon, intense competition among donors, or impatience of the general public or the taxpayers who are the ultimate purveyors of funds tend to compel aid agencies to work without the backing of proper leader-disciplining mechanisms. Unfortunately, pressures to spend money for poverty alleviation through CBD are mounting, all the more so as many aid agencies find it difficult to use the whole of their available budgets given the lack of effective aid absorption on the part of poor countries[11]. The point being made here is precisely that CBD is not the quick fix to overcome this constraint that too many donors imagine.

A second interesting result obtained by Platteau and Gaspart is that the higher the cost of recycling aid funds (or the smaller the proportion of aid money earmarked for the second tranche that can be costlessly redirected to another group or association in the event of detected fraud in the initial project), the lower the relative amount of the second aid tranche, the smaller the share accruing to *G*, and the lower the amount of aid money accruing to them in the absence of fraud detection. In other words, a donor agency which finds it difficult to

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BRM.

[11] Interestingly, over the 1990s, ODA commitments of the European Union exceeded gross disbursements by more than US$1.6 billion each year, peaking at US$2.2 billion in 1994 (Heller and Gupta, 2002: 137). In particular, in 1996-97, £4.5m of the budget of DFID (Department For International Development, UK) for Africa was unallocated. In 2000-01, that rose to £18m (*The Economist*, November 2nd-8th 2002, p. 39)! As all agencies seriously

reallocate the funds intended for a particular project is less incited to defer their disbursement and, consequently, the local leader is in a better position to appropriate the aid money. Inasmuch as it makes re-orientation of aid flows costlier, acute competition on the ground in a context of scarcity of good projects therefore appears as an unambiguously regrettable feature of the aid environment. Local leaders can indeed play on such competition since they know that the aid agency has a budget to spend that is more or less tied to the initially chosen project or community. Note, moreover, that interventions in low density areas are also more vulnerable to the above risk if they imply higher set-up costs associated with longer distances to be travelled, lower education levels in remote areas, etc.

Clearly, the logic underlying the effects of a rise in the cost of recycling aid funds is, *mutatis mutandis,* the same as that obtained for an increase in the discount rate of future benefits accruing to the poor. This is not surprising inasmuch as in both cases the cost of using the leader-disciplining mechanism is higher and the aid agency is therefore induced to disburse its available funds more quickly.

A last remark is in order. Competition between donor agencies engaged in CBD may yield perverse results not only because it may make reallocation of funds more costly in the event of project failure, but also because of the existence of careless agencies which do not implement the sort of sequential disbursement mechanism discussed above. This irresponsible attitude stems either from ignorance (of the game being played) or from opportunism (they are not really concerned about whether the money reaches the poor because their objective is just to be and to stay in the aid business). In the same way that “bad money chases good money”, the operation of these opportunistic aid agencies risks driving ‘good’ agencies to relax or altogether give up their gradual and conditional disbursement procedures. Such a perverse dynamic unavoidably leads to an erosion of the share accruing to

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concerned with genuine development know, scarcity of good projects and reliable groups and the poor and to the strengthening of a rentier class inimical to development. In addition, they have the effect of slowing down learning processes whereby the grassroots acquire experience over time about how to defend their rights, monitor the actions of their leaders, compel them to enforce their promises and, hopefully, spawn new, alternative leadership figures able to compete with the existing elite.

To discipline the 'bad' aid agencies, the ultimate fund purveyors ought to establish a rating of all agencies and treat them accordingly. It has been pointed out earlier that it is not easy to think of feasible criteria on which to base such a rating. The foregoing discussion nevertheless sheds a new light on this issue. It indeed appears that the disbursement and monitoring procedures used by the donor agencies, as well as the duration of their CBD projects, may provide a convenient yardstick, provided that there is some degree of control about whether the principles are put into actual practice or are just a smokescreen. In this perspective, self-reported cases of fraud detection could be considered as indirect evidence of the effectiveness of monitoring activities rather than as signs of failure. Not only are such characteristics rather easy to observe, but they also offer the advantage of not creating perverse incentives for the rated agencies.

Relying on Competition Among Local Leaders?

Platteau and Gaspart (2003) have also considered the possibility for aid agencies to rely on competition between local leaders in order to discipline them. Assuming the presence of two village leaders with unequal leadership skills, they show that leader competition makes the two-stage reputation mechanism analyzed above unnecessary. Note carefully, however, that as long as the competing leaders are not equally proficient, some 'elite capture' will subsist in

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associations is probably the most important constraint on the effectiveness of aid programs.

equilibrium, regardless of A's willingness to effectively reach G. The wider the gap between the competences of the two leaders, the greater the misappropriation observed under the competitive equilibrium.

Moreover, and more importantly, whenever several competing leaders are present, there is a serious risk of collusion between them. If the candidates do effectively collude, the leader-disciplining mechanism becomes necessary again lest G should be strongly exploited. And if collusion is not feasible owing to the intense rivalry between the leaders, the negative externalities of a mechanism that fosters intra-elite competition rather than cooperation are to be counted as a possible shortcoming of that mechanism. The existence of such a dilemma –not-too-good relations between local leaders are necessary for the competitive mechanism to be effective, yet they are a liability threatening collective action at village or community level– may undermine the case for relying on intra-elite competition as a way to protect the poor's entitlement to external assistance. When the above dilemma does not exist, channelling aid through several local organizations or groupings which are potentially competing with each other may prove a more reliable or less costly solution to the elite capture problem than the leader-disciplining mechanism.

Conclusion

To achieve its objectives and minimize the 'elite capture' problem, CBD must be accompanied by a people's empowerment strategy which is necessarily time-consuming and requires slow disbursement procedures as well as widespread training efforts (in literacy and organizational skills, in particular). At the other extreme, if CBD projects are run within a short term perspective and considerable amounts of money are rapidly disbursed, they will have the effect of reinforcing the privileges of local elites who will thereby gain increasing legitimacy from the outside world rather than from their own people. Moreover, they will contribute to create an unhealthy situation in which excessively high value is placed on the skills needed to relate to the donor community, skills which tend to be heavily concentrated in the hands of a narrow educated class. Outside money thus corrupts the process of local institutional development by allowing leaders to eschew negotiation with members for support and material contributions, thereby preventing autonomous organization-building based on the leaders' accountability vis-a-vis community or group members.

In between these two polar cases, we find approaches based on sequential disbursement procedures the release of which is made conditional on previous achievements. This obviously implies that fraud can be detected ex post, which requires that the donor agency devotes substantial resources to project monitoring, thereby substituting external control for the lack of democratic control by the intended beneficiaries themselves. Yet, local leaders can only be disciplined if, in parallel with the conditional disbursement approach of the donor agency, there prevails a social norm of intertemporal fairness that constrains their actions. Such a norm prevents a leader from lowering the share of aid transfers conveyed to the grassroots across successive stages of the project. If such an indigenous barrier does not exist to limit the possibilities of strategic manipulation by the local leader in the context of what amounts to a finitely repeated game, the gradual disbursement tactic of aid agencies will not be sufficient to tame the leaders' opportunism. There would then be no escape from the more time-consuming strategy of people's empowerment.

In the best circumstances, channeling aid through several organizations or groups that are potentially competing with each other would help discipline local leaders while enabling the grassroots to learn how to better assert their rights and exercise control. Empowering the disadvantaged by relying on this sort of competition is also less likely to arouse hostile reactions from the elites. It is indeed to be expected that a monolithic elite will try its best to counter empowering attempts by outsiders in a strategic effort to preserve its own power.

This could be done, for instance, by mounting the criticism that actions to empower the local poor are an undue interference with the recipient country's politics.

If some aid agencies are not concerned with effective alleviation poverty because they also pursue other less respectable objectives, the problem gets further complicated and a coordinated mechanism whereby ultimate fund purveyors use ratings of aid agencies based on their approach to CBD becomes indispensable. To the extent that these ultimate purveyors are numerous and scattered, this solution appears to be quite difficult to implement.

The experiences of decentralized development confirm the view that local-level opportunism is a major problem and that, unless it is properly addressed, devolution of decision-making power to local governments will yield disappointing results. As pointed out by Heller, a critical precondition for decentralization is "a high degree of central state capacity". Decentralization cannot work in a country characterized by a weak state because, "when a weak state devolves power, it is more often than not simply making accommodations with local strongmen rather than expanding democratic spaces" (Heller, 2001: 139; see also

Francis and James, 2003: 327). In other words, decentralization needs to be accompanied by serious efforts on the part of the central government to define and enforce guidelines and strictures (including rules regarding mandatory public meetings and election mechanisms) that set up a tight framework within which decentralization processes must take place. In other words, delegation or partial devolution is preferable to unconditional devolution because of the need to tame local patrons and to improve opportunities for participation and voice by the disadvantaged sections of the population (Tendler, 1997; Agrawal, 1999: 36; Heller, 2000; Conning and Kevane, 2002: 378, 381, 388; Bardhan, 2002: 202).

Such a conclusion, it must be stressed, leads to a tricky dilemma, since decentralized development is especially useful when central states are weak and need to be somehow circumvented, that is, precisely in the kind of circumstances where it has the least chance to succeed. Finally, even when the central state is strong in the sense of being able to effectively implement its policy agenda, there is always the risk of excessive politicization of the decentralization process (as in Kerala and Bangladesh). In this case, mismanagement of the decentralization programme is not to be blamed on local strong men who are having their own way because they escape the control of the central state. It results instead from the active collusion between the former and the latter. In these circumstances, the central state is unwilling rather than unable to use a fraud detection mechanism.

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