

The Risk of Resource Misappropriation in Community-Driven Development

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Abstract: Community-Driven Development (CDD) is being currently proposed as the main avenue to fighting poverty and circumventing the shortcomings of state-directed aid resources. One of the main difficulties in CDD programmes lies in their vulnerability to capture by local elites. The paper discusses the possibility of mitigating this problem through a so-called leader-disciplining mechanism (LDM) that relies on a sequential disbursement procedure supported by a fraud detection mechanism. On the basis of the LDM framework, it is argued in particular that too quick and massive a rush on CDD 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.

Keywords: community-driven development, aid effectiveness, elite capture, corruption, poverty, NGO

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1. Introduction

Following much disillusionment with previous top-down approaches, most donor agencies, including governments from developed countries and international organizations, are rushing to adopt with a lot of enthusiasm the so-called participatory, or community-driven approach to development. Such an approach, which has long been on the agenda of Non-Governmental Organizations (NGOs) working in or with developing countries, seems to hold much promise for reducing poverty and increasing aid effectiveness. In order to persuade their constituencies or supporters that the new strategy works well, donor agencies need rapid and visible results and, since they have sizeable financial resources at their command, they typically want to disburse them within a short period of time.

The natural tendency is then to spread them widely so as to reach as large a number of village communities as possible. Such a rush is problematic in so far as communities need to evolve and be institutionally strengthened if they are to achieve the objectives of the participatory approach: economic growth, democratic governance, sustainability, equity and protection of the poor (Platteau and Abraham, 2001, 2002, forthcoming). Revealingly, lack of capacity-building, especially the building of organizational skills at community level, and lack of ‘ownership’ of the projects by the beneficiary groups, have been recognized to be among the main limitations of the World Bank’s social funds program. According to this assessment, the programme remains too much driven by a supply-led approach rather than being responsive to the needs of rural people as a participatory approach should be (Narayan and Ebbe, 1997; Tandler, 2000: 16-17). As pointed out by Berg (1997: 98) in a broader context, it too often happens that the requirement of a rapid and effective implementation of aid programmes drives the donors to adopt policies that are detrimental to the development of local capacities.

It may appear paradoxical that this danger also pervades programmes of so-called Community-Driven Development (CDD), since they are precisely intended for developing local capacities. In point of fact, as long as the grassroots are not sufficiently empowered through suitable training programmes and processes aimed at making them aware of their rights and confident enough to assert them, benefits are likely to be largely preempted by local elites acting on their behalf. Indeed, for agencies eager to embark upon participatory development on a big scale, it is very tempting to ask communities or specific groups to ‘elect’ leaders. Unfortunately, however, such a solution is bound to produce perverse results and to be self-defeating :

“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).

If acting through local leaders enables outside agencies to channel considerable amounts of resources towards rural communities in a short span of time, it increases the probability of misuse of these resources by local elites which stand reinforced in the process. In lineage-based societies, local chiefs and elders from dominant lineages are ideally positioned to thus ‘capture’ the benefits of decentralized development programs or 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 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 actors¹. By virtue of their dominant position, they can thus manipulate participatory methods by subtly representing their own interests as community concerns expressed in the light of project deliverables (Mosse, 2001; Harrison, 2002; Ribot, 1996, 2002).²

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 (Conning and Kevane, 2002; Galasso and Ravallion, forthcoming; Bardhan and Mookherjee, 2000a, 2000b, 2000c; Bardhan, 2002). 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; forthcoming).

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).

In the other way around, the urban, rather than the rural elite may be responsible for initiating the process that deflects the participatory development program from its intended purpose. Witness to it is the rapid multiplication of national NGOs that are created at the initiative of educated unemployed individuals, politicians, or state employees who may have been laid off as a result of structural adjustment measures. These people, acting as ‘development brokers’, 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).

It is thus ironical that budget cuts in the public sector at the behest of international multilateral organizations may be made good for through the capture of resources intended for the grassroots, possibly by the same organizations³. As pointed out in the context of non-African countries, 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). 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).

In the next section, we present an especially rich case study material that allows us to gain profound insights into the nature of the problem of misappropriation by local elites of externally provided funds (Section 2). In the two following sections, partly building on these insights, we propose a

mechanism, based on reputation effects, which is destined to surmount this problem (Section 3). We then proceed by pinpointing a series of factors that are likely to make the so-called leader-disciplining mechanism (LDM) more or less effective (Section 4). In the same section, we also point to the disruptive role of aid agencies with bad characteristics and to the need for coordination between the ultimate purveyors of aid money. In Section 5, the state is brought into the picture and the risk of 'elite capture' in programmes of decentralized development run by weak states is highlighted. Section 6 concludes the paper.

2. An illustrative case study

In the late years of the 20th century, a Western European development NGO (whose identity is not disclosed for the sake of discretion) established a relationship with a village association in a Sahelian country. This association, which is a federation of several peasant unions, had been initiated by a young and dynamic school teacher, the son of a local chief. The NGO decided to follow a gradual participatory approach consisting of strengthening the association institutionally before channeling financial resources to it. This decision was the outcome of a carefully worked out diagnosis. It brought to light important weaknesses of the partner association that had to be corrected before genuine collaboration could take place: proclivity to view aid agencies as purveyors of money which can be tapped simultaneously, lack of analysis of local problems and of strategic vision for future action, loose and undemocratic character of the association (ill-defined objectives, ill-defined roles and responsibilities of the office bearers, absence of internal rules and reporting procedures, etc.).

After two years during which institutional support was provided in the form of guidance to improve the internal functioning of the partner association and to help define development priorities and the best means to achieve them, funds were made available for different types of investment. Within the limits of the budget set for each prioritized line of investment, the association could choose the project deemed most useful. A special committee was established to prepare rules regarding the use of the budget and enforce the abidance of such rules by different projects. In this way, the group could hopefully appropriate the process of decision-making, preparation of project proposals and programming of the activities involved (all aspects traditionally undertaken by the foreign donor agencies). Continued support at different levels (technical, administrative, organizational, and methodological) was found necessary to help in the effective implementation of the projects.

In spite of all these efforts to strengthen the partner association institutionally, things turned out badly. Thanks to the collaboration of two active members of the General Assembly (actually two animators) and the local

accountant, the foreign NGO discovered serious financial and other malpractices that were committed by the main leader of the African association: falsifying of accounts and invoice over-reporting, under-performance by contractors using low-quality materials, etc. It reacted by calling on the local committee to sanction these manifest violations of the rules, yet at its great surprise no punishment was meted out and the general assembly even re-elected their leader in open defiance of its request. The two dissident animators were blamed for being driven by jealousy and envy, while the accountant was fired. Here is a clear illustration of the support that poor people are inclined to give to an elite member on the ground that they have benefited from his leadership efforts. That he appropriated to himself a disproportionate share of the benefits of the aid program is considered legitimate by most of them. They indeed think that without his efforts their own situation would not have improved at all. In particular, he created the village association which had to be formed in order to be eligible for external assistance.

In a context where the ability to deal with external sources of funding is concentrated in a small elite group, the bargaining strength of common people is inevitably limited, hence their ready acceptance of highly asymmetric patterns of distribution of programs' benefits. If the intervention of the elite results in an improvement of the predicament of the poor, however small is the improvement, the latter tend to be thankful to their leader(s): the new outcome represents a Pareto improvement over the previous situation and this is what matters after all. In the above example, it is thus revealing that the ordinary members of the association defended their leader on the ground that "everybody around him benefited from the project and, if he benefited [much] more than the others, it is understandable because he is the leader". They think it is highly unfair on the part of the foreign NGO to have withdrawn their support to the existing team and to have "humiliated their leader" by depriving him of all the logistical means (jeep, scooters, etc) previously put at his disposal.

As for the leader himself, he openly admitted (during a conciliatory meeting organized by the high commissioner of the province) to have used a significant portion of the money entrusted to him for his own personal benefit. Yet, he did not express any regret since it was his perceived right to appropriate a large share of the funds. Did he not devote considerable energies to the setting up of the local organization and the mobilization of the local resources as required by the foreign NGO? By attempting to curb his power to allocate funds in the way he deemed fit, the latter exercised an intolerable measure of neo-colonialist pressure. This criticism was voiced in spite of the fact that the NGO paid him a comfortable salary to reward his organizing efforts.

Stories like this one could be easily multiplied and the authors personally went through several similar experiences while working with local groups, NGOs and associations through Europe-based aid agencies. It is not hard to imagine that they can also happen when aid agencies are official organizations

with much less experience in, and less well suited for, participatory development. What must be stressed is that the attitudes involved partake of the logic of clientelistic politics characteristic of the African continent. In the words of Chabal and Daloz, indeed, “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.

It is ultimately because they overlook the genuine nature of the links between elites and commoners, rulers and ruled in Africa that international donor agencies overestimate the capacity of the participatory approach to deliver development gains more effectively and equitably. It is for the same reason that failures of local development associations are often attributed to a poor organizational ability of communities at local level without the reader being told exactly what this means in concrete terms. Thus, for example, in the case of a failed community association for forest management in Palawan Island (Philippines), we learn that the local leader mishandled the community resource and eventually succeeded in embezzling an NGO-provided fund. It is striking that “no one had the nerve to defy” him, a fact blamed on “a lack of community capacity” (McDermott, 2001: 55).

A rush for community-based development does not only ruin the risk of creating and reinforcing an opportunistic rent-seeking elite, as argued and illustrated above, 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.

3. A mechanism to discipline local leaders

Let us consider the following three-agent decision framework. At the top is an altruistically motivated donor agency (labelled *A* below) which wants to disburse a given amount of funds. At the bottom are the grassroots (labelled *G*) who are the intended beneficiaries of this aid effort. And between the two is a local leader (labelled *L*) who tries to organize the grassroots into a group or association for the sake of securing the funds on offer. As a matter of fact, the participatory character of the program makes it mandatory that beneficiaries are

organized into a collective to be eligible for funds. In other words, the donor agency will not disburse funds unless it has received evidence that a cohesive group of intended beneficiaries exists through which these funds can be channelled. Yet, at the same time, it is ill-informed about what is happening at the level of the grassroots and this information gap is exploited by the local leader for his own benefit. More precisely, the latter can lie to the donor agency about the manner in which the funds are being disposed of, pretending that they have safely reached the grassroots while he has largely appropriated them.

What is being played between the leader and the grassroots is a one-stage bargaining game. In dealing with G , L thus has a leadership role, meaning that he has the first move: to the group of G which he has formed or helped to form, he makes a proposition about the way to share the funds offered by A . If G accepts the transfer proposed by L , they receive that amount. But if they disagree with L 's proposal, they create a situation in which both the leader and themselves have to forsake the money. Indeed, as explained above, it is in the nature of the game that A will not disburse the money unless an agreement has been struck between L and G to the effect that the former is empowered to represent the latter and act on their behalf. The prediction of economic theory in this sort of situation known as the ultimatum game is that the agent with the first move will make a proposal whereby he appropriates most of the funds on offer while the agent with the second move will accept it since getting something, however small, is always better than ending up with nothing. In the setting of a one-period interaction framework, anticipating that the local leader will embezzle most of the funds, the donor agency should then refrain from disbursing money if it has a good grasp of the game being played.

The outcome of such a game can be summarized as follows: knowing that the grassroots do not have any substantial bargaining power vis-à-vis their local leader, and expecting the latter to use his strategic advantage to misappropriate most of the aid money, the aid agency refuses to channel money through him. If in reality aid agencies do channel money through local leaders in the kind of circumstances just described, it is either because they do not have a good knowledge about the game that is played or because, in spite of their pro-poor rhetoric, their main concern is not that the grassroots benefit from most of the external funds but that such funds are disbursed anyway. The first possibility, 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 degree of altruism as a result of the leader's cunning ability to deceive them or of their own naivety.

In order to get out of this quandary, the local leader must be disciplined through an appropriate mechanism. Such a mechanism must involve the possibility of detecting embezzlements and punishing the leader in the event of a proven fraud. For punishment to be feasible, the game must be repeated, yet we know from repeated game theory that, unless some uncertainty exists regarding

the payoffs or some doubts about the rationality of other players, the inefficient outcome (the leader embezzles the funds) is as unavoidable in a finitely repeated game as in a one-period game (Kreps and Wilson, 1982; Kreps, 1990 : 536-43 ; Friedman, 1990 : 190-4). In other words, the game must have an infinite or an indeterminate duration for the desirable outcome to become a possible equilibrium.

This result does not apparently solve our problem, however. As a matter of fact, because they aim at enabling beneficiaries to become eventually self-supporting, donors typically want their aid transfers to be of limited and definite duration. Consider a donor agency which, like the one referred to in the previous section, decides to spread its aid transfers over several successive periods and to make later disbursements explicitly conditioned by proper behaviour on the part of the local leader in handling the previous tranche of aid money. The lesson from game theory is that this mechanism is of no avail. The leader will embezzle the last tranche knowing that he cannot be punished at a later stage and, anticipating such an action, the aid agency will not disburse that last tranche. The cancellation of the last tranche means that the leader cannot be sanctioned in the last round, as a result of which he is also induced to misappropriate the money of the penultimate tranche. The strategic response of the donor is to cancel that penultimate tranche as well. By backward induction, it is evident that even the first tranche will not be disbursed by the donor with the consequence that the grassroots will not get any financial support.

An obvious way out of the deadlock would consist of requiring the leader to repay the aid money if he has been caught misappropriating the aid money. Unfortunately, there are insuperable problems with such a solution since enforcing repayment from the leader is likely to prove extremely costly in the context of developing countries.

We have therefore not succeeded in escaping the deadlock with which we started. To do so necessitates that we give up the assumption of strategic rational behaviour imputed to agents by classical game theory. There is a good ground for thus departing from the common framework of repeated game theory inasmuch as the grassroots can be realistically assumed to adhere to a norm of fairness. To the extent that such a norm embodies long-term considerations in the sense of favouring the long-term interests of the grassroots, taking it into account is tantamount to transforming the game representing the leader-disciplining mechanism (LDM) from a finite to an infinite duration. In order to clarify this point, it is useful to describe in some detail a leader-disciplining mechanism representable as a two-period game. In this game, a donor agency, A , hands out two tranches of aid money to the leader, L , of a local association of villagers, G , yet the second tranche will be actually disbursed only if no fraudulent practice has been detected regarding the use of the first tranche.

The agency has to choose the manner in which the resources it wants to allocate to a particular community or group will be divided between the first and

the second tranches. There is an obvious trade-off to be confronted here. On the one hand, *A* would like to spend as much as possible during the first period because it is impatient to see the results of its intervention. Such a motive may actually arise from two different kinds of considerations. *A*'s behaviour may be guided by the desire to see the poverty of *G* alleviated as soon as possible. But *A* may also be eager to demonstrate the usefulness of its actions to the general public or the organizations (national or international) that are the ultimate purveyors of its financial resources, so as to be able to mobilize their support again in the future. On the other hand, *A* wants to defer disbursement of aid money as much as possible till the second period, since late payments serve to discipline *L*. In other words, the higher the relative amount of the second tranche the more *L* is encouraged to use the first tranche 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.

Knowing the amounts of the first and the second tranches committed by *A*, *L* chooses the manner in which the funds disbursed by *A* will be apportioned between him and *G*, both during the first and the second periods. As for *G*, they decide the minimum shares of aid money to be accrued to them in the first and second periods. If these shares are not accepted by *L*, they quit the local association, thereby signalling to *A* that *L* does not represent them. During the first period, *L*'s choice of the division rule is 'disciplined' by the risk of detection of resource misappropriation and the ensuing threat of losing access to the second tranche. As for *G*, they have no real bargaining power in this period since they remain confronted with a 'take it or leave it' choice. During the second period, a much lower share of aid money should accrue to *G* than during the first period since *L* is no more disciplined by the threat of losing access to future tranches of donated funds. According to the logic of the ultimatum game, *G* should accept a share close to zero.

This inescapable logic can however be defeated if *L* is not allowed to lower the share accrued to the grassroots between the first and the second periods. This is precisely the role that a social norm of intertemporal fairness can fulfil. It is indeed reasonable to assume that the intended beneficiaries will consider any reduction of their entitlement over time as unfair practice. To put it in another way, only an inter-temporally constant division rule will appear to them as a legitimate principle. As a consequence, 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 fair sharing serves the function of granting a genuine bargaining power to *G* during the second round. If the assumption of such a norm is deemed unreasonable, an alternative interpretation is that the grassroots think of their long-term interests while they oppose a reduction of

their entitlements over time. The idea is then that they are keen to defend their future interests because they anticipate that other games are going to be played later.

Not only are the grassroots assumed to adhere to a norm of fair sharing of the sort just described, but also to be able to perfectly enforce L 's promise to pay them the agreed share of the aid transfer once the donor agency has released the money.⁴ The latter is evidently a strong assumption. Yet, the story told in Section 2 seems to attest that enforcement was not the real problem since 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.⁵ Based on this story, we therefore assume that G are empowered enough to enforce L 's promise but not enough to actively debate the sharing rule with him. If the grassroots 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. On the other hand, if they were empowered enough in both senses, our underlying model would become inadequate since the sharing rule would be determined as the outcome of a bargaining process between L and G , and not by L only.⁶

From our assumption regarding the existence of a norm of intertemporal fairness, it is evident that our two-period game is the reduced form of an infinitely repeated game. This is also true because of another feature of the mechanism, namely the fact that A 's threat of punishing an association led by a dishonest L is not automatically credible. Indeed, such punishment carries a cost for A since the funds earmarked for a failing community-based project can be re-allocated only at a cost, whereas the community concerned would in any event obtain the share promised by L in the first period thanks to the existence of the norm of fairness. To establish links with a community and its leader(s) involves significant set-up and other transaction costs and these will have to be incurred again if a new community is to be selected in the place of a failing one. For the threat of withdrawing funds to be credible, it must therefore be the case that A derives gains, presumably long-term gains, by strictly enforcing threats in the present circumstances. Again, this assumption amounts to embedding into our mechanism long-term considerations that are played over an infinite or indeterminate period of time.

A final remark is in order. One important shortcoming of the aforementioned LDM is that not only the local leader but also the intended beneficiaries are sanctioned in the event of fraud detection. For this reason, it is not in the interest of G to report malpractices to A at the end of the first period lest they should lose any entitlement to the second tranche. (And, if we take heed of the story told in Section 2, G cannot be expected to be necessarily shocked by what appears to us as an exploitative behaviour of L). Likewise,

they have no incentive to complain about any violation of the agreed sharing rule by L during the first period.

To conceive of a mechanism that would punish the leader without sanctioning the grassroots is difficult. As has been pointed out above and illustrated in Section 2, compelling the former to return the misappropriated money is almost impossible under the conditions that prevail in many poor countries (see *supra*). And to ensure that the grassroots will have continued access to the aid flow would require the presence of an alternative local leadership through which the money could be channelled. Whether reliance on competition between several local leaders could enable aid agencies to better reach the poor is far from evident.

Local leaders could well collude and the advantage of competition would be lost. 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 possibly serious 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– seriously undermines the case for relying on intra-elite competition as a way to protect the poor’s entitlement to external assistance. In many real world circumstances, the LDM is probably a more useful mechanism.

4. Results and discussion

Using the above-discussed LDM framework, it is possible to show formally that the share of aid resources reaching the poor depends on the preference of the donor agency, on the effectiveness of its fraud detection technology, and on some characteristics of the aid institutional environment, more particularly the degree of competition among various donors.⁷ In this section, we spell out these three results in some detail and simulate their effects.

First, the more impatient the donor agency –that is, the more A discounts the benefits enjoyed by the target population during the second period–, the lower the share accruing to the grassroots and the smaller the relative amount of the second tranche. To put it in another way, rushing to help the poor is counter-productive.

Second, the less effective the technology of fraud detection the lower the share accruing to the grassroots but the larger the relative importance of the second tranche. The latter result is explained by the fact that late disbursement conditional upon good behaviour in the previous round acts as a substitute for a low-performing detection technology. Note furthermore that the satisfaction

level of the donor agency is certain to decrease when such a technology is less effective.

Third, the more difficult it is to recycle development funds, —say, because there is an intense competition between donor agencies for access to well-functioning communities—the lower the share accruing to the grassroots and the smaller the second tranche in relative terms.

In order to illustrate the effects just described, let us now use the underlying LDM model to simulate the share of aid money accruing to the poor (henceforth called s), and the share of the total aid budget disbursed in the second round (labelled g) under different sets of assumptions regarding parameter values. Results are presented in Table 1.

Table 1 : Simulations of the outcomes of the Leader-Disciplining Mechanism (LDM) under various sets of assumptions

$\varepsilon = 1$

$\mu = \eta$	s	g	π
0.5	0.37	0.84	0.40
0.4	0.34	0.77	0.44
0.3	0.31	0.70	0.48

$\varepsilon = 3$

$\mu = \eta$	s	g	π
0.7	0.61	0.73	0.46
0.6	0.58	0.63	0.53
0.5	0.55	0.54	0.62
0.3	0.50	0.44	0.75

$\varepsilon = 8$

$\mu = \eta$	s	g	π
0.8	0.75	0.67	0.50
0.7	0.72	0.53	0.63
0.6	0.69	0.43	0.77

For example, if (a) the level of effectiveness of the detection technology (denoted by ε) is minimum ; (b) the donor agency attaches to aid reaching the poor in the second period a weight (called μ) equal to only 40 percent of that associated with immediate relief ; and (c) only 40 percent of the aid money can be recycled in the event of fraud detection followed by withdrawal of the second tranche (a parameter denoted by η), we find that s is just about $1/3$ while g is as

high as 77 percent. The probability of fraud detection (called π) is then equal to 0.44. If the values of the parameters mentioned under (b) and (c) are raised to 0.80 instead of 0.40, and if the effectiveness of detection is eight times as high as the minimum level, the portion s works out to $\frac{3}{4}$ while g is $\frac{2}{3}$. As for the probability of detection, it rises to $\frac{1}{2}$.

Note that at equilibrium the leader unduly appropriates for himself a large share of aid money (see the second column of the table) and, as a result, there is a positive probability that fraud will be detected (see the fourth column). In the aforementioned example of a European NGO working in a Sahelian country, embezzlement has occurred and has been detected. The reaction of the grassroots to the withdrawal of aid by the funding NGO, as has been documented at the end of Section 2, is revealing of the large measure of their agreement with, or understanding for, the leader's behaviour. Informed they were, or they have become, yet knowledge about the extent and nature of the leader's misdeeds did not prevent most of them from siding with him against the alarmed NGO.

Was the latter irrational in channeling money through the leader in the first place? This is one possibility that would correspond to an out-of-equilibrium outcome of the game: the NGO was over-optimistic about the virtues of the local leader and therefore decided to back a project that was less promising than expected. Yet, there is another interpretation available that would point to a situation rationalizable as an equilibrium of the LDM game. More precisely, the NGO was ignorant neither of the nature of the game being played nor of the risk of embezzlement before engaging aid resources in the project, but it just happens that, maybe because its monitoring procedure was rather effective, it detected the leader's fraud. In this particular instance, both interpretations appear to be valid. As a matter of fact, (1°) there were varying assessments about the extent of trust that could be placed in the local leader among the different persons in charge in the NGO; and (2°) the monitoring of the project was relatively serious (the same staff person was involved in the designing and the following up of the project from the beginning and he was regularly sent to the field for the purpose of accompanying and monitoring the organizational process of, and the use of funds by, the local partner association).⁸

We have thus learned that, in the presence of a potential 'elite capture' problem, participatory development is more likely to be successfully implemented—in the sense of reaching the poor more effectively—if it is carried out by donor agencies which are patient, equipped with a good detection technology (that is, endowed with an organization well-suited for effective monitoring of on-the-ground activities), and not subject to intense competition from rival agencies. Unfortunately, the present rush for community-based development, a massive entry into the field of agencies with very little

experience in participatory approaches, as well as the pressing need for quick and visible results, especially on the part of new entrants, are ominous trends that contribute to undermine the prospects of poverty alleviation.

Clearly, competition between donor agencies may yield perverse results when they engage in participatory development. This is so not only because competition is likely to make reallocation of funds more costly in the event of project failure, but also because of the existence of careless donor agencies which do not implement the sort of two-stage, leader-disciplining mechanism discussed in Section 3. This irresponsible attitude stems either from ignorance – they do not understand the game that is being played–, or from opportunism – they have a good grasp of the game, but they are not concerned about whether the money actually 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 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.

That the existence of aid agencies with bad characteristics complicates the problem is also evident from the fact that they would undermine a multilateral reputation or sanction mechanism (MRM) of the kind documented by Greif (1989, 1994), Platteau (2000), and Aoki (2001). Operating within a repeated-game framework, donor agencies would follow the strategy, –which can be shown to be an equilibrium strategy– consisting of refusing to deal with any intermediary or local leader who has been found cheating any donor agency in the past (in any round of the two-stage mechanism of aid disbursement). Before embezzling funds, a local leader would thus be incited to think twice. As a matter of fact, he would be sanctioned not only in the short run by the agency which he has deceived, but also in the longer run by all the other agencies which would have become informed about his misdeeds.

It could be remarked that, if the MRM were duly followed by all donor agencies, they would not, in fact, need to apply the LDM any more, and aid money could be disbursed immediately in a reliable manner. In this case, however, a cheating local leader would only be punished through ostracization by other aid agencies in his future attempts to get hold of aid money. Such a punishment may not be effective enough, however, since local leaders could be quite satisfied with running away with the money stolen from one single project: the problem lies in the fact that the payoff from dishonest behaviour is so large compared to the payoff from honest behaviour that the latter cannot be induced

at equilibrium.⁹ By limiting the amount of the first tranche and threatening to cancel the second tranche in the event of fraud detection, the LDM provides a much stronger incentive to behave provided that the poor are able to use a norm of intertemporal fairness and to enforce the leader's promise in the second round. Because the budgets of many aid projects are sizeable (hence the high payoffs from embezzlement), it is therefore wrong to believe that the MRM would make these latter two conditions superfluous for the effective working of the LDM. In point of fact, the MRM would be obviously useless if all local leaders were to be content with a single act of embezzlement, which is probably too strong an assumption.

The problem with the MRM, as is well known, is that it has a considerable informational requirement: information must circulate perfectly between donor agencies to make it work. For obvious reasons, agencies which do not use conditional disbursement procedures have no incentive to pass on to other agencies information about their bitter experiences with predatory leaders. More disappointingly, even agencies concerned with detecting fraud cannot be relied upon to meet the above requirement, if only 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.). An additional difficulty arises from the fact that strategic considerations are likely to make them reluctant to share information, hence the habit of secrecy that unfortunately characterizes aid circles.

More precisely, 'good' agencies understandably fear that any revelation of a cheating case will involve not only the transaction cost of conveying news about the culprit, but also the risk of losing access to financial contributions made by the ultimate purveyors of funds (taxpayers for national and international organizations, or the general public and taxpayers for NGOs) due to competition among donor agencies for such resources. If other agencies opportunistically refrain from revealing their own cases of malfeasance, the truth-reporting agency would have incurred in vain the direct (transaction) cost of conveying the information since the benefits expected from the MRM will not be in operation. Here is a classic Prisoner's Dilemma arising from the free rider problem in the production of a public good.

The dilemma is still more vicious if the distorted information about failed partnerships with local leaders is somehow leaked out to the ultimate purveyors of aid money. This is so because the purveyors have a tendency to interpret embezzlement detection as a failure rather than as a healthy sign that effective monitoring of the use of aid money is being exercised. In these circumstances, each donor organization has an incentive to refrain from reporting its own cases of malfeasance in the hope that other agencies would candidly reveal their experiences, or for fear that, if it would convey the information, others might not have done it and would then exploit the situation in their own advantage.

It should now have become clear that, to discipline donor agencies with bad characteristics at least, there is a need for a coordinating mechanism at the level of fund purveyors. This is more easily done by centralized institutions, such as the European community or the Cooperation department of national governments, than by the scattered contributors to fund-raising campaigns organized by NGOs. One way of achieving coordination, when possible, is by introducing a rating of aid agencies that would be systematically used by the purveyors. 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 to 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).

The disbursement and monitoring procedures used by the donor agencies, as well as the duration of their participatory projects appear to provide a more convenient yardstick, provided that there is some degree of control about whether the principles are put into actual practice or are just a smokescreen. Note that self-reported cases of fraud detection could be considered as indirect evidence of the effectiveness of monitoring activities rather than as signs of failure (see *supra*). Not only are such characteristics rather easy to observe, but they also offer the advantage of not creating perverse incentives for the rated agencies.

5. Decentralized development under the aegis of the state

Resources channeled to local organizations –or to local governments for that matter– may come from national or state governments rather than from foreign donor agencies, even if part of the required resources may ultimately be provided by the latter. Note that, when aid transfers to communities are anchored in a framework of fiscal decentralization –in many low-income countries, decentralization is “primarily about providing centrally collected tax revenue to lower levels of government, rather than seeking to empower lower levels of government to collect taxes”¹⁰ (Bardhan, 2002 : 189)–, there is an endless round of disbursement periods. The situation would therefore correspond, explicitly, to an infinitely repeated game. Because this framework is now explicit, the norm of intertemporal fairness and the ability of the beneficiaries to perfectly enforce the leader’s promise need not be assumed any more: the infinite (or indeterminate) duration of the game played between the beneficiaries and the leader-intermediary is sufficient to discipline the leader.

If there are continuous interactions between L and G , the share accruing to the latter would be endogenously determined as the equilibrium outcome of such strategic interactions. If the equilibrium share thus obtained is larger than the one resulting from the LDM, then it would prevail. In the opposite case, the LDM-induced share would get established. As a countless number of equilibria exist in an infinitely repeated game, no fresh insight can be gained from theorizing this case further.

Moreover, the cost of recycling funds when a local government has been found guilty of embezzlement is low if the central government is the only source of finance for the communities (or municipalities) and the central government can easily redirect its resources following punishment of the fraudulent locality (whether punishment involves a definitive or a temporary cessation of transfers). As we know, a low cost of recycling causes local leaders or governments to be well disciplined with fortunate consequences for the ordinary citizens. Here is therefore an additional reason why, in theory, fiscal decentralization would operate effectively in favour of the poor: to the extent that the central government monopolizes the resources to be put at the disposal of local groups, it prevents competition between alternative financing sources from increasing the cost of recycling funds.¹¹

In the light of some of the evidence available, it is now interesting to examine whether ‘elite capture’ is a serious problem in decentralized development programmes and how the lessons that can be learned from such evidence can be related to our discussion of the LDM.

One of the central conclusions that we can draw from the experience of such programmes is the following: in order to curb the obnoxious influence of vested interests of local power-holders, a strong and effective central government must exist that is determined to confront the clientelism of rural areas in an environment rife with rent-seeking opportunities. Thus, Tendler’s detailed inquiry into the reasons underlying Brazil’s success in decentralization of public service from state to municipal government (in the state of Ceara in the Northeast) lays emphasis on the fact that “it had at its core a strong and new role played by central government” (Tendler, 1997: 73). More precisely, the (state) government ‘kept an iron hand’ on some crucial components of the decentralized programmes so as to substantially reduce the opportunities for mayors and local power-holders (especially large landowners) to exercise patronage. Simultaneously, it worked actively (through educational and information-spreading campaigns) to raise the hopes of rural communities about what to expect from their government. The result was a profound change in the dynamics of patronage politics as it related to public service at the local level.

That the ability of the central government to set directions and strictures regarding how programmes of decentralized development should operate locally can create much-needed constraints on rent-seeking behavior by local elites (and government workers) is also evident from the experience of Bolivia’s

Emergency Social Fund (ESF). Here, we are told that “Decentralization worked because centralization worked. The ESF centralized the appropriate things: information, negotiations with international donors, and incentive systems for ESF employees. This in turn enabled it to decentralize the design and construction of rural projects” (Klitgaard, 1997: 1965-67 –quoted from Hoddinott *et al.*, 2001: 12 ; see also Stavis, 1982-83, for Taiwan).¹²

By contrast, in Jamaica where the government does not exercise a significant measure of control over the mode of functioning of the Social Investment Fund at the local level –the Fund just screens the applications on the basis of its target criteria which mandate a focus on the poorest communities and the selection of projects within a rather flexible list of priorities–, the whole process appears to be elite-driven and decision-making to be dominated by a small group of better educated and better networked individuals (Rao and Ibanez, 2001). In Senegal (in the Petite Côte and Casamance, in particular), likewise, 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).

The experience of Kerala (a state located in the South-West of India) is especially instructive. Here is a state that embarked upon the decentralization experiment with particular boldness. It is in 1996 that the ruling left-coalition government decided to allocate 35-40% of its annual budget for new development plans to projects designed by the local bodies themselves (Véron, 2001 : 606). Furthermore, the government (the State Planning Board, more precisely) is ultimately responsible for setting the national and regional priorities under which the programme is to operate (e.g., priority to productive investments), defining the eligibility criteria, fixing the representation of various population groups or strata in the local decision-making bodies as well as their mode of operation, providing guidelines on what village reports should contain, etc. (Isaac, 1998; Isaac and Harilal, 1997; Véron, 2001).

What is remarkable about Kerala is that, following a long period of intense social struggles (starting in the 1930s) led by the Communists and an intensive literacy and conscientization campaign, the weakest sections of the rural population, especially agricultural labourers (always belonging to the lowest castes) and women, learned to articulate and express their aspirations, assert their rights, and bargain with local power-holders. The active participation of the poor and the oppressed in these struggles was facilitated by the fact that the political movement (especially in the Malabar district) was based on village-level organizations, with village- and *taluk*-level committees playing a critical role (Kannan, 1988; Ramachandran, 2000; Ramanathaiyer and MacPherson, 2000; Heller, 2000, 2001)¹³. These achievements create particularly favourable conditions for the successful implementation of a participatory approach to rural development as seems to be attested by

significant success stories (Das, 2000). As a matter of fact, it is almost a trivial observation that when the poor are strongly organized they are better able to oppose the attempts by the elite to capture the benefits of decentralization (see, e.g., Galasso and Ravallion, forthcoming).

Unfortunately, the initial conditions prevailing in Kerala were not all favourable to an effective working of decentralized development. One condition, in particular, was to prove especially damaging, namely the excessive party-politicization down to the local level, as a result of which the programme quickly became a platform for political favouritism.¹⁴ As a matter of fact, political parties have emerged as the most important intermediaries between people and the state, replacing traditional mediation channels, whether based on caste, religion, or community. In spite of elaborate objective procedures for the selection of programme beneficiaries, development activities organized through local panchayats have turned out to be a battleground used by political parties to maintain or enlarge their clientele. When a party dominates a panchayat, it thus tends to reward its sympathisers exclusively.

It is a heartening sign that such political favouritism has backfired in the last panchayat election. The main loser has indeed been the Communist Party (CPM) which was the actual protagonist of the decentralized development programme. In the last election, tickets were cynically denied “to almost all those who had worked tirelessly for the success of the people’s plan” and were largely responsible for significant achievements wherever they occurred. Revealingly, they were dedicated and courageous panchayat presidents and other office-bearers who “refused to play to the party’s diktat, particularly in the matter of the distribution of patronage” (Das, 2000: 4303). Resistance against decentralization within the CPM is partly explained by the fact that government employees, who form an important constituency of this party, actually oppose the devolution of powers to local bodies because this process has the effect of fragmenting bureaucratic prerogatives. Owing to their obstructionism, the kind of support systems and expertise envisaged at the gram, block and district panchayats under the people’s plan programme could not be provided to the extent required (ibid.: 4302).

As a consequence, the whole exercise of preparing local plans reflecting the actual needs and requirements of the people as well as fulfilling the primary objective of the programme, namely asset creation for the poor, “ultimately came to rest in the hands of people who had had no experience of the planning process” (Das, 2000: 4302), and who could easily be manipulated by local political bosses and private contractors driven by vested interests¹⁵. In so far as funds’ beneficiaries were often selected on the basis of political considerations and new project proposals were arbitrarily included just before finalization of the plan, many villagers became disillusioned with the whole process and soon started to distance themselves from the experiment. It is therefore not surprising

that absenteeism quickly rose in the gram sabhas, in sharp contrast with the initial days where “these sabhas had incredible attendance” (Das, 2000: 4302).

In terms of our LDM framework, what the aforementioned experiences suggest is that decentralized development cannot succeed unless the central government is able and willing to use an effective fraud detection mechanism to control for local-level opportunism (such as was the case in Brazil). 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). In other words, decentralization needs to be accompanied by “serious attempts to change the existing structures of power within communities and to improve opportunities for participation and voice and engaging the hitherto disadvantaged or disenfranchised in the political process” (Bardhan, 2002: 202). In some circumstances, the achievement of these objectives requires the central state to play activist roles (*ibidem*).

Finally, when decentralization is excessively politicized and favouritism and nepotism are the guiding principles of politics, such as was observed in Kerala, the LDM is also doomed to failure. 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.

6. Conclusion

We have learned from the works of Charles Tilly and others that modern, growth-promoting states in Europe have been born of the necessity of superior political authorities (typically, absolute monarchs) to bargain with their own people in order to mobilize the resources required for running the state. In particular, it is the need for reasonably strong and stable governments to solve a fiscal crisis, usually in situations dominated by armed conflicts with neighbouring countries, that has proven highly conducive to the adoption of representative institutions (Tilly, 1985, 1992 ; see also Bates and Lien, 1985; Bonney, 1991; Weiss and Hobson, 1995; Bates, 2001).

State formation processes in Third World countries are significantly different from what they were in Western Europe where a Darwinian process of inter-state military competition coupled with an intra-state process of resource mobilization for war-making purposes led to a “civilianization of government and domestic politics” (Tilly, 1992 : 206). The fact of the matter is that many

Third World states, particularly in SubSaharan Africa, “have acquired their military organization from outside, without the same internal forging of mutual constraints between rulers and ruled”. As a result, “the new states harbour powerful, unconstrained organizations that easily overshadow all other organizations within their territories... the advantages of military power become enormous, the incentives to seize power over the state as a whole by means of that advantage very strong” (Tilly, 1985 : 186).

There is a striking parallel to draw here between the problem of the state and that of rural communities in poor countries. Indeed, in the same way that European states underwent a sort of endogenous development in the way suggested above, rural communities became gradually organized under the pressure of new needs and opportunities without being able to rely on external support. By disbursing significant amounts of money too quickly, donor agencies enable local leaders to gain increasing legitimacy from the outside world rather than from their own people. Moreover, they contribute to create an unhealthy situation in which excessively high value is placed on the skills needed to relate to this world, skills which tend to be heavily concentrated in the hands of a narrow educated elite. 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 total accountability of leadership vis-a-vis the members.

The conclusion from the above, it must be stressed, is not that aid flows to developing countries ought to be curtailed. Rather, it is that they should either be directed to uses for which few perverse incentives exist, or be disbursed in more careful ways that control satisfactorily for incentive problems. The latter option, as argued in this paper, may make it desirable not only to put new coordinating mechanisms into place, but also to defer aid disbursement by rich countries. This last conclusion does not imply, however, that aid commitment should be also scaled down. It is being increasingly accepted, indeed, that pending the strengthening of the absorptive capacity of needy countries, aid money could be accumulated into trust funds controlled by multilateral institutions and released according to observable milestones related to improvements in absorptive capacity (see, e.g., Heller and Gupta, 2002). During the transitory period, it is essential that external interventions are geared towards empowering and capacity-building strategies that avoid committing financial resources. How this should be done is a complex question that lies beyond the scope of this paper.

¹ In some areas, they have been accustomed to just doing that since colonial or pre-colonial (slavery) times (see Bayart, 1989).

² Thus, 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.

³ Whereas, before, state assets were often put to private use by state officials, the same officials can now manipulate local NGOs or other types of associations to get access to cars, computers, telephones, foreign travels, and various perks.

⁴ As we shall argue in Section 4, embedding the LDM into a decentralized multilateral reputation mechanism operating between donor agencies would not, in many circumstances, enable us to dispense with these two assumptions.

⁵ That is also why we did not follow the alternative modelling strategy consisting of depicting the interaction between G and L as a principal-agent relationship (with G as the principal and L as the agent). In such a framework, indeed, G would be unable to perfectly enforce what L does and would therefore be cheated by him.

⁶ Assuming that the sharing rule resulting from such a bargaining process is large enough, the LDM would be of no avail: indeed, disciplining the local leader with the help of an external device 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 embezzlement would still occur, but the agency would not be able to do better by using a LDM.

⁷ Upon request, the reader can obtain from the authors a detailed presentation of the formal model underlying the LDM as it is being discussed here. A more complex version is also available that is discussed in a companion paper (Platteau and Gaspart, 2003).

⁸ At this stage, it is useful to note that in the above simulation exercise we have assumed that the effectiveness of the available fraud detection technology is exogenously given. This is reflected in the fact that the corresponding parameter is varied parametrically. It can be argued, however, that the effectiveness of the monitoring procedure used by the funding agency is influenced, at least partly, by the financial resources that it chooses to devote to the monitoring effort. When the problem is posed in this way, it is evident that two forces work in opposite directions and must balance out at the equilibrium level of the monitoring effort. On the one hand, the more resources A allocates to improve fraud detection the better L is being disciplined with the result that the share of the aid fund accruing to G is increased. On the other hand, the net amount of aid channelled by A to L is decreased by an amount equal to the budget spent in monitoring L 's actions.

It is possible to show that, when A is comparatively good at converting resources into fraud detection (for a given amount of monitoring expenditures, it detects fraud better than many other agencies), it will prefer to defer disbursement of the aid money and simultaneously decrease monitoring expenditures, yet only if its ability to improve fraud detection by increasing such expenditures at the margin is not too high (for more details, see Platteau and Gaspart, 2003).

⁹ We thus know of one person who embezzled almost 100 percent of the money earmarked for a grassroots project by a Western NGO, whose fraud was detected, and who re-invested the money embezzled in his political career from which he now derives a regular and comfortable income flow.

¹⁰ To put it in another way, "the focus is on public expenditure assignments, unaccompanied by any significant financial devolution" (Bardhan, 2002: 189).

¹¹ Note that, in the case where the long-term relationship between the central and the local governments implies that new programmes will be launched in the future, the threat of punishing fraudulent local powers is automatically credible. Indeed, if the threat was not carried out, a fraudulent local leader would appropriate the whole transfer in the new programme knowing, on the basis of past experience, that no sanction will be meted out to

him. On the other hand, if the repeated game consists of an indefinite series of disbursement periods within a transfer framework set once and for all, the credibility of the punishment threat would have to be based on considerations outside the model as though the game were played only once.

¹² Nevertheless, not everybody agrees that the Bolivian experience was such a success (see, e.g., Graham, 1998).

¹³ It is not surprising that, when the Communist Party (CPM) embarked upon the decentralization programme, it had undergone the strong influence of some key leaders of the KSSP (the Kerala Sastra Sahitya Parishad, –Kerala People’s Science Movement), an autonomous mass-based organization aimed at empowering the grassroots, particularly in rural areas (for more details, see Heller, 2001). As will be seen later, however, the commitment of the CPM to the programme was far from faultless, and considerations of political expediency on the part of a party with a deep-rooted tradition of centralized management may have been rather shallow, after all.

¹⁴ Politicization takes on worse forms in countries which have an authoritarian past. This certainly applies to Vietnam where most NGOs are run by state employees who may also be members of the Communist Party. Moreover, “they are growing in an incubator, and the government retains the authority to close down any groups that challenge the state’s ideological hegemony over the public sphere” (Gray, 1999: 711).

¹⁵ Thus, if the rules for representation regarding women and backward communities have been religiously adhered to, their effectiveness is seriously undermined because enough attention has not been paid to the capacity of the candidates to adequately perform their duties.

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