

How Important Is Capture?

A KEY ASSUMPTION UNDERLYING SUPPORT FOR PARTICIPATORY programs and local decentralization is that they increase the involvement of the poor and the marginalized in local decision making, thereby enhancing “voice” and reducing capture and corruption. How empirically grounded are these assumptions?

This chapter attempts to answer this question. It first examines whether the real worry should be corruption narrowly defined or more routine and legal forms of rent-seeking, including clientelism. It then reviews the evidence for elite capture in participatory programs and discusses potential implications for the inclusion and empowerment objectives of such programs. The next two sections look at the impact of democratic decentralization on the behavior of local political agents. The last section summarizes the broad lessons that emerge from the evidence.

Theorists have written a good deal on local accountability in the context of political decentralization; the body of empirical literature is also large. This chapter does not attempt to do justice to either body of research. Instead, it uses the literature somewhat selectively to frame the questions that are most relevant to understanding the “demand side” of local governance and to highlight the empirical studies that have informed this debate. Attention is confined, for the most part, to empirical studies of developing countries.

Corruption and Local Accountability

Corruption adds substantially to the cost of providing basic public goods and services . . .

. . . it can also change the incentives citizens and public officials face.

Civic engagement is often seen as key to reducing corruption.

Corruption—defined narrowly as theft, graft, and bribes—has come to be viewed as a major threat to development.¹ It adds substantially to the cost of providing basic public goods and services; dampens the redistributive objectives of poverty-reduction programs; and, perhaps worst of all, changes the incentives both citizens and public officials face. Reducing corruption through legal and financial reforms is rarely an option. Instead, most international donor organizations, notably the World Bank and the U.S. Agency for International Development (USAID), have come to see decentralization and civic engagement as an alternative route to increasing accountability in both the public and private sphere.

The view that decentralization is needed to combat corruption is not unchallenged. Some observers argue that decentralization could increase opportunities for theft, bribes, and graft.² There is also a concern that devolution could simply shift the form of rent-seeking from outright theft and graft to other, more pernicious and ostensibly legal, avenues of resource capture. In the extreme, both equity and efficiency could decline as a result, even as measured levels of corruption fall. Too sharp a focus on corruption defined narrowly can divert attention from the true welfare cost of rent-seeking under decentralized resource allocation, particularly where there are significant opportunities for capture by local elites. Bardhan (2002) and Bardhan and Mookherjee (2006a) advocate a broader view that includes all types of political corruption, in addition to theft, bribes, and graft.³ The literature on corruption is reviewed here with these concerns in mind.

Only a few studies examine the relationship between decentralized resource allocation and the level of corruption. This literature includes a series of papers using cross-country data that by and large argue that corruption tends to be lower in countries that are more decentralized, but only when local governments face “hard budget constraints” (that is, rely less on fiscal transfers from the center and more on their own revenues).⁴ For example, Estache and Sinha (1995) report a positive association between expenditure decentralization and levels of infrastructure provided by local governments, but only when both revenue generation and expenditure responsibilities are decentralized.

Fisman and Gatti (2002a, 2002b) find similar results. Using data from the United States for 1976–87, they report a positive correlation

between a state's dependence on fiscal transfers from the center and convictions for abuse of state public office (Fisman and Gatti 2002a). In a second study, based on cross-country data for 1980–95, they find a negative association between expenditure decentralization and perceived corruption (Fisman and Gatti 2002b). However, both studies are plagued with problems of potential reverse causality and unobserved heterogeneity across the units of analysis, making the results difficult to interpret.

Using roughly the same sample of countries over the same time period as Fisman and Gatti (2002b), Treisman (2007) shows that the key result in their study is sensitive to the set of controls used. The negative association between expenditure decentralization and corruption (using a range of measures of both) disappears once an additional control, the proportion of Protestants in the population, is added. Apparently, countries with more Protestants tend to be both less corrupt and more decentralized.⁵

The metric of corruption used in these studies is also problematic. For the most part, country-level corruption measures are either aggregated from corruption perception surveys or derived from country-risk analyses. Most studies that compare perception data with data on the actual incidence of corruption find that perception data correlate poorly with the actual incidence of corruption, however defined.⁶ They also find that perceptions may be sensitive to the absolute level of corruption, as measured by the number of occurrences, rather than just relative corruption levels. Thus, perceptions of corruption tend to be greater in larger countries. The relationship between perceptions of corruption and absolute and relative corruption levels weakens as levels of corruption rise. The use of perception data may therefore be more warranted in low-corruption than high-corruption settings.

More recent cross-country studies attempt to overcome some of these problems by using a more objective metric of corruption. Fan, Lin, and Treisman (2009) examine how political decentralization affects the odds of bribe extraction by corrupt officials. They attempt to rectify the problems with perception data by combining a cross-country data set on decentralization with a firm-level survey conducted in 80 countries that provides information on the experiences of firms with graft and bribes. Their results suggest that decentralization can increase opportunities for corruption when the number of tiers of public employees increases, particularly when governments are also strapped for funds and public sector

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Decentralization can increase opportunities for corruption.

employees are poorly paid and have few resources. Overall, their results suggest that as the complexity of governance structures and the number of tiers increases, as it does under decentralization, there is a danger of more uncoordinated rent-seeking and higher net levels of corruption.⁷

By and large, however, attention has moved to within-country analyses that use more carefully constructed data and objective measures of corruption. This newer body of literature also attempts to identify causal effects by focusing on specific policy shifts, such as audits, increased monitoring, a change in access to information, or variation in the political incentives of incumbents, which allow for a clearer analysis of the relationship between decentralized resource allocation and corruption.⁸

This literature has produced some important insights. Studies confirm substantial levels of graft and theft in decentralized programs (although few compare levels of corruption with and without decentralization). They also highlight the potential risks of incomplete and differential access to information. In particular, they find that opportunities for corruption are greater when some individuals or communities are less well placed to benefit from information. This literature also underscores the manifold constraints that communities—particularly those which are poorer, more remote, and more unequal—face in monitoring and sanctioning corrupt officials or service providers.

Overall, the evidence suggests that corruption tends to be higher in remote communities that have low education levels and low exposure to media—qualities that tend to be positively correlated with poverty and inequality—and that within such communities, the costs of corruption are higher for the poor. Perhaps more surprisingly, interventions from the center appear to constrain corrupt local practices—particularly when they augment citizen “voice” at the local level by increasing information on resource flows through well-publicized audits or media campaigns. On balance, therefore, there appears to be little reason to be sanguine about community-based monitoring or information provision in the absence of a strong reform-minded center, an active and independent media, and highly able communities.

Reinikka and Svensson (2004, 2005, 2007) examine the extent of corruption in the allocation of public resources for education in Uganda during the 1990s. They study a large government program that provided grants to primary schools to cover their nonwage expenditures. The program was managed by the central government but used district

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offices as distribution channels. Their measure of corruption is the difference between disbursed flows from the central government to lower tiers of government and the resources actually received by final beneficiaries. The data come from a public expenditure tracking survey.

Reinikka and Svensson (2004) show that primary schools in Uganda received only 13 percent of the grants allocated to them for nonwage expenditures; local officials and politicians captured the rest. The allocation of the amounts that did reach schools was also quite regressive. Schools in the poorest communities fared worst, obtaining significantly smaller shares of their entitlements.⁹ A benefit incidence analysis of the program, conducted in 1996 by the World Bank, found that the poorest quintile received about as much as the richest quintile. This finding highlights the difficulty of using benefit incidence analysis to understand the distributional impact of public spending when allocated expenditure rather than actual spending is used. It also highlights the potential for local capture to completely undo and even reverse the redistributive goals of poverty reduction programs.

Reinikka and Svensson (2007) examine the extent to which information on the flow of funds can restrain corruption. In response to the enormous leakage of funds found in the first public expenditure tracking survey, the central government initiated a campaign in which national newspapers, including their local language editions, began publishing the monthly transfer of capitation grants to districts. Reinikka and Svensson show that schools that were closer to newspaper outlets managed to claim a significantly larger part of their entitlement after the newspaper campaign was initiated and that head teachers in such schools were also more knowledgeable of the rules governing the grant program as well as the timing of fund release by the central government. They also find significant increases in enrollment and student learning outcomes following the information campaign (Reinikka and Svensson 2005), with much larger effects for schools located near newspaper outlets.

Bjorkman (2006) confirms these results. Using district-level data, she finds that districts that were more exposed to the newspaper campaign obtained a larger share of their allocated budget and had substantially greater increases in student test scores.

Francken, Minten, and Swinnen (2009) use a measure of corruption similar to the one Reinikka and Svensson (2005) use to examine the impact of media on the local capture of public education funds in

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Madagascar. They find very little evidence of capture in resource flows from the center, where the education bureaucracy was closely monitored, to the district. In contrast, they observe significant levels of capture at the district level, with capture increasing with distance from the center. These results point to the importance of central monitoring for accountability at the local level. The study also finds a strong negative effect of media access on corruption, with substantially larger negative effects in more educated communities, which were presumably better able to use information on budgets to monitor providers. In line with earlier findings on capture, the authors note that the misappropriation of funds was greater in districts in which the program director was a member of the local elite or had a lower level of education.

Relative to the better-off, the poor had less and worse-quality information on India's National Rural Employment Guarantee Scheme and were less likely to participate in it.

Shankar, Gaiha, and Jha (2010) highlight the risk of differential information access in their study of India's National Rural Employment Guarantee Scheme (NREGS). This targeted workfare program was launched with a nationwide effort to disseminate information through the media and through village-level meetings organized by the local government. The program has been plagued with problems of resource misappropriation, including the fudging of muster rolls, the manipulation of wages, and outright bribe-taking by local officials. Survey data reveal that the nonpoor had more and better-quality information on the program and were also more likely to participate. Better-informed participants were also more likely to obtain the full benefits of the program in terms of wages, the timing of payment, and hours worked. Poorer participants were more likely to report having paid bribes. This finding is particularly important given concerns about the level of corruption in this program.¹⁰

An intensive top-down audit reduced corruption as measured by missing expenditures . . .

. . . but it appears to have increased nepotism.

Few studies assess the relative effectiveness of bottom-up and top-down anticorruption interventions. The best study is by Olken (2007), who reports the results of a field experiment conducted in villages supported by the Kecamatan Development Program (KDP) in Indonesia, which builds local infrastructure using a community-driven development approach. The experiment assessed the relative effectiveness of community-based versus external monitoring of KDP road construction projects by inducing random variation in the mechanism by which corruption could be detected. A subset of study villages was assigned to the bottom-up intervention, in which citizens were encouraged to participate in village-level meetings at which project officials documented their expenses in relation to the use of public funds for the

construction of local roads; a second subset was assigned to the top-down intervention, in which villages were informed that road construction expenses would be closely monitored by local officials. The odds of an audit in this group were 100 percent. In the control villages, the usual process of government audit was expected; the odds of an audit were about 4 percent. The study finds that intensive top-down audits reduced missing expenditures on materials and wages by about 8 percentage points. In contrast, grassroots monitoring reduced only missing wage expenditures. Given the larger budget share of nonwage expenditures, the overall impact of community monitoring was negligible.

These results suggest that community monitoring may be constrained, for several reasons. There may be freeriding, in the sense that community members may be unwilling to monitor providers when benefits are largely nonexcludable (as they are for roads), or they may be unable to detect corruption when the activity entails technical inputs. Although the study cannot separate out these channels, the fact that villagers were able to detect missing wage payments but appear to have had a harder time knowing how much of any construction input was actually used in the road suggests that capacity constraints are likely to be at least part of the story.

Although the intensive top-down audit reduced corruption as measured by missing expenditures, it appears to have increased nepotism. Relatives of members of the implementation committee, including the village leader, were significantly more likely to be hired, suggesting the need for a broader view inclusive of all types of political corruption, in line with Bardhan and Mookherjee (2006a).

The level of resource capture that should be considered problematic is somewhat fuzzy. The pursuit of a policy designed primarily to minimize corruption may make little sense if there are other, possibly conflicting, policy goals (see Mookherjee 1997; Waller, Verdier, and Gardner 2002). The key issue, therefore, may not be whether decentralization eliminates capture but rather how large the implied efficiency and equity losses are and the extent to which they attenuate the poverty reduction agendas of development projects.

Olken's (2006) study of losses in Indonesia's subsidized rice program (Operasi Pasar Khusus [OPK]) is instructive in this regard. The program allowed eligible households to purchase up to 20 kilograms of rice a month. Roughly half of rural households were eligible to participate, and the implied subsidy was significant.¹¹ About 18 percent of the rice

went missing, and ineligible households purchased a large amount of OPK rice. Much of the corruption was concentrated in a small fraction of villages, most of which were located in the most corrupt districts.¹² One-half to two-thirds of total program benefits were lost to corruption and mistargeting, making the project welfare reducing in net terms. What is perhaps most interesting is that losses from mistargeting far outweighed losses from outright corruption.

A narrow focus on corruption may miss the larger problems of resource capture through rent-seeking and resource losses caused by poor implementation and monitoring capacity.

These results highlight the point that a focus on corruption defined narrowly as outright theft, bribes, or graft may miss the larger problems of resource capture through other, often legal, forms of rent-seeking or resource losses caused by the poor implementation and monitoring capacity of project staff or community members. This issue is examined in the sections that follow.

Participation and Resource Allocation in Induced Community-Driven Development Programs

A small number of studies have looked carefully at who participates in organizations formed by community-driven development projects. Overall, the evidence suggests that participants tend to be disproportionately from wealthier, more educated, and more politically connected households. They also tend to belong to ethnic or tribal groups that enjoy higher status. In Bolivia and Burkina Faso, wealthier households were not only more likely to be active in local associations; they also had more memberships per household. In Indonesia, poorer and less educated households tended to participate less; the wealthiest also spent less time and money on community organizations, suggesting an inverted *U*-shape in participation (Grootaert, Oh, and Swamy 2002).¹³

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Burkina Faso and Senegal reveal a similar pattern of exclusion (Arcand and Fafchamps 2012). Arcand and Fafchamps find little evidence that community organizations created by donor-sponsored projects are more inclusive than other community groups. On the contrary, they find that members of externally funded community organizations were more likely to be older and to have more land wealth.

Elite dominance is also evident in Indonesia's Second Urban Poverty Project (UPP2), which provided one-time allocations to support implementation of community development plans through access to credit, mobilization of community members, and financing of small

infrastructure. Pradhan, Rao, and Rosenberg (2009) find that groups managing fund allocation decisions were more likely to have members who were educated, affluent, politically connected, and male; while members of groups implementing funded projects, were more likely to be less affluent, less educated, and female.

In rural Pakistan, villagers who belong to community organizations supported by the Pakistan Poverty Alleviation Fund (PPAF) are far more likely to own land than villagers who do not belong (Mansuri 2012b). They are also significantly more likely to have some schooling and to belong to households that are connected to traditional village leaders and local politicians. On average, community organization members have twice as much land as nonmembers and almost one additional year of schooling. However, village characteristics matter. In villages with a larger fraction of household heads with some schooling, landlessness is less of a barrier to community organization membership. Conversely, in more unequal villages, lower-caste households are less likely to belong to a community organization, although this discouragement effect is dampened as the proportion of low-caste households in the village rises.¹⁴

One explanation for elite dominance in participatory bodies may be that members of a society who are well endowed, whether in wealth or ability, may be the only ones who possess the requisite resources, capabilities, and leisure to represent their community's interests. Educated community members may also be best placed to articulate community demands with external actors and facilitate the application procedures projects require. Better-educated people may also be more altruistic as leaders and thus less likely to engage in resource misappropriation of all types. On the other hand, the most disadvantaged may be least able to spare the time or resources needed for participatory decision making. They may also be least equipped to deal with its technical demands. In sum, the mere fact that participants at the community level are from the elite may not be sufficient evidence of capture: by virtue of their education, exposure, networks, and greater leisure time, members of the elite may have both the ability and the willingness to effectively represent the community.

These findings raise several important questions. Does the identity of participants in community-based organizations affect the allocation of resources for intended beneficiaries? Can participatory programs serve their empowerment and inclusion objectives if participation itself

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. . . and higher in communities with above-average levels of education.

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is not democratized? These questions are particularly important if not all spending on public goods and services benefits the poor equally. Investments in primary schooling, basic health facilities, and safe drinking water are likely to yield larger benefits for poorer households than investments in higher education and hospitals. Investments in public irrigation systems may be even more exclusionary, because only people who own land may be well placed to benefit from higher productivity and higher land values.

In Jamaica, better-educated and better-networked people were more likely to obtain projects that matched their preferences.

The first set of studies examined looks at the extent to which community level projects funded by social funds or community-driven development programs are well aligned with the stated priorities of the poor or other disadvantaged groups, including women. Rao and Ibanez (2005) look at this issue using retrospective data from survey respondents in communities funded by the Jamaica Social Investment Fund. They find that the match between the projects funded and the preferences of community members was poor overall. In only two of the five communities studied did the project match the preferences of a majority in the community. Overall, better-educated and better-networked people were more likely to obtain projects that matched their preferences. Some 80 percent of respondents nevertheless reported satisfaction with the project. The authors argue that this high level of satisfaction may reflect “benevolent” capture, in which the elite are best informed about true community needs, feasible projects, or both and act altruistically to obtain benefits for their communities.

Dasgupta and Beard (2007) find similar results in their study of the performance of community development boards in Indonesia’s Urban Poverty Project (UPP). Communities were selected for this case study in part because they had high levels of social cohesion, as measured by the authors. The authors find that community development boards that were dominated by elite groups delivered more benefits to the poor, who fared much worse under apparently more egalitarian community development boards. Based on their findings, they argue that elite control over local decision making must be distinguished from elite capture.

Other researchers argue that even when it induces no change in selected projects, the deliberative process creates a sense of satisfaction and legitimacy, because people like to be consulted, even when the consultative process does not yield a change in resource allocation.¹⁵ Olken (2007) examines whether observed project choice in Indonesia reflects, in part, the underlying participatory mechanism adopted by

the KDP program. To test this hypothesis, he randomized the final project selection method across villages. In one group, projects were selected publicly, at a village meeting; in the other, they were chosen by secret ballot. The list of proposed projects was subject to an earlier process of selection about which little is known, except that village elites were in attendance during their selection. The study finds no impact of the political mechanism on project choice, despite high turnout in the election and sparse attendance at the village meeting, which attracted mainly the village and supra-village elite.

However, the election mechanism increased satisfaction with the proposed project, even though there was no change in the project selected. Olken argues that this finding may indicate a preference for greater participation; specifically more equitable participation may have a normative aspect, creating greater satisfaction as well as greater “buy-in” for the policies and choices adopted regardless of the impact on substantive outcomes. A potential problem with this interpretation is that given the balloting process, village residents would also have needed more information *ex ante* on the set of projects proposed in order to vote on them. The study cannot separately identify the potential impact of information and voting on satisfaction. What it does indicate is that a considerable level of exclusion is possible in the type of deliberative process that community-driven development projects typically employ. In this case, village and supra-village elites dominated the initial process of selecting the menu of projects on which the rest of the community could vote.

These limitations notwithstanding, this set of studies suggests that evidence of elite influence need not indicate malevolent intent. For one thing, the preferences of nonelite groups could change as a result of community deliberation over the use of funds, particularly if they are initially less informed about the feasibility or potential benefits of specific projects. If this is the case, what appears to be capture could well reflect a more altruistic or benevolent process, with local elites taking the lead in advocating for public goods that the community most needs and acting as intermediaries between the implementing agency and the beneficiary community. Some observers argue that this is indeed what often happens. The projects finally selected are often the projects that best serve the needs of the most disadvantaged in the community, even though they were not initially proposed by them. White (2002) notes, for example, that the disproportionate number of schools and health facilities funded by social funds reflects the preferences of the “prime

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Community facilitators' preferences may heavily influence the deliberation process.

movers” behind these projects, who are often school teachers or health workers.

Platteau and Gaspart (2003), among others, take a very different position. They argue that any assessment that elicits community preferences ex post may not reveal much about the extent of elite capture or corruption in the use of funds, because poor villagers may be unable or unwilling to express reservations about the funded project, or the role of the elite, for fear of repercussions or loss of resources. They suggest that community facilitators often play an influential role in the process of project selection, that facilitator preferences are likely to heavily influence the deliberation process, and that it is these preferences, as much as the preferences of prime movers within the community, that are reflected in project proposals (see also Murphy 1990; Mohan and Stokke 2000).

Separating these issues is difficult in practice. Doing so requires data on the projects specific groups or individuals prefer before and after any deliberative process; the facilitation and deliberation process within communities; the preferences of facilitators; the location of projects, proposed and selected; and the identity of beneficiaries. In practice, the data collected on preferences, process, project location, and beneficiaries tend to be fairly coarse. Most studies ask questions about the top three needs of the community or its main problems, without reference to a budget; the expected cost share for beneficiaries; or, most critically, project location. Survey respondents may thus state that upgrading roads or drinking water sources in the community is a priority, but it is unclear which road or drinking water source they wish to upgrade. It is rarely the case, however, that a “community” inhabits an area small and cohesive enough to allow everyone to benefit equally from all infrastructure investments. In most cases, roads, drinking water schemes, and irrigation channels are provided to specific neighborhoods or habitations, and location determines who benefits. Data on the nature of the facilitation process or its role in modifying or shaping preferences are even rarer.

In line with the concerns of critics like Platteau and Gaspart (2003), recent experimental work by Humphreys, Masters, and Sandbu (2006) finds that facilitator preferences significantly predict the choices of participants in consultative meetings. They use data from a national forum held in São Tomé and Príncipe to discuss policy issues related to the use of newly discovered oil reserves. About 5 percent of the adult population attended small group meetings, whose leaders were randomly assigned.

Groups led by women were more likely than groups led by men to prioritize investments in local health clinics over hospitals. Unlike groups led by men, they also preferred investments in improving transportation services rather than investments in improving roads and expanding road networks. They were also more likely to accept higher taxation of windfall earnings and to opt for saving rather than spending windfalls. Furthermore, groups led by older adults were more likely than groups led by younger people to emphasize health as a national priority and to favor commercial transport over passenger transport and better roads over public transportation services. Meetings led by women and older people also reached much higher levels of consensus than meetings led by men and younger people.

The only published study that has collected *ex ante* preference data for public good projects is Labonne and Chase (2009). They find substantial evidence of capture by local leaders at the project proposal stage but only in more unequal villages with a less politically active population. Local leaders in such villages, they find, exercise greater influence over resource allocation at meetings at the supra-village level, where proposed projects are approved.

Gugerty and Kremer (2008) take a different approach. They look at the impact of a participatory agricultural project in rural Kenya on group membership and agricultural productivity. The project provided leadership training and agricultural inputs to small self-help organizations, most of whose members were poor women with little education. The project spent \$674 per group, or an average of \$34 per member, half of which was allocated to agricultural inputs, which were provided to the group as a whole. As the typical comparison group had \$243 in assets before the project started, this spending represented a large increase in the group's capital stock.¹⁶ The study finds that the groups selected for the intervention were far more likely to attract new members and that new members were also likely to be more educated, to have formal sector income, and to take over group leadership positions.¹⁷ Moreover, although exit rates were similar in program and comparison groups, more members left the program groups because of intragroup conflicts. Older female members, who were among the most vulnerable, were also disproportionately more likely to leave.

In sum, the program appears to have unleashed a process in which group membership and leadership moved into the hands of younger and better-educated women. It also induced the entry of more men and

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more efforts on the part of government officials to build links to the groups. However, despite the large injection of funds, the project yielded unimpressive gains in agricultural productivity. The authors conjecture that a rapid increase in resources may serve only to increase exclusion.

In a somewhat similar vein, Mansuri (2012a) compares the distribution of beneficiaries of village level infrastructure projects built by a participatory program and projects built by government line departments in the same villages and at comparable size and cost (see chapter 5 for a fuller discussion of this study). She finds that benefits from the participatory project were no better distributed than benefits from the relevant government project and that the share of the landless, the poor, and people from low castes was far below their population share in both cases. Moreover, investment in the most excludable schemes—irrigation channels—tended to be the least pro-poor. Beneficiaries were also far more likely to be members of a community organization, and as discussed above, members of community organizations were far more likely to be drawn from people with land wealth, education, or political networks.

Local inequality may reduce the odds that a community selects a pro-poor project.

Another way to assess whether capture is benevolent is to determine whether community characteristics affect the allocation of resources. Araujo and others (2008) assess the relationship between community inequality and the odds of selecting a more pro-poor excludable project in Ecuador's social fund. They find that local inequality significantly reduced the odds that a community selected a pro-poor project. They also find that the impact of inequality on project choice was amplified in communities that had a larger share of indigenous households, suggesting that ethno-linguistic heterogeneity can exacerbate capture by local elites.¹⁸

Community inequality can reduce access to private transfers.

Community inequality can also reduce access to private transfers. Galasso and Ravallion (2005) find that greater land inequality significantly worsened targeting in the program in Bangladesh that they studied. They also find that targeting was less effective in remote and isolated villages. Bardhan, Mookherjee and Torrado (2010) find that villages with greater land inequality allocate a significantly smaller share of private benefits to scheduled castes and tribes. Shankar, Gaiha, and Jha (2010) find that poor and low-caste households are considerably less likely to participate in the National Rural Employment Guarantee Scheme (NREGS) program in Indian villages with greater wealth inequality.

Conning and Kevane (2002) identify some of these patterns in a review of community-based targeting that focuses on the tradeoff between better information and local capture. They conclude that communities are more effective than outside agencies in targeting programs to the poor only when they are relatively egalitarian, have open and transparent systems of decision making, and establish clear rules for determining who is poor. Communities with a low capacity to mobilize information and monitor disbursements are more vulnerable to corruption and capture by elites, as are more heterogeneous communities, where multiple and conflicting identities can create competing incentives.

In sum, context matters a great deal in the degree to which participatory programs achieve their inclusion objectives, as do the specifics of program design and implementation. Overall, however, poorer, less educated, and more marginalized groups tend to participate less, as do women of all socioeconomic backgrounds. Higher average literacy levels are almost uniformly beneficial for pro-poor participation, and wealth inequality and remoteness of location tend to reduce participation by the poor.

Participation also affects the allocation of resources. A reasonable amount of evidence shows that elite domination of the participatory process is not without consequence and should not be routinely viewed as benign. What does appear to be the case, however, is that a well-articulated deliberative process may build legitimacy for the resource allocation decisions made by the elite even when they are not apparently well aligned with the initial preferences of the poor. The evidence here is thin, however; much more is needed in order to draw any sensible conclusion.

There is also some evidence that an increase in external funding can displace the most vulnerable people by inducing greater participation by the more educated, wealthy, and young. This finding is consistent with the case several critics make that short-duration donor-funded projects can create conditions under which program implementers have strong incentives to rapidly mobilize communities in order to disburse project funds. As doing so is easier in relatively developed and accessible localities, programs tend to focus on them and on the relatively well placed and influential within them. This finding resonates with the worry that co-financing requirements and competition for access to project funds—common features in many participatory projects—can

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encourage disproportionate participation by people in a position to contribute or with a greater capacity to propose viable projects (see the discussion in chapter 5). Program design may therefore matter a good deal.

Participation and Resource Allocation under Decentralization

Democratic decentralization may limit outright capture . . .

. . . but insofar as it increases opportunities for clientelism, the consequences for development can be equally negative.

A significant body of theoretical literature suggests that political elites may be just as likely as traditional elite groups to engage in rent-seeking behavior, including the use of public resources to woo particular constituencies in order to gain electoral advantage (see, for example, Cox and McCubbins 1986; Persson and Tabellini 2000). It is important in this context to understand the distinction between outright corruption and clientelism. Democratic decentralization may limit outright capture, but insofar as it increases opportunities for clientelism, the consequences for development can be equally negative, as discussed in chapter 3. Clientelism can lead to the unequal treatment of the equally deserving, exacerbating inequality and causing resources to be used inefficiently as a result of the prioritization of short-term political gains.

How important clientelism and capture are is, of course, an empirical question. One way to assess their importance is to check whether electoral results predict future resource allocations or past allocations predict future electoral results. Several studies confirm such patterns. Following the 1994 elections in Brazil, federal deputies allocated more resources for local public goods to municipalities in which they had received the greatest number of votes. Looking at the allocation of public works from 1996 to 1999, Finan (2004) finds that a 10 percent increase in vote shares for a candidate in the previous election, implied an expected increase of R\$75,174 in public works for a municipality during the electoral cycle. Miguel and Zaidi (2003) find that administrative districts in Ghana in which the ruling party won all parliamentary seats in the 1996 election received 27 percent more school funding in 1998–99. Bratton and van de Walle (1997) cite several cases in Africa where state resources were used to reward faithful supporters. They note that by “electively distributing favors and material benefits to loyal followers who are not citizens of the polity so much as the ruler’s clients,” rulers often ensure the political stability of their regime and personal political survival.

De Janvry, Nakagawa, and Sadoulet (2009) test this hypothesis using electoral data from Zambia. They match local election results in 1998, 2001, and 2006 with ward-level data on resource allocation under three social fund programs (CRP I, CRP II, and ZAMSIF). They examine whether the percentage of votes received by the majority party's candidate for the district council influenced the allocation of project resources in the ward and whether past allocations to a ward affected the political fortunes of incumbents. On the first question, they find that in highly decentralized districts, a 10 percent increase in the majority party's share of the vote was associated with a 32 percent increase in per capita resources in the ward. Interestingly, the increase occurred only in wards with high literacy rates. They also find that incumbents were rewarded for higher per capita budgets: a doubling of the allocated per capita budget in the three years preceding an election increased an incumbent's odds of reelection by 4–5 percent. This effect is large, given that only 24 percent of the wards in subject districts received a project and that 39 percent elected a councilor from the incumbent district majority. The authors find no evidence of a trade-off between pro-poor program targeting and the political use of public resources, however, as the poorest wards were both more likely to be funded and more likely to vote for the district majority party.

Schady (2000) finds that expenditures on projects funded by the Peruvian social fund FONCODES increased significantly before national elections over the period 1991–95. Projects were also more likely to be directed at poorer provinces, which returned smaller shares of votes for the incumbent president in the previous election. He suggests that funding decisions were made on the basis of both political and poverty criteria.

In Mexico, municipal-level expenditures by PROGRESA–Oportunidades, a national conditional cash transfer program, increased the incumbent party's share of the vote by about 4.3 percent (Rodríguez-Chamussy 2009). This effect was particularly strong when the Partido de la Revolución Democrática (PRD) was the incumbent party. Incumbent opposition party mayors also benefitted, however, presumably by successfully claiming some credit for benefits delivered to their constituents.

Manacorda, Miguel, and Vigorito (2011) study a large government-initiated poverty reduction program in Uruguay. They find that program beneficiaries were 21–28 percent more likely to support the current government than nonbeneficiaries.

Expenditures on projects funded by the Peruvian social fund increased significantly before national elections.

Camacho and Conover (2011) examine the targeting performance of a poverty score card issued by the Colombian government to determine eligibility for a wide range of programs, including unemployment benefits, housing improvement grants, food aid for the elderly, educational subsidies, and a publicly provided health insurance program. The central government designed the scoring system but allowed municipalities discretion over the administration and timing of the door-to-door interviews. The authors find sharp discontinuities in the score, precisely at the eligibility threshold of 47. They find that in municipalities in which a relatively high proportion of families had identical interview answers, an overwhelming number with identical answers obtained scores below 47. Scores calculated using the disaggregated data largely agree with the assigned scores, suggesting that the manipulation occurred mainly through the recording of fake answers at the local level rather than an overwriting of the score at a later point. This evidence of local manipulation is strengthened by their finding that the sharp discontinuity in the score density emerged only after the score algorithm was released to municipal officials and households became aware that eligibility was based on the score. In fact, 91 percent of families with suspicious scores were interviewed after 1997, when the score algorithm became well known to municipal officials. The authors also find a larger discontinuity at the poverty threshold in more competitive elections, where additional votes were more valuable.

In India, villagers who belonged to the political party of the leader of the *gram panchayat* were more likely to receive Below Poverty Line (BPL) cards, regardless of their economic and social status.

Several studies from India find a similar pattern. Using data from four Indian states, Markussen (2006) finds that villagers who belong to the political party of the leader (*pradhan*) of the *gram panchayat* (village council) were 32 percent more likely to receive Below Poverty Line (BPL) cards intended for the poor, regardless of their economic and social status. A more nuanced finding concerns the interplay between land inequality and electoral accountability. Membership in the *pradhan's* party increased the likelihood of receiving benefits only in *gram panchayats* in which land inequality was above a certain threshold.

Besley, Pande, and Rao (2005, 2007) show that the households of *pradhans* and other *gram panchayat* leaders are significantly more likely to be assigned BPL cards. In their study, this tendency was substantially muted in villages with higher historical literacy rates. In these villages, the landless and illiterate were also more likely to attend *gram sabha* (village assembly) meetings. *Gram sabhas* are expected to be held at least once a year; several public programs rely on these meetings to generate

beneficiary lists. The benefits of higher village literacy did not extend to women, however.

Bardhan and Mookherjee (2006b) find that poverty, land inequality, and the fraction of low-caste households substantially increases capture in the allocation of resources by local governments for public goods. Local governments in West Bengal, India, selected projects that generated less employment for the poor in villages in which a larger fraction of the population was poor or low caste and land was more unequally distributed. They find much less evidence of capture in the allocation of private transfers—mainly credit and the supply of agricultural inputs—distributed by the government, although here, too, the share of the poor was smaller in more unequal villages and villages with larger shares of low-caste households.

Research also points to the significance of legislative malapportionment on the allocation of resources at the local level and the performance of local governments under decentralization. Malapportionment occurs when there is a discrepancy between the share of legislative seats held by a geographical unit and its population share, so that some votes count more than others in legislative decision making at the center. Samuels and Snyder (2001) argue that some malapportionment may be necessary in the transition to democracy at the local level in order to appease antidemocratic elites, who demand that their privileges be protected. Malapportionment may therefore be more important in rural areas with entrenched local elites and significant wealth inequality or in areas with a history of ethnic or linguistic conflict. The authors find that the overrepresentation of rural districts and counties seems to be typical in emerging democracies. In Latin America, for example, malapportionment tends to favor conservative rural districts at the expense of more urban or politically progressive districts.

Ansola-behere, Gerber, and Snyder (2002) show that counties in the United States that were overrepresented relative to their populations received relatively more per capita transfers from the state before the court order mandating redistricting in the 1960s. Following redistricting, these inequities were largely eliminated, as almost \$7 billion a year moved from formerly overrepresented to formerly underrepresented counties.

One implication of malapportionment is that central governments that rely on overrepresented, nondemocratic localities to secure national legislative majorities may also tend to tolerate subnational authoritarian

Poverty, land inequality, and the fraction of low-caste households substantially increased capture in the allocation of resources by local governments for public goods in West Bengal.

Central governments that rely on nondemocratic localities to secure national legislative majorities may also tolerate subnational authoritarian enclaves and be unresponsive to efforts to reform local politics.

Bolivia's decentralization process doubled the share of national tax revenues devolved to municipalities . . .

. . . and required that resources be allocated strictly on a per capita basis.

enclaves and be unresponsive to efforts to reform local politics.¹⁹ Emerging democracies will then tend to undergo a period in which democracy is simultaneously strengthened at the center and undermined at the local level.

Several political theorists have noted a relationship between political and economic liberalization at the national level and the maintenance of authoritarian regimes at the subnational level (see, for example, O'Donnell 1993; Fox 1994; Snyder 1999). There is very little empirical evidence from developing countries on whether legislative malapportionment protects authoritarian enclaves at the local level.

Faguet (2004) provides some evidence on how an effort to reduce malapportionment in the resource allocation process can help improve local accountability in a developing country. In Bolivia, the decentralization process not only doubled the share of national tax revenues devolved to municipalities, it also required that resources be allocated strictly on a per capita basis—which limited ad hoc and clientelistic resource assignment. At the same time, a redistricting effort created 198 new municipalities (64 percent of the total) and expanded existing municipalities to include suburbs and surrounding rural areas. Together, these changes led to a massive shift of resources in favor of smaller and poorer districts in which the largest beneficiaries were districts with the worst demographic indicators and the poorest infrastructure endowment. Before decentralization, Bolivia's three largest cities received 86 percent of all devolved funds; the remaining 14 percent was divided among 308 municipalities. After decentralization, these shares were reversed, with the three largest cities receiving just 27 percent of devolved funds.

Using data on political, institutional, administrative, and governance indicators for all 311 Bolivian municipalities over the period 1987–96, Faguet shows that decentralization shifted public investment toward significantly higher investments in human capital and social services and that the reallocation was well aligned with local needs. Education investments were higher in areas with lower literacy; water and sanitation investments were higher in areas with lower water and sewerage connection rates; and investments in water management and agriculture were higher in areas at greater risk of malnutrition. This alignment of investments with local needs was driven in large part by the 250 smallest and poorest municipalities. Popular participation in local governments was formalized through local oversight committees (*comités de*

vigilancia), which were empowered to exercise oversight over municipal allocations of “popular participation funds” and to freeze disbursements to local governments that misused funds.

De Janvry, Nakagawa, and Sadoulet (2009) also find a shift in resource allocation with decentralization. They look at the allocation of the Zambia social fund (ZAMSIF) across districts that vary in the discretion they can exercise in the allocation of these resources. They find greater diversity in funded projects in more decentralized districts, as well as a shift toward income-generating projects as opposed to broad public goods, such as education, health, and water supply/sanitation. However, the increased investments appeared to benefit the poor, and there was an overall shift of resources in favor of the poorest wards.

Can Electoral Incentives Reduce Rent-Seeking?

Ultimately, of course, the question of interest is whether a shift toward democracy at the local level reduces capture on balance. There is very little good evidence on this issue. What there is suggests that local democracy has the potential to mitigate capture, albeit not always most efficiently, and that electoral rules such as term limits, the political context in which decentralization occurs, and the ability of the center to oversee resource allocation at the local level matter a great deal.

Foster and Rosenzweig (2004) develop a model of two-party democracy in which local governments need to allocate the public budget across three types of goods: a public good (roads) that disproportionately benefits the poor, by raising wages; a club good (irrigation facilities) that disproportionately benefits landowners; and a neutral public good (schools). The model establishes that an increase in the share of landless households should lead to larger investments in road construction under a democratic regime relative to a regime that specifically favors the local elite. Using data from 250 villages in rural India, Foster and Rosenzweig show that an increase in the population weight of the poor induces resource allocations that favor the poor. Their evidence suggests that public irrigation investment crowds out private irrigation investment, so that the shift toward more pro-poor public goods also implies a net gain in total output.

Political economy agency models, such as those by Barro (1973) and Ferejohn (1986), predict that incumbent politicians will refrain from

There is little good evidence on whether a shift toward democracy at the local level reduces capture.

maximizing rent extraction in their first term in order to get reelected and enjoy future rents. Persuasive empirical evidence that this is indeed the case has emerged based on term limits of U.S. state governors. Besley and Case (1995) show that governors eligible for reelection were significantly more likely to reduce taxes and expenditures than governors not facing reelection.

List and Sturm (2006) show that electoral rules affect even secondary policies, such as environmental protection. They find that environmental spending is higher when governors are eligible for reelection and that the spending gap between eligible and final-term governors increases in states with a large pro-environmental population.

Results from Brazil suggest that electoral rules that enhance political accountability play a crucial role in constraining corrupt behavior.

Evidence on the relationship between term limits and political incentives has also started to emerge for developing countries. Ferraz and Finan (2011) look at mayoral elections in Brazilian municipalities. Using data from the 2003 audits conducted by the Brazilian central government, they examine the allocation of federal resources by local governments. Municipalities were selected by lottery for an audit each month; audit reports were made available on the Internet and sent to all levels of government about two months after completion. Ferraz and Finan find that the share of total audited resources that was misappropriated was 27 percent larger in municipalities with second-term mayors, who did not have reelection incentives because of term limits, and that the effects were more pronounced in municipalities with less access to information and in municipalities in which the likelihood of judicial punishment was lower. Overall, their findings suggest that electoral rules that enhance political accountability play a crucial role in constraining corrupt behavior. Assuming that in the absence of reelection incentives, first-term mayors would behave like second-term mayors, they estimate that reelection incentives reduced the misappropriation of resources by about \$160 million.

De Janvry, Finan, and Sadoulet (forthcoming) provide additional evidence of the impact of term limits on the performance of mayors in Brazilian municipal elections. They focus on the impact of term limits on the effectiveness of the Bolsa Escola program on student dropout rates.²⁰ The authors find that municipalities governed by a first-term mayor eligible for reelection had an additional 2 percentage point reduction in the dropout rate, which represented a 36 percent improvement in program performance compared with municipalities governed by a second-term mayor not eligible for reelection. Once the potential

selection of children into the program is accounted for, the reduction in dropout rates is about 8 percentage points, representing a decline of 52 percent relative to the preprogram dropout rate of 15 percent.²¹ Various robustness checks validate these results. The authors also find some evidence for heterogeneity in program impact. Wealthier municipalities generally do better, but so do municipalities that have more open and competitive electoral practices, which display less evidence of nepotism and administrative politicization.

De Janvry, Finan, and Sadoulet attempt to understand the channel through which mayoral effort translates into lower dropout rates by looking at differences in program implementation.²² Their findings indicate that first-term mayors were somewhat more likely to rely on the registration of children through schools and to involve social councils in various ways in implementing the program. In contrast, second-term mayors were somewhat more likely to register children in the mayor's office and to send program coordinators to the homes of children who did not comply with the program's attendance requirements. The authors argue that in-school registration of children is more transparent and indicates higher levels of effort. One could argue the opposite—that in-school registration could favor the inclusion of lower-risk (and potentially better-off) children, whereas registration through the mayor's office, along with follow-up through program coordinators, may induce more noncompliers to openly drop out. If this is the case, dropout rates could be higher for second-term mayors precisely because they select poorer and riskier children and enforce the conditionality stipulated by the program, whereas reelection incentives may make first-term mayors more likely to engage in clientelistic behavior, as Khemani and Wane (2008) argue, than to deliver higher-quality public services. Disentangling these effects requires data on the child's household characteristics and compliance with the program.

The reelection incentives of local politicians, including the need to reward supporters, can also influence resource allocation in participatory development projects. Arcand and Bassole (2008), for example, show that, on average, the village of the *Conseil Rural* (rural council) president was 18.5 percent more likely to receive funding for a subproject under the Programme National d'Infrastructures Rurales, a large community-driven development program in Senegal. Baird, McIntosh, and Özler (2009) find that wards and districts in which elected representatives were not from the ruling party generated fewer applications

for projects funded by Tanzania's Social Action Fund (TASAF), suggesting the use of decentralized project resources to build support for the incumbent party.²³ Case (2001) finds that block grants provided by the Albanian social assistance program were distributed across communities in a manner consistent with the core-supporter model.

Several recent studies examine the restraining effect of election incentives on corruption in local governments. Ferraz and Finan (2008) examine whether access to information on the corrupt practices of local politicians affects voter behavior by comparing municipalities in Brazil that were randomly audited before the elections with municipalities that were audited after the elections. They find that the disclosure of audit reports had a significant impact on the reelection rates of corrupt mayors and that exposure to media was important, with larger effects in municipalities with radio stations.

Henderson and Kuncoro (2011) find that Indonesia's move toward decentralized local governance in 2001 decreased the level of corruption as measured by the reported bribes paid by firms to government line departments for activities under local control. The extent of the reduction was greater in districts where Islamic (rather than secular) parties, whose local platforms emphasized anticorruption policies, were elected in 2001. The authors see this evidence as pointing to the importance of corruption as a political issue in the selection of local leaders and indicative of the potential for democracy at the local level to constrain corruption.

When localities are largely dependent on fiscal transfers from the center, the central government can use devices such as audits to control local political selection.

Brollo (2009) focuses on the political opportunity that the audits of local government can provide to the central government. This study reveals that much of the observed impact on the reelection odds of incumbent mayors in Brazil occurs because the central government uses audit reports to strategically reward and punish allies and competitors. Brollo finds that municipalities in which two or more instances of corruption were found received smaller transfers from the center, but corrupt mayors who were affiliated with the president's political party were actually compensated with larger transfers in order to avoid future political losses caused by any reputational effects. In contrast, pure reputation effects dominated only when information was released close to the election. This finding suggests that when localities are largely dependent on fiscal transfers from the center, as Brazilian municipalities are, the central government can use devices such as audits to control local political selection. It also suggests that voters may care far more

about the delivery of public goods and transfers than about the extent to which politicians, who are able to deliver these services, are corrupt.

Bobonis, Camara-Fuertes, and Schwabe (2011) examine whether the public disclosure of information about political corruption affects the re-election odds and future behavior of politicians. They find that audits do little to reduce corruption but can be instrumental in improving the odds of re-election. Using data on publicly released audits of municipal governments in Puerto Rico, they find that audited levels of corruption in municipalities that were audited before the previous election and municipalities that were not are similar. However, mayors were able to translate the reputational gain provided by a good audit into higher odds of reelection and higher levels of rent-seeking in future periods.

Litschig and Zamboni (2007) and Di Tella and Schargrodsy (2003) focus on the impact of judicial institutions and “corruption crackdowns” on resource misappropriation and fiscal mismanagement. These studies point to the importance of mechanisms other than electoral and social accountability for improving governance.

Litschig and Zamboni (2007) exploit exogenous variation in the location of state judiciary branches to assess the impact of judicial institutions on corruption by civil servants in local governments in Brazil.²⁴ Using audit data to construct an estimate of offenses per civil servant in counties, with and without state judiciary branches, they find that offenses per civil servant were about 35 percent lower in counties with a branch of the judiciary.²⁵

Di Tella and Schargrodsy (2003) study the price paid for basic inputs during a crackdown on corruption in public hospitals in Buenos Aires in 1996–97. The crackdown was conducted by a newly elected city government, which collected and compared prices paid by all public hospitals for a set of homogenous basic inputs for which quality differences should not have been a concern. The authors find that the prices paid by hospitals for basic inputs fell about 18 percent during the first six months of the crackdown. Although there was some increase afterward, prices remained significantly below the pre-crackdown phase nine months later. The longer-term effects were larger when procurement officers were better paid.

These studies suggest that institutions at the local level cannot substitute for weak and corrupt formal institutions of accountability. Instead, local oversight over the use and management of public resources is likely

Mechanisms other than electoral and social accountability, such as judicial reforms, are important for improving governance.

In Buenos Aires, the prices public hospitals paid for basic inputs fell about 18 percent during the first six months of a crackdown on corruption.

to be effective only when other institutions of accountability, including institutions at the center, function well and communities have the relevant information and the capacity to sanction lax or corrupt providers and others in charge of public resources.²⁶ In addition, broader reforms that enhance judicial oversight, allow for independent audit agencies, and protect and promote the right to information and a free media appear to be necessary for effective local oversight.

Conclusions

The literature on decentralization identifies a central trade-off between the advantages of local information and the hazards of local capture. The evidence reviewed in this chapter indicates that in many cases, the hazards of local capture can outweigh the benefits of local information.

In the majority of cases, participants in community-driven development projects belong to the elite, whose preferences are often reflected in the resource allocation process. The extent to which their dominance distorts the poverty reduction intent of decentralized public programs depends on the extent to which elite dominance can be construed as capture. Community characteristics—including inequalities of wealth and political power, geographic isolation, and ethnic heterogeneity—appear to play a decisive role in this regard. Malevolent forms of capture are more likely in communities with greater wealth inequality, communities that are isolated or poor and communities in which caste, race, and gender disparities are important and are embedded in a hierarchical structure which valorizes particular groups.

Participatory programs attempt to deal with these concerns by using local facilitators to build community capacity. However, little is known about the facilitation process, the training received by facilitators, or the incentive structures they face. There is also little evidence of any self-correcting mechanism through which community engagement counteracts the potential capture of public resources. Instead, the bulk of the evidence suggests that the more unequal the initial distribution of assets, the better positioned the nonpoor are to capture the benefits of external efforts to help the poor. Local actors may have an informational and locational advantage, but they appear to use it to the benefit of the disadvantaged only where institutions and mechanisms to ensure local accountability are robust.

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Other dimensions of community capacity also matter a great deal. Participatory programs face far greater challenges in remote or isolated localities and in areas with lower literacy levels and higher levels of poverty. Such localities also tend to be less well served by mass media and other sources of information and are less likely to have adequate central oversight.

Local democracy can have both favorable and unfavorable effects on the level and distribution of public resources. The outcome is context dependent. It varies with the nature of political institutions, at both the national and the local level; the level of voter awareness; and the accountability mechanisms in place. The potential for resource capture by political elites appears to be considerable.

The literature also indicates that democratic decentralization can lead to a greater use of public budgets to reward particular constituents for their loyalty and to improve the fortunes of political allies.

The important question is whether democratic decentralization narrows the overall scope for capture. The answer appears to warrant cautious optimism, provided political institutions and rules are designed to address perverse incentives. On balance the ballot box, though far from perfect, provides a clearer mechanism than less formal deliberation for sanctioning unpopular policy choices or excessive rent-seeking by traditional or political elites. It is less clear how citizens can collectively sanction negligent or corrupt officials or local leaders where such venues for the exercise of citizen voice are not available. This suggests that community-driven development projects may be able to induce greater accountability by mandating inclusion and using electoral processes to select community representatives.

In sum, far from being a substitute for weak and corrupt formal institutions of accountability, local oversight over the use and management of public resources is effective only when institutions of accountability at the center function well and communities have the capacity to effectively monitor service providers and others in charge or public resources. This finding appears to increase, rather than diminish, the need for a functional and strong center and vigilant and able implementing agencies. There is little evidence that donors can substitute for a nonfunctional central government as a higher-level accountability agent. Effective local oversight appears to require reforms that enhance judicial oversight, allow for independent audit agencies, and protect and promote the right to information and a free media.

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Local democracy can have both favorable and unfavorable effects on the level and distribution of public resources. The outcome is context dependent.

On balance, the ballot box provides a clearer mechanism for sanctioning unpopular policy choices or excessive rent-seeking by traditional or political elites than less formal deliberation.

Institutions at the local level cannot substitute for weak and corrupt formal institutions of accountability.

Effective local oversight requires well-functioning institutions at the center . . . and reforms that enhance judicial oversight, allow for independent audit agencies, and protect and promote the right to information and a free media.

Notes

1. See in particular Mauro (1995). The causal relationship between corruption and economic development has been argued both ways. Glaeser and others (2004) argue that corruption tends to decline as economic progress occurs.
2. See, for example, Shleifer and Vishny (1993); Manor (1999); and Bardhan and Mookherjee (2006b). Recent theoretical work on incentives in principal-agent models also shows that decentralization can raise the propensity of individuals to accept bribes (see, for example, Carbonara 2000).
3. Several writers argue that it may not always be sensible to pursue a policy designed to minimize corruption, narrowly defined as bribes, graft, and theft, particularly when there are other, possibly conflicting policy goals (see, for example, Waller, Verdier, and Gardner 2002). The implications of corruption for efficiency have been a somewhat contested issue. Some writers, like Huntington (1968) argue that bribes, graft, and theft are necessary for greasing the “squeaking wheels” of a rigid bureaucracy or that they are an unpleasant but unavoidable side effect of needed government intervention to prevent market failure (Acemoglu and Verdier 2000). Others point out that corruption can skew the incentives of the most economically efficient people away from socially productive activities toward rent-seeking activities and that the people who “grease the wheels” may simply be the most successful at rent-seeking rather than production (Treisman 2000). Rose-Ackerman (2008) argues that the use of public office to influence resource allocation or move legislation in favor of particular groups or causes should not be viewed as corruption, as constituency-based politics can motivate voters to monitor the actions of their representatives, thereby reducing incentives for outright corruption.
4. An important strand in the cross-country literature on corruption focuses on the relationship between corruption and a country’s level of economic development, its political institutions, and aspects of its culture. Much of this literature tests hypotheses that have emerged from theoretical studies that seek to explain the relative prevalence of corruption across countries (see, for example, Olson 1993; Shleifer and Vishny 1993; and Campante, Chor, and Do 2009). Studies that look at the relationship between economic development and corruption find evidence for a strong negative relationship. Higher levels of economic development are associated with lower levels of corruption, although the direction of causality is not clear. Some writers argue that development reduces corruption (see Treisman 2000); others argue that countries with lower corruption levels experience more economic development (see Kaufmann and Kraay 2002). Studies also find that other features of the economy, including the level of economic inequality, natural resource endowments, and exposure to foreign competition, influence the extent of corruption. You and Khagram (2005) argue that in more unequal societies, the wealthy have greater incentives and opportunities to skew resources and power in their favor through corruption, while the poor are more vulnerable to extortion and less able to

hold the rich and powerful to account. Ades and Di Tella (1999) find that corruption tends to be higher in countries with greater income inequality. Leite and Weidmann (1999) find that larger natural resource endowments are associated with more corruption. Myerson (1993) and Persson, Roland, and Tabellini (1997) provide theoretical arguments for the relationship between political institutions and corruption.

5. Corruption also appears to be higher in countries that have fewer political rights, in ex-communist regimes (Triesman 2000), and in countries that have less press freedom (Brunetti and Weder 2003). Corruption levels are lower in countries that have a history of common law and procedural fairness, such as former British colonies; in countries that pay higher wages to their civil bureaucrats; and countries with larger numbers of ethno-linguistic groups (Triesman 2000; on wages see Evans and Rauch 2000). Some researchers argue that corruption levels are also lower where women play a greater role in the government and the economy (see, for example, Dollar, Fisman, and Gatti 2001; Swamy and others 2000).
6. Donchev and Ujhelyi (2009) show that factors commonly found to “cause” corruption—religion, the level of development, democratic institutions—are better at explaining perceptions of corruption than actual levels of it. Controlling for such variables, they find at best a very weak relationship between corruption and indexes of corruption perception, for all the measures of corruption experience the use. Olken (2007) and Donchev and Ujhelyi (2009) show that corruption perceptions vary systematically by individual and household characteristics such as education, age, gender, and income. A number of studies find a positive correlation between perceptions of corruption and a range of societal characteristics. Several studies find that reported perceptions of corruption are positively correlated with levels of local inequality and ethnic heterogeneity (see, for example, Mauro 1995; La Porta and others 1999; and Olken 2007). Others find a negative relationship between social capital, measured by levels of trust and civic activism, and corruption (on the relationship between social capital and corruption, see Putnam 1993; Paldam and Svendsen 2002; Bjørnskov 2003). These studies cannot rule out reverse causality (high levels of corruption reducing trust and civic activism).
7. This finding is consistent with the theoretical model developed by Shleifer and Vishny (1993).
8. Moving from perception data to data on actual corruption experience is not always straightforward. In general, different measures of corruption do not produce the same conclusions. Moreover, the impact of a policy shift can vary across measures of corruption and possibly with the level of social tolerance for corruption in a society, as Mendez and Sepulveda (2010) show. Ades and Di Tella (1999) argue that hard data on corruption, such as the number of reported fraud cases, are likely to reflect the classification system used in each country as well as both the incidence of corruption and the corruption deterrence system in place.
9. Public expenditure tracking data collected in other African countries yields a similar pattern of missing expenditures.

10. A number of other studies show that governments tend to be more responsive when the electorate is better informed. The mass media have an important role to play in this regard. Drèze and Sen (1990) make this argument forcefully in noting the relative success that India, which has a free media, has had avoiding famines compared with China. Besley and Burgess (2002) show that Indian states with higher newspaper circulation (which also had higher literacy rates and greater election turnout) were more likely to be responsive to food shortages. Stromberg (2004a, 2004b) shows how access to media can affect the allocation of resources to specific groups and thus influence the incidence of redistributive programs. A number of cross-country studies find a negative correlation between press freedom and corruption (Stapenhurst 2000; Brunetti and Weder 2003; Ahrend 2002). Djankov and others (2003) find a negative relationship between state ownership of the media and measures of good governance, including political rights, service delivery, and social outcomes. However, the independence of the media (and the degree of state ownership) may itself depend on the size of political rents and thus the scale of opportunities for resource misappropriation. Besley and Prat (2006) argue that the press is more likely to be free where political rents are small and there is scope for a multiplicity of media outlets and sources for advertising revenue. Mullainathan and Shleifer (2002) point out that greater media concentration need not imply less media autonomy if competition generates a struggle for market share that leads to the publication of more stories that tend to confirm the prior beliefs of readers.
11. OPK rice was available at 60 percent below market price, implying a subsidy of about 9 percent of preprogram monthly household expenditures for a median household purchasing its full allotment of subsidized rice.
12. The measure of corruption is obtained by comparing administrative data on the amount of rice distributed with survey data on the amount households actually received. A potential issue is that the survey data provide information only on whether a household obtained any subsidized rice, without naming the program or the number of times it did so. Olken (2006) therefore assumes that each household that received rice received its full monthly allotment and that the rice was obtained from the OPK.
13. The study incorporates data from various sources, including focus group interviews with households and community leaders on service quality and on local institutions, data on service coverage and administration, and a household survey that included information on participation in local associations and the use of specific services.
14. The study uses census data from 155 villages. The villages are a random subset of all the villages in which an NGO, the National Rural Support Program, was active. The National Rural Support Program is funded through the Pakistan Poverty Alleviation Fund, a World Bank–supported community-driven development program.
15. See chapter 6 for more on deliberative councils and their role in resource allocation.
16. The inputs provided were sufficient to cultivate at least 3.5 acres of land.

17. The control group was generated by randomizing the order in which groups entered the program.
18. To obtain representative measures of community poverty and inequality, Araujo and others (2008) use poverty mapping techniques to combine household and census data. They then combine these with administrative data on project type and cost at the community level.
19. Redistricting could also create new constituencies of swing voters, allowing politicians to better target communities whose electoral choices could be influenced by the provision of public goods (Lindbeck and Weibull 1987; Dixit and Londregan 1996; Persson and Tabellini 2001). The swing voter is theorized to be closest to the center of the political spectrum. There is empirical support for the swing voter model in both developed and developing countries. Levitt and Snyder (1997) show that in the United States, government spending increases the incumbent's vote share in congressional elections. Sorribas-Navarro and Sole-Olle (2008) confirm this result in national elections in Spain. Dahlberg and Johansson (2002) find that incumbent governments in Sweden distributed temporary grants for ecologically sustainable development programs to regions with more swing voters.
20. Bolsa Escola gives conditional cash transfers to poor mothers of school-age children if the children attend school on a regular basis. Municipalities were allocated a fixed number of stipends and were responsible for identifying beneficiary children. By design, households with a monthly per capita income of less than R\$90 (about \$40) were eligible. They were offered a transfer of R\$15 per child, up to a maximum of R\$45 per household.
21. Selection is likely to be important, as almost half of eligible children were left out of the program because of limits on stipends at the municipality level. Beneficiary children had an initial dropout rate that was less than a third the dropout rate of nonbeneficiaries. The authors deal with this problem by estimating the treatment effect after controlling for child fixed-effects and by allowing children with a different pretreatment dropout status to have different year effects. Identification is then based on a comparison of the change in dropout levels between treated children and their comparable untreated counterparts.
22. Program implementation varied greatly across municipalities, despite clear eligibility rules at the federal level. Implementation processes varied, for example, in the location at which children were registered, the manner in which the school attendance conditionality was monitored, and the extent to which program coordinators were involved in verifying compliance. Much of this variation appears to be tied to whether the municipality was led by a first-term or second-term mayor.
23. In his study of Indonesia's Urban Poverty Project, Fritzen (2007) finds that electoral incentives induced more pro-poor actions by elected members of community development boards, which are responsible for selecting and managing all activities funded by the project. A concern with this study is that the key variables used to determine elite capture are perceptions of the board members whose behavior was being assessed, making any

inference difficult. The data on perceptions are also aggregated into scores in a somewhat obscure manner.

24. State judiciary branches are assigned only to the most populous county among contiguous counties forming a judiciary district. Counties with nearly similar populations but without a local judicial presence serve as the counterfactual case.
25. Ferraz and Finan (2011) also find that the presence of a judge reduces corruption among second-term mayors. Litschig and Zamboni (2007) are unable to find evidence of any impact of mayoral incumbency on corruption levels. However, their strategy makes their results not directly comparable to the studies by Ferraz and Finan (2008, 2011).
26. A comprehensive review of the case study evidence on civil society engagement in reducing corruption (Grimes 2008) finds that community efforts at monitoring and sanctioning corrupt practices have bite only when there is a strong and engaged advocate at the center. In the absence of such conditions, civil society efforts are able to succeed in only a limited way, largely by inducing resignations through naming and shaming and through protests to raise awareness.

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