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Institutional Arrangements to Make Public Spending Responsive to the Poor—(Where) Have They Worked?

Review of the Evidence on Four Major Intervention Types

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ABSTRACT

There has been some recognition in the development community that building technical capacity of public service providers and increasing resources is not enough to bring about development outcomes. Researchers and practitioners are increasingly appreciating that accounting for the stated needs of communities supports the process of pro-poor public resource allocation. We examine four institutional arrangements that explicitly endeavor to make public spending responsive to the needs of the poor by moving decision-making procedures closer to the population—participatory budgeting, community-driven development (CDD) programs, decentralization, and delegated targeting of transfers. Using the existing literature, we compare experiences across the four arrangements and countries. Regarding responsiveness to needs of the poor, evidence is cautiously optimistic for participatory budgeting, CDD, and decentralization. As for delegating the targeting of transfers to subnational authorities and communities, evidence suggests that the effect may be regressive. However, there are important mediating effects of public spending responsiveness under the various institutional arrangements. Local elite capture is a key factor dampening pro-poor spending where either exogenous circumstances such as prevailing inequality, or inadequate program design, enable capture to materialize. Politics is an important determinant of the success of these arrangements.

Keywords: community-driven development, participatory budgeting, decentralization, community targeting of household transfers, responsiveness of public services to the poor, public spending

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1. INTRODUCTION

Public investments in basic services, infrastructure, and social protection are crucial for poor people in developing countries. However, there are countless examples of inefficient or inappropriate allocation of public expenditures. They may be leaked toward private gain. Or where they do create public services, these may not be the services and public goods that are most vital for the large numbers of the poor. Even when public budgets are spent on those goods and transfers that can best contribute to better lives for poor people, the goods and services often bypass the intended recipients and instead end up in the hands or communities of better-off citizens.

Development researchers as well as development practitioners have recognized this problem, and have explored how to address it by bringing the voice of regular citizens and local community members directly into the decision-making process for allocating publicly provided resources. It has been argued that when regular citizens including the poor are given the opportunity to be involved, for example, in deciding which villages (and which people within villages) should be eligible to receive public support that targets the poor or disadvantaged, this can allay both the information and incentive problems that can result in mistargeting when higher-level public officials decide on local beneficiaries (Galasso and Ravallion 2005). Or, when community members have a say on which from among various local public goods—such as a grain mill, a borehole, or the upgrade of a village road—they need the most, this will improve the odds that community members will commit on their part the complementary private contributions (whether in kind, labor, land, or money) that would be required to maintain the usability of these local public goods (Nkonya et al. 2012). Giving people the chance to contribute to decisions over an even broader array, such as over the span of the entire public budget of a local government and how it is to be allocated across competing needs, would lend greater legitimacy to budgetary decisions and improve the allocative efficiency of local public spending (Baiocci and Ganuza 2015). Finally, reforms like decentralization that further expand the range of decision making of local citizens beyond public spending to other functions of government—including decisions over regulations and rules that govern a local jurisdiction—are said to improve the overall functioning of government (Kulipossa 2004).

But, considering the breadth of empirical evidence, how well do these kinds of institutional arrangements, which seek to make public spending and service delivery more directly responsive to the priorities of citizens in developing-country contexts, actually work? When do such interventions have a positive impact in directing public expenditures toward the needs of communities, including the poor, and when do they instead fail in this regard? Are there discernible patterns in the primary reasons for such successes and failures? In particular, do such institutional approaches, while seeking to mitigate political economy challenges that hamper a pro-poor orientation of public spending, run into yet other political economy problems that constrain them from achieving their development goals?

The paper offers an analytical review of the available evidence from peer-reviewed research on these critical questions.[1] Specifically, in the first part of Section 2, we offer a more careful look at the ways that such arrangements that seek to be directly responsive to the poor's articulated needs—for short, we will call them *responsive institutional arrangements*, or RIAs—may be employed in different governance settings. Here, we offer a simple, highly schematic typology of governance environments along three broad dimensions: whether citizens' more fundamental rights to hold government accountable are curtailed or not, whether the technical capacity of the state is relatively weak or strong, and whether conceptually one assumes that the interests of government are intrinsically aligned with that of the masses of citizens, or not. And under each scenario, we consider what use government (or citizens) may find for RIAs. The second part of Section 2 describes the four major RIAs that this paper considers in detail, and the third part of that section lays out three critical political economy challenges that these RIAs may face that can affect how successful they in fact are in achieving their purported goals, namely, to make public-spending service provision pro-poor. Sections 3 to 6 present the available evidence for each of the four RIAs, and the last section presents concluding thoughts.

[1] The reviewed evidence includes only formally peer-reviewed literature—that is, academic journal articles, academic books and book chapters, and so forth.

2. RESPONSIVE INSTITUTIONAL ARRANGEMENTS EMBEDDED IN POLITICAL ECONOMY REALITIES

Four Major Responsive Institutional Arrangements in Development Practice

A multitude of institutional arrangements are promoted by donor agencies, governments, and civil society organizations that, to a greater or lesser extent, are said to incorporate elements to bring the voices of regular citizens into the public resource allocation decision process. However, four in particular stand out for the prominence they have received in the development policy arena, and also for the extent to which they have been evaluated in research. The latter of course matters given that we seek to review the existing evidence of the effectiveness of these institutional arrangements. The four are community-driven development (CDD) programs, participatory budgeting, decentralization, and delegated targeting of transfers.

In each of these four institutions' process of making decisions on which services to provide or how and to whom to provide them, each institution (at least in its idealized form) has some feature that accounts for the stated prioritization on the part of beneficiary individuals or communities over the publicly provided goods and their allocation. The four institutions differ in the breadth of the public intervention in question, and in the fashion in which the voices of citizens are drawn upon. In the case of delegated targeting of transfers, the public action in question is usually fairly specific and narrowly defined—namely, a particular type of transfer, such as fertilizer vouchers or cash money. The voice of community members comes mostly into play in deciding who the beneficiaries of the transfer should be. A CDD program, in contrast, involves a wider array of possible infrastructure, goods, or services that would be publicly provided. People's voices feature in that the demand on what infrastructure, goods, or services they want to receive needs to be articulated by them. In participatory budgeting, the public provision concerns an even wider spectrum than CDD programs, namely, in many cases the full spectrum of a local government's budget. Citizens' opinions on how the budget ought to be allocated across competing needs are accounted for. Finally, in decentralization, it is the entire range of the role of (local) government—that is, beyond the allocation of public budgets, to government's other functions such as establishing rules and regulations governing a community or district—that the voices of citizens are said to apply to. Accordingly, in decentralization citizens' voices feature not through one single mechanism, but through the array of possible citizen–public sector interfaces at the local level.

The Deployment of Responsive Institutional Arrangements in Different Governance Settings

Interventions and arrangements such as decentralization, CDD programs, participatory budgeting, and delegated targeting of transfers are not introduced into a community, province, or country in a governance vacuum—and the governance context may importantly determine the impacts of RIAs. For example, service delivery under decentralization may exist in countries with a pronounced authoritarian bent, in which people's core rights to hold government (of any tier) accountable are severely curtailed, and may also exist in functional democracies. This governance environment can have potentially quite different consequences for service provision to the poor under decentralization. Local communities may be asked to identify eligibility criteria for poverty-oriented transfer programs in contexts where state capacity—including to execute programs—may be very limited, and in other contexts with strong technical capacity of the public sector; and the contribution of such delegation of eligibility may strongly vary in these two cases. Participatory budgeting could be theorized to play out quite differently if one has a conception of government whereby public officials have interests and incentives of their own, in contrast to a theory that sees government merely as a benevolent social planner.

To structure initial thinking on how government could use RIAs under these different governance contexts or conceptions, consider government actions under different assumptions along three dimensions, outlined conceptually in Table 2.1 in a highly simplified illustration. The first dimension concerns the extent to which there are rules that curtail the rights of citizens to compel the government to act in their interest. The second dimension pertains to a government's technical capacity, for example, to make an accurate assessment on how a given policy or public investment would affect citizens' welfare. Finally, the third dimension concerns the extent of alignment between policy makers' interests—absent institutional constraints and incentives that would shape those interests—and citizens' interests. This third dimension is arguably mostly theoretical in nature, while one can see empirical variation along the first and second. That is, whether one conceives of public officials as fundamentally self-interested or not—just as standard economics models private producers and consumers as self-interested—is a matter of theoretical approach to this question, rather than a case where one may argue that some governments are clearly self-interested while others are not. In particular, several decades of political economy research and the corresponding literature have shown that considering individuals making decisions as part of government as having interests *intrinsically* aligned with citizens' preferences is not a credible model that serves as a useful foundation for determining public-sector actors' behavior. Nonetheless, it is useful to include this dimension in our initial considerations, mostly for completeness, but also because some strands of social science thinking make this simplifying even if strong assumption.

Table 2.1, then, presents the various governance scenarios for different assumptions along these three dimensions, and for each scenario, the primary usefulness of RIAs in the eyes of government (or where applicable, citizens). For example, much of the field of political economics is concerned with a scenario such as cell 4 in Table 2.1: models in political economics explicitly account for the fact that public decision makers have intrinsic interests of their own, such as seeking to gain material benefit, gaining or staying in public office, and so forth (third dimension). Much of political-economics theory has been inspired by empirical settings that had attributes of advanced democracies (see first dimension in Table 2.1) with strong technical capacity (see second dimension in Table 2.1). This brings us to the governance scenario in cell 4, and in such a constellation, classic principal–agent problems are the primary entry point for the usefulness of RIAs. That is, the principal (the voters) faces costs in monitoring the agent's (politicians') efforts and actions, such as public resource allocation undertaken by the agent. Under such a scenario, then, RIAs may be demanded by citizens since RIAs can contribute to reducing citizens' monitoring and information costs. An example of this is when decentralization reduces the distance between citizens and government, making it easier to monitor and be informed about government action.

In contrast, scenario 7 in Table 2.1 corresponds to the theoretical notion of the unencumbered *social planner*, which underlies the model of classical welfare economics, and assumes interest alignment between the planner and the consumers (third dimension), and the full ability to discern the link between public resource allocation and welfare impacts (second dimension). The social planner model also assumes, albeit implicitly, the planner's omnipotence, that is, an absence of constraints imposed by other actors (first dimension). Then, under this scenario, government (in the form of the planner) would have no instrumental need for RIAs, given it is already intrinsically motivated to serve citizens and has the capacity to do so. Neither of the scenarios just described, in cells 4 and 7 of Table 2.1, focuses on the potential of technical limitations of government. In contrast, scenario 2 presumes that government can (first dimension) and would need to be (third dimension) politically constrained in order for politicians to attend to citizens' interests. But given limited technical capacity to discern, for example, which types of public investments are pro-poor (second dimension), RIAs can usefully channel missing information from citizens to politicians; and at the same time, establishing RIAs enables politicians to signal to citizens their desire to meet the latter's needs, which can have political payoffs.

Similarly, the remaining five scenarios of the framework depict how RIAs may be employed within a given governance context of the extent of accountability of government to its citizens, the degree of state capacity, and the conception of government as self-interested or not. And this variation in the intentionality with which responsive institutional arrangements may be installed, in turn, has clear implications on what tangible benefits accrue, or fail to accrue, to grassroots citizens from such RIAs. This will be presented in the subsequent sections.

Table 2.1 The use of responsive institutional arrangements under different conceptual assumptions about governance

Conceptions of governance → ↓				**First dimension:** Citizens' *rights* to compel government to act on their behalf are existent and enforced		
				No	Yes	
Third dimension: Government's *interests* (absent incentives) are *intrinsically* the same as citizens' interests	No	**Second dimension:** Government has high technical *capacity* (for example, ease in assessing impact of interventions on citizens' welfare)	No	(1) "Roving bandits" → Public actors have no interest in responsive institutional arrangements (RIAs) as well as can avoid them	(2) Weak state capacity in a democracy → RIAs used by politicians to compensate for their technical constraints in identifying welfare-enhancing resource allocation, and to signal pro-citizen intent	Both theoretical and empirical application
			Yes	(3) "Stationary bandits" → RIAs are employed by government to complement its own knowledge about how to maintain citizens' material well-being	(4) Principal–agent problems → RIAs used by citizens to reduce asymmetric information that disfavors them, for example, by bringing political decision-making process closer to people	
	Yes		No	(5) Information problems under "benevolent dictatorship" → RIAs reduce asymmetric information that disfavor public officials, by directly eliciting citizens' needs	(6) Government failure → RIAs used by citizens and government to communicate citizens' priorities, as technical input for resource allocation decisions	Only theoretical application
			Yes	(7) Unencumbered social planner model → Public actors have no need for RIAs	(8) Functional democracy, strong state capacity → RIAs as an integral element of governance	

Source: Authors' own elaboration.

Three Political Economy Traps Facing (or Overcome By?) Responsive Institutional Arrangements

Although the four institutional arrangements described in the preceding section, at least in their pure form, seek to address head-on a significant political economy problem that affects the allocation of public spending and its resulting outputs—namely, that the articulation of local communities' resource allocation priorities is not captured in such decisions—they do not, in all instances, extricate public spending decisions from political economy challenges that play out at the more local or community level to which decision making has been pushed down. Specifically, accounting for the above-discussed governance setting, we consider the empirical evidence on the extent to which these institutional arrangements have been beset by, or else have successfully overcome, three such challenges that have emerged as salient in RIAs. These are explored in greater depth in subsequent sections.

The first is local capture of resources by socioeconomic elites within the communities. The second is political targeting: public goods and services being provided to individuals or groups either to reward past political support provided to public officials or to induce and incentivize future political support. And the third is corruption in resource allocation: the targeting of public resources to users or (private) producers/providers of services in compensation for private material gain to the concerned public officials. In these three phenomena, the most proximate gain to the involved public official may be rather indirect and mostly social (such as strengthening social capital with local elites in the first phenomenon of elite capture), political power (in the second phenomenon of political targeting), or economic/financial gain (in the third phenomenon, corruption). As we will see, a particular institutional arrangement may reduce one of the phenomena while exacerbating another. We therefore assess the evidence on what the net effect is of these institutions on public resource allocation, and to what extent the poor benefit from the resource allocation through the RIAs.

3. PARTICIPATORY BUDGETING

Participatory budgeting is a decision-making process in which citizens are invited to be directly involved in deciding how public resources are allocated. Participatory budgeting takes place in meetings between citizens and local officials, during which plans and priorities are discussed and proposals are voted on. Local government then implements the selected projects. Participatory budgeting was first introduced in Porto Alegre, Brazil, in 1989 and is today practiced worldwide. While in many newer cases, the process is regulated by the state, in Brazil participatory budgeting is internally regulated by the local governments that choose to implement it. In Porto Alegre, participatory budgeting involves a structure of community assemblies that meet yearly to discuss and vote on investment priorities and elect representatives to regional and sectoral councils for oversight and decision making. The councils of assembly representatives meet with municipal delegates throughout the year to negotiate and vote on a final budget proposal, which is a sum of all the community proposals. The budget is then incorporated into the administration's budget proposal and passed on to the municipal legislative branch for approval (Wampler 2007; Nylen 2002). The annual meetings are partly announced by using city buses as mobile calendars. Regular citizens as well as representatives of organizations participate in the meetings (Goldfrank 2006).

Another example of an institution aimed at increasing participation of citizens in the distribution of public funds is the Indian *panchayat* system. This system is managed by the states, and—in contrast to the Brazilian case—it is mandatory. Generally through the system, members of villages are invited to discuss resource allocation decisions in *gram sabhas. Gram sabhas* are permanent village councils organized around public meetings and are linked to an elected village authority called the *gram panchayat.* The *gram sabhas* are supposed to be held regularly (about four times a year) (Besley, Pande, and Rao 2005). The idea behind them is to provide a platform for citizens to discuss how public resources are being allocated across households and villages by the *gram panchayat.* More specifically, the *gram sabha* ratifies the *gram panchayat* budget and identifies and approves which individuals and households are selected as beneficiaries of antipoverty programs. The *gram sabha* is a place of discussion, and it influences the *gram panchayat* only through demands and requests. It can be used to ask the village authority to provide a specific good or to include a certain household in a welfare scheme (Rao and Sanyal 2010).

Participatory budgeting differs across countries and even across administrative units within a country in its structure, scope, and strength. A common trait for participatory budgeting—which also differentiates the practice from the other RIAs discussed in this paper—is that the public is, in varying ways, involved in the budgeting of public resources over multiple sectors. This makes it—in theory—possible for citizens to shift spending priorities from, for example, road projects to education and to choose from a broad array of public projects.

Participatory budgeting is considered to have a number of positive effects related to the way the population interacts with the public sector on a local level. It is meant to strengthen and increase participation of civil society, elevate awareness of public budgetary processes and the function of the government in general, and function as a voice for the marginalized and voiceless in the allocation of public resources. These features are believed to improve state performance by improving alignment of local needs and allocation of public resources, and by enhancing the quality of democracy by improving accountability, monitoring, social capital, and civic engagement. A World Bank review of participatory budgeting experiences around the world displays some examples of how the practice is installed (Shah 2007; see also Table 3.1). In Latin America it is fairly common for the central government to include participatory methods as a mandatory part of subnational spending. In Africa, where participatory budgeting is less common, countries still have installed some measures to promote it on a subnational level. And in African countries without legislative measures on PB, local governments have installed independent participatory initiatives.

Table 3.1 Participatory budgeting in a selection of countries

Country	Genesis and mandate of the program
Brazil	Locally driven initiatives
Bolivia	Mandates from central government
Guatemala	Mandates from central government
India	Indian states determine power and composition of participatory *gram*
Kenya	Participation is used as a condition to receive funds from LATF
Mozambique	No formal mechanism in place (but some initiatives exist)
Peru	Mandates from central government
South Africa	Both on-the-ground initiatives and broad institutional PB
Tanzania	PB required for annual public and planning processes
Uganda	Several mechanisms are in place
Zambia	No formal mechanism in place (but some initiatives exist)
Zimbabwe	Several mechanisms are in place

Sources: Goldfrank (2006); Shall (2007); authors' own elaboration.
Note: LATF = local authority transfer fund; PB = participatory budgeting.

Evidence suggests that participatory budgeting can be effective in making public spending more responsive to local needs and aligning spending with priorities of the poor population. Gonçalves (2014) assesses the impact of participatory budgeting in Brazilian municipalities during the period 1990–2004. The article looks at impacts on both municipal spending patterns and development outcomes. The study concludes that participatory budgeting is associated with improved municipal responsiveness by aligning spending allocation to the population's needs. The analysis identifies a positive effect of participatory budgeting on public investments in sanitation and health services and finds a significant and beneficial effect on infant mortality rates. Boulding and Wampler (2010) draw on a sample from 220 of Brazil's largest cities with data from 1989–1990 and find that participatory budgeting increases spending in education and health, but they identify no significant effects on well-being indicators. Besley, Pande, and Rao (2005) assess the impact of participatory village meetings on spending using village and household data from 522 villages in South India. They find a positive effect of holding participatory village meetings on pro-poor targeting. Landless, illiterate, and low-caste households were more likely to receive benefits in villages where participatory methods were used in the selection of beneficiaries. The efficiency of agricultural services can benefit from participatory budgeting. Andersson, Gordillo, and Van Laerhoven (2009) randomly select 390 rural municipalities in four Latin American countries—Brazil, Chile, Mexico, and Peru—to assess the impact of local institutional arrangements present in rural communities on the quality of rural development services. By interviewing both community-based organizations (CBO) and local authorities, they find that municipalities with participatory budgeting are associated with improved agricultural service delivery. A multivariate analysis indicated that participatory budgeting practices in rural municipalities across the four countries (1) had a positive impact on the mayor's view of the quality of the state of affairs in the agricultural sector of service delivery, (2) increased the number of agricultural CBOs satisfied with agricultural services, and (3) increased the number of CBOs requesting agricultural services from the local government. One drawback of the studies discussed here is that they do not take into account the level and frequency of participation on a local level when looking at impacts.

Whereas country case studies provide valuable lessons on where participatory budgeting has worked, cross-country evidence may tell us more about the circumstances and conditions under which it works. In a cross-country study, Bräutigam (2004) assesses the relationship between participatory budgeting and outcomes of pro-poor spending by reviewing experiences in Brazil, Ireland, Chile, Mauritius, and Costa Rica. The study identifies two complementary factors that are needed for participatory budgeting to have a pro-poor effect on public spending—namely, the presence of a committed left-leaning party or social movement supporting pro-poor spending, and an informed and active civil society. Goldfrank (2006) identifies—besides political will and an active civil society—political decentralization and sufficient local resources as necessary preconditions for participatory budgeting to be successful. These preconditions are important to keep in mind when analyzing unsuccessful cases or negative effects of participatory budgeting.

In a case study from a Moroccan province, Bergh (2010) looks at a government initiative to create federations of local associations to strengthen civil society organizations' capacity and improve coordination with government, including helping them provide input to the local (commune) authorities on budget allocation decisions. The project was initially implemented by development agencies in two communes but was extended to all 39 communes through a push from the provincial governor. The top-down implementation of federations created a system that served more as an arena of state control rather than strengthening civil society, by, for example, keeping records of civil society organizations and installing a hierarchy of coordinators reporting directly to the governor. In addition, key positions were held by a small political elite and federations were used as political instruments to reward political support and control and supervise the opposition. Similar patterns are found in other regions. Selee and Peruzzotti (2009) evaluate the replicability of the Brazilian participatory budgeting model in cities and municipalities in other Latin American countries, namely Argentina, Chile, Mexico, and Bolivia. They find that in some of these local initiatives, reformers use participatory budgeting as a short-term strategy for political gain. For example, in Mexico, when small opposition parties started winning subnational elections against the PRI (Institutional Revolutionary Party) in the 1990s, they used participatory budgeting as a way to build alliances with civil society groups and independents by showing the public that they were less clientelistic than the PRI and to link them to citizens more directly. However, when the newly elected parties had successfully built political networks of their own (partly by directly recruiting party members from the participatory structures), they no longer needed the participatory system to win elections and started to undercut it. In Buenos Aires, the installment of participatory budgeting was a short-term response to a political crisis in the wake of civil protests that hit the city in the summer of 2001–2002. After the crisis, the local leadership found itself without strong political allies and without territorial support in the city. Participatory budgeting was viewed as a way to channel the protesters organized around neighborhood assemblies and build political support at the ground level. It was implemented without the involvement of civil society and without a law regulating its function. While it initially led to more responsive spending (80 percent of the priorities identified during the first year were implemented), the civic engagement died out as the compliance with demands of the local authorities decreased. In other local cases in these countries, it is rather a lack of political will and a strong civil society that has made experiences with participatory budgeting short-lived and limited in scope despite being initially successful. Nylen (2002) finds that the practice of participatory budgeting can foster nonelite political activism and that way in itself strengthen civil society by engaging regular citizens directly in public policy making. The study focuses on two cases in Brazil and finds that partaking in participatory budgeting forums made delegates more likely to join a political party and more likely to report sympathy for one or another political party. Party militancy and candidate militancy also increased among participants. However, in both cities, these effects were stronger for delegates who were active in civil society organizations prior to their experience with participatory budgeting.

In addition, the potential of participatory budgeting in many developing countries is undermined by the large degree of earmarking of intergovernmental transfers to local government. Conditional transfer systems limit the resources that can be subject to participatory budgeting since these transfers can be spent only within a predetermined and often rigid framework. In Uganda, where participation is a mandatory part of local decision making and levels of earmarking are substantial, the majority of funds allocated to participatory budgeting get absorbed by the administrative and maintenance costs of the process itself. Participatory budgeting is seen locally as an obligation imposed by the central government rather than as a tool for civic engagement (Francis and James 2003).

4. COMMUNITY-DRIVEN DEVELOPMENT PROGRAMS

Community-driven development (CDD) is an approach intended to make the allocation of funds for specific projects more participatory and democratic. It is generally included as an allocation mechanism of particular social funds or development programs. As the name implies, CDD is focused on smaller units than districts—such as communities, villages, or neighborhoods. Similar to participatory budgeting, CDD uses participatory mechanisms to make allocation more responsive to local needs and the poor. It differs from participatory budgeting in that it activates community members to participate in the planning, implementation, and monitoring of specific development projects within their communities, instead of being involved directly with the distribution of public funds. Among the main objectives of CDD is to cultivate civic engagement and build social capital. The CDD approach in allocation of resources is being practiced by both governments and international aid organizations. The World Bank has embraced the approach, and as of 2012, it supported 400 CDD programs in 94 countries.

A past review expressed concern that there was little evidence identifying a causal relationship between the participatory feature of CDD and development outcomes (Mansuri and Rao, 2004). We review more recent evidence of this institutional arrangement, identifying whether CDD projects have had distributional effects both on participation and on development outcomes, and consider political factors in these outcomes. Table 4.1 summarizes the results of a number of studies evaluating the performance of CDD projects implemented around the world. The results of the evaluation are presented in the three columns to the right. The first column displays results of evaluations focusing on who the CDD participants are and whether the CDD process is an inclusive or exclusive environment. The second column displays results focusing on allocation of resources between the target group—the poor—and the rest of the population. The column “Political determinants” displays results on how beneficiary status is associated with variables such as political activeness and connectedness to local leaders.

Table 4.1 Evidence on community-driven development

Source	Countries	CDD program	Sample	Membership or participation determinants	Allocation and outcome determinants (Pro-poor vs. elite capture)	Political determinants
Arcand and Fafchamps (2012)	Burkina Faso, Senegal	CBOs	250 villages and 8,415 HHs in Senegal and 289 villages and 12,212 HHs in Burkina Faso	CBOs are elite controlled (HHs tend to participate in CBOs with members similar to themselves); donor-funded CBOs are less elite controlled.		
Baird, McIntosh, and Özler (2013)	Tanzania	TASAF II Social Fund	2,177 wards and close to 30,000 HHs	Applicants tend to be more nonpoor than the population.	Recipients are slightly poorer than the population as a whole thanks to centrally controlled targeting tools.	Having member in HH that holds village office or has attended village meeting is associated with beneficiary status
Labonne and Chase (2009)	Philippines	KALAHI-CIDSS	1,200 HHs in 66 communities		Funding for projects reaches the poorest villages. In unequal villages, village leaders are more likely to override community preference	Politically active households are more likely to receive resources. More politically active villages are more likely to receive funding.

Table 4.1 Continued

Source	Countries	CDD program	Sample	Membership or participation determinants	Allocation and outcome determinants (Pro-poor vs. elite capture)	Political determinants
Park and Wang (2010)	China	China's flagship poverty alleviation program	609 villages	More educated local leaders lead to more elite capture. Better-quality village committees benefit both poor and rich.	Overall, the program had positive income and consumption effects for rich but not for poor HHs.	
Dasgupta and Beard (2007)	Indonesia	UPP	Four case studies (communities)	The process was controlled by elites.	The poor were the primary beneficiaries.	
Araujo et al. (2008)	Ecuador	FISE	835 villages		More unequal villages are less likely to select projects that will benefit the poor.	
Rao and Ibanez (2005)	Jamaica	JSIF	500 HHs, 10 communities	The process was controlled by a small, well-connected group.	Poor alignment of community preference and project selection.	Targeting is more likely to reflect preference of politically well-connected people.

Source: Arcand and Fafchamps (2012); Baird, McIntosh, and Özler (2013); Labonne and Chase (2009); Park and Wang (2010); Dasgupta and Beard (2007); Araujo et al. (2008); Rao and Ibanez (2005).

Notes: CBO = community-based organization; TASAF = Tanzania Social Action Fund; HH = household; KALAHI-CIDSS = *Kapitbisig Laban Sa Kahirapan*: Comprehensive and Integrated Delivery of Social Services Project; UPP = Urban Poverty Project; FISE = *Fondo de Inversión Social de Emergencia:* Ecuardor's social investment fund; JSIF = Jamaica Social Investment Fund.

In evaluating the world's largest CDD program—China's poor village investment program—Park and Wang (2010) use national household and village panel data to compare changes in outcome from 2001 to 2004 between participating villages and nonparticipating villages. The authors identify increases in income and consumption for richer households by 6.1 and 9.2 percent, respectively, but find no effect on income and consumption for poorer households. Similar experiences are reported from a case study in Jamaica where Rao and Ibanez (2005) use mixed methods to evaluate a participatory social fund, a community-driven project assisted by the World Bank. As part of the program, communities apply for funds to finance projects they have identified themselves. A central government agency selects which projects to fund. Participating communities must contribute to selected projects by providing cash, labor, or materials. The authors find that the community-level participatory process is controlled by a small group of well-connected and motivated individuals. This pattern is reflected in project identification as well. To assess the alignment of project identification with community preference, they compare how sectors are ranked on a community level with the projects that are prioritized through the program. They find that in most communities, there is a poor alignment of project identification and the preference of the general population. Most communities identified projects that were ranked rather low. However, better-off families and well-connected elites were more likely to receive their highest-priority project.

Evidence suggests that the risk of capture seems more prominent in contexts of high inequality. Araujo et al. (2008) combine parish-level poverty maps and project implementation data from Ecuador's FISE to assess how a community's inequality, measured as expenditure share of the top 1%, 3% or 5% of households, affected local project selection during the period 1993–1996. They find that inequality reduces the probability that the community will select pro-poor projects, and the effect is stronger the more severe the inequality. They argue that the effect is a consequence of a relationship between relative incomes and political power. In exploring how resources were distributed to Philippine villages through the CDD program KALAHI-CIDSS, Labonne and Chase (2009) randomly select 1,200 households in 66 villages that participated in the project. They find that in villages with higher inequality it was more likely that the proposals reflected the leader's preference and not the village's. In addition, more unequal villages were more likely to receive funding. The authors suggest that unequal communities are more likely to be governed by an elite leader who may be more empowered and likely to override the village preference and more enabled—due to his or her elite status—to influence municipal forums to direct money toward the village. A study using survey data from 1,376 rural households in Tanzania assesses the effects of inequality on inclusiveness and participation of community-based groups (La Ferrara 2002). Households in villages with higher inequality are less likely to be a member in any group, and in particular an open-access group. Inequality may also lead to more homogenous group constellations in restricted-access groups and may negatively affect the functioning of open-access groups by making it less likely that the group will practice decision-making through a vote or that people will feel encouraged to participate in meetings.

Elite control of the process has not always translated into elite capture of resources. Dasgupta and Beard (2007) use a series of case studies from northern Indonesia to assess the performance of the CDD program Urban Poverty Project in terms of pro-poor targeting. The authors find that poor households benefited more from the program than rich. They observe that, on a community level, the project was controlled by elites; however, resources were targeted to the poor. In the Philippines, Labonne and Chase (2009) find that resources, on a community level, reached the poorest and more active (in terms of village assembly participation) despite identifying elite control at the project proposal stage. These results suggest that elite capture is not a natural consequence of elite control and that elites may use elite control of participatory processes for other reasons than to gain access to resources. By bringing projects to the community through the CDD programs, local elites may strengthen their stature as leaders within the community. This so-called *benevolent capture* benefits the poor but beats the purpose of the CDD approach since it does not engage the people it is supposed to target. Arcand and Wagner (2016) use panel village census data from Senegal to look at the effects of activating community-based organizations in the targeting of an agricultural development program on their membership constellation. They conclude that traditional community-based organizations may actually become less elite controlled and more heterogeneous if they are used as instruments for participatory targeting.

Another determinant of CDD targeting is political participation. Being politically active tends to increase the likelihood of being targeted both on a community level (for example, larger voter turnout) and on a household level (for example, being active in a political council). One could expect that political activeness on a community level, such as larger participation in village assemblies or larger voter turn-out, is associated with securing more funding due to mostly benign underlying reasons. For example, villages with more engaged community members (proxied by the number of community meetings held) may be more likely to hold their leaders accountable or political experience of citizens may make them better at securing more resources through the system (as in the case of the Philippines, Labonne and Chase, 2009).

Baird, McIntosh, and Özler (2013) assess the allocation of funds within the Tanzania Social Action Fund, which is a pro-poor participatory program with a bottom-up application process in which households and villages are invited to apply for funding. With their rich availability of data, including administrative program data, ward and household data consisting of 2,177 wards and close to 30,000 households, and electoral data from all included wards, they are able to evaluate the national- and ward-level performance of the demand-driven targeting approach in terms of its ability to reach the poor. The data allow them to look at (1) which households knew about the program, (2) which households or villages applied for funding, and (3) which households or villages received funding. In contrast to the purpose of the allocation mechanism, the targeting of the program was primarily regressive. Within the communities, poor households were less likely to receive funding. Well-connected and politically active households were more likely to apply to the program and to be selected. Wards with greater political activity (in terms of voter registration and turnout) received significantly more program benefits. The authors argue that the main driver of this result is lack of access to information about the program and lack of capacity to formulate a proposal on the part of the poorer and less connected households.

5. DECENTRALIZATION

During the last two decades, many developing countries have become increasingly decentralized. Decentralization is widely believed to have a number of inherent benefits. Local officials are assumed to have a better knowledge and understanding of local needs than the central government. Decentralizing public spending to local governments is therefore believed to make public spending more aligned with local preferences and needs. A major goal of decentralization in developing countries is to reach the poor, who are often dispersed in remote areas (Bardhan 2002). Decentralization is also believed to reduce corruption by moving service provision closer to beneficiaries and thus increasing accountability and oversight. In the context of regional separatism, ethnic conflicts, and general societal heterogeneity, decentralization is seen as a way to provide local autonomy and diffuse social and political tension (Edwards, Yilmaz, and Boex 2015). Decentralization, as in the case of CDD and participatory budgeting, concerns the local sphere of public spending and is believed to make spending more responsive to the needs of the poor. However, decentralization is different from the other two institutional arrangements in that its sphere goes beyond the allocation of public spending, to potentially all other areas of local government responsibilities, establishing and enforcing regulations and rules.

While the above-mentioned assumed benefits of decentralization have been widely established and theorized, they have not always been the main drivers behind decentralization reform. Similar to the case of participatory budgeting, political drivers of reform may affect the arrangement's outcome and longevity. When looking at cases of decentralization reform in developing countries, it is often found that the discourse used in reference to reform is not always reflected in the commitment to decentralization by central governments (Boone 2003; Riedl and Dickovick 2014; Falleti 2010). Boone (2003) observes that in some rural West African regions, where local elites have political bargaining power through hierarchical communal structure, governments have used decentralization reform as a strategy to manipulate and control local elites to their own political advantage. It is also found that the de facto level of decentralization may vary within a country due to governments being more likely to limit the devolution of real power and resources to local elites they can trust or control. In fact, Riedl and Dickovick (2014) find that authoritarian regimes with a hegemonic party structure may strengthen their power through decentralization reform by increasing opportunities of local clientelism, improving local party presence, and enforcing the relationship between the party and citizens. How decentralization comes about is a complex process involving both subnational and national interests, as well as external actors pushing for reform. As is clear from these examples, although local actors play a role in decentralization, in the developing world the process of decentralization is mainly characterized by a top-down structure. How these power relations and political interests driving decentralization reform affect the outcome of decentralization in terms of the commitment to provide services to the poor is a topic for future research.

Overall, developing countries are fiscally less decentralized than developed countries. To compare levels of fiscal decentralization, we use a regional aggregate average of local government expenditures[2] as a percentage of total public expenditures, calculated by United Cities and Local Governments[3] using data from 2009. For the African region, the level of fiscal decentralization is estimated at 7.9 percent. In Latin America, the average level is estimated that 11.1 percent. For South Asia and Southeast Asia, it is 16 percent and 15.5 percent, respectively. These are relatively low numbers if you compare them to 23.9 percent in Europe, 40 percent in East Asia, or 26.8 percent in North America. Within these regions, however, experiences of decentralization vary substantially across countries. The most decentralized countries in Africa in terms of local government expenditures are Uganda and Rwanda. The share of local government expenditures in both of those countries is 23 percent (in 2007). Most other African countries have shares not exceeding 5 percent. Local governments in Brazil and Ecuador spend 26.3 percent and 23.4 percent respectively—the highest levels in Latin America. The least

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[2] Local public expenditure includes the intermediate level (governorate, region, department, and so on).

[3] All data can be accessed through the *Global Report on Decentralization and Local Democracy* available here: www.citiesalliance.org/node/2427.

decentralized countries in Latin America are primarily small countries in Central America and the Caribbean. In China, 50 percent of public expenditures are spent by local governments. In India, the number is 33 percent. Even local governments in poorer countries in Southeast Asia, such as Indonesia and Vietnam, spend a substantial share of total expenditures—28 percent and 15 percent, respectively. Former Soviet states have the highest level of fiscal decentralization. In Kazakhstan and Belarus, local governments' share of total expenditures is 53.4 percent and 35.5 percent, respectively. The Middle East and Western Asia is the least decentralized region with an aggregate average of 4.6 percent. As is evident from this overview, the pace and extent of fiscal decentralization trends across the developing world differ substantially between countries, which allows us to evaluate the impact of fiscal decentralization on spending, quality of targeting, and corruption.

Decentralization in developing countries is characterized by a system of delegation where new responsibilities are accompanied by fiscal transfers from central to local governments. Local governments in fiscally decentralized states generally have a high dependency on intergovernmental transfers. For example, the central governments cover 85 to 90 percent of local government expenditures in Uganda and Tanzania, which are relatively fiscally decentralized. We can see the same trend across all regions. Ninety percent of local expenditures in India and Indonesia are covered by transfers. In China, 60 percent are covered by transfers. In Brazil, 80 percent are covered by transfers from regional and central governments. In Ecuador, the number is 65 percent. The transfers are used to finance the responsibilities of these local governments that usually have a limited ability to collect enough revenue by taxation and fees. The transfers can either be discretionary or earmarked. The level of earmarking affects local autonomy, which may play an important role in the potential effect of decentralization on service delivery. The level of earmarking is generally high, but due to the lack of data availability it is difficult to make any general comparisons.

Agriculture has played a role in local government. In Ethiopia, decentralization reforms were used, among other purposes, to increase coverage of extension services with the goal of increasing input use and agricultural production (World Bank/IFPRI 2010). Consequently, in four regions in Ethiopia, districts were given the responsibility to provide rural services, including extension services and drinking water. In Ghana, extension service management was decentralized to district agricultural offices who answer to regional units of the Ministry of Food and Agriculture. Research and extension linkage committees, in charge of extension-research linkage, were also set up at the regional level to promote exchange between extension services and agricultural research (World Bank/IFPRI 2010). Since decentralization reforms in Bolivia, municipalities play an increasingly important role in allocation of agricultural public spending (Cuesta, Edmeades, and Madrigal 2013). In India, agricultural services, such as extension, livestock and veterinary services, irrigation, and so forth, are decentralized. The states are responsible for allocating responsibility for these services to the three levels of local government in India. There is therefore considerable discrepancy across states regarding the level of government managing different agricultural services (World Bank/IFPRI 2010).

Evidence from Uganda illustrates some of the challenges related to decentralization of agricultural service delivery, especially in terms of intergovernmental coordination. While social sectors such as education and health benefited from decentralization, confusion among different tiers of government regarding responsibilities over management and operation of funding of agricultural services led to underprioritization of resource allocation in agriculture to local governments (Bashaasha, Mangheni, and Nkonya 2011). A review of selected district budgets from 2003 finds that the proportion of resources dedicated to production and marketing (which includes agricultural services) was between 1 and 3.5 percent (Francis and James 2003). In the absence of proper management, extension agents were left without guidance and supervision and the population complained about service quality. In Nigeria, one of the main challenges identified in agricultural service delivery and decentralization is related to the lack of clearly defined roles and responsibilities—that is, financial, provisional, or standard-setting—of each tier of government in service delivery (Mogues et al. 2012).

In particular contexts, decentralization seems to have a positive impact on public-spending responsiveness. Using the case of Bolivia, Faguet (2004) compares the alignment of public investments and corresponding district indicators, such as the correlation of public investments in water and sanitation and the level of access to drinking water. The study uses investment data from 10 sectors and information from all Bolivian municipalities. The study covers the period 1987–1996, which makes it possible to look at the impact of decentralization of public service provision that was initiated in 1994. Within all sectors, spending became more aligned with local needs after the decentralization reform. Cuesta, Edmeades, and Madrigal (2013) examine alignment of public investments[4] in agriculture with vulnerabilities to food insecurity by looking at Bolivian municipalities in 2002, 2006, and 2007. Similar to Faguet (2004), the authors find that agricultural spending is highly associated with elevated levels of food insecurity and therefore local needs. However, the authors find that investments have limited impact on vulnerability to food security. In sum, it seems as though, in the case of Bolivia, decentralization has indeed improved targeting of public investments; however, the investments seem to have had a limited impact. Enikolopov and Zhuravskaya (2007) use data from 75 developing countries over a 25-year period to assess the role of political institutions in the outcome of fiscal decentralization. Their results indicate that contextual factors such as weak local government capacity and fractionalization of government parties may play an important, detrimental role in determining the outcome of decentralization—including the quality of public goods provision.

Cross-country evidence supports the argument that decentralization leads to decreased levels of corruption. Fisman and Gatti (2002) use a sample of 59 countries over a 15-year period (1980–1995) to assess the relationship between fiscal decentralization and corruption. They find that fiscal decentralization is associated with lower levels of corruption (*International Country Risk Guide*'s corruption index). However, Fan, Lin, and Treisman (2009) argue that decentralization can increase corruption if it increases the number of government and administrative tiers and makes government structures more complex. They draw from a sample of 80 countries and use a firm-level survey on concrete experiences with bribery as a corruption measure and use different measures of decentralization (number of tiers, size of lowest level of tier, and so on). These results imply that more complex governmental structures are a result of decentralization, which has been observed in several African countries (Burkina Faso, Ivory Coast, Ghana, Kenya, Mozambique, and Uganda) (United Cities and Local Governments 2011).

Although positive impacts have been identified, the concern exists that decentralization increases the risk of local elite capture. This would have a regressive effect on public spending since it diverts resources to benefit the nonpoor at the expense of the poor. The hypothesis of elite capture in the context of decentralization relies on the notion that higher-status individuals in a given locality are more empowered to influence politicians in their locality than they are national politicians. Alternatively, local elites can capture local governments by themselves becoming local politicians or bureaucrats. Capture of public resources on the part of well-off groups can be found at all levels of government, but larger competition among elites and other interest groups at the central level will decrease the relative influence of any given elite interest and mitigate the risk of capture.

A theoretical paper by Bardhan and Mookherjee (2006a) argues that the outcome of decentralization in terms of responsive spending is a trade-off between the positive effect of decreased corruption and the negative effect of increased elite capture. The paper concludes that the outcome of decentralization reforms will depend on the method of financing local governments. In the context of elite capture, the authors find that user fees may limit the regressive and coercive nature of local taxes while not undermining local autonomy and flexibility as often is the case with intergovernmental transfers. The authors acknowledge, however, the inherent downside of user fees, which are usually flat rated, when the objective is to provide services to the poorest citizens. The level of elite capture may be determined by the local context. Kosec (2014) looks at how Brazilian municipalities allocated revenue shocks during the period 1995–2008. The study finds that municipalities with higher income inequality are relatively less

[4] They include all three tiers—central, departmental, and municipal—in their analysis of public investment.

likely to allocate resources to sectors that predominantly benefit the poor—such as public education. In Brazil, elites tend to send their children to private schools. Municipalities with higher income inequality are, instead, more likely to invest in infrastructure—a public good that is enjoyed by all. In line with the result on elite capture related to participatory budgeting and CDD, this indicates that levels of local inequality may reinforce elite capture.

An effect of decentralization may be administrative unit proliferation—the separation of subnational delimitations into smaller units. In cases where marginalized elite groups exist within a district, it is likely that such groups want to create their own subnational government to gain more control over public funds. The division of subnational entities into smaller units is becoming an increasingly common phenomenon in Africa. Half of countries in Africa south of the Sahara have increased their number of administrative units by more than 20 percent since the mid-1990s. While seemingly in line with the process and objectives of decentralization—bringing people closer to their political authorities—local government proliferation is largely politically motivated. It can hurt pro-poor spending by diverting funds that could have been used for service provision toward the fixed costs associated with the establishment and maintenance of new local governments. In addition, allowing for the creation of smaller units can lead to a re-centralization of responsibilities, since smaller subnational units have less capacity and are more dependent on support from the central government. A case study from Uganda shows that presidents allowing subnational administrative proliferation are rewarded with increased electoral support. In the study, Grossman and Lewis (2014) use a subdistrict-level database including information about local political dominance and economic activities. The study shows that counties that receive disproportionally little in the within-district resource allocation are more likely to split with the district to start a new one. This is true for counties in which the ethnic majority is different from the district ethnic majority. There is an electoral bonus associated with allowing counties to split from their districts for the incumbent president of between 2.5 and 3 percent. The process of administrative proliferation is driven by relatively marginalized local elites who seek to capture political power and public resources and by incentives of the incumbent president to gain electoral support and strengthen ties with local elites. This happens at the expense of local autonomy and more efficient use of public resources.

6. DELEGATED TARGETING OF TRANSFERS

The transfer of public funds targeting disadvantaged groups is a widely practiced form of pro-poor resource allocation. Among the most common types of targeted transfers are unconditional and conditional cash transfers, in-kind transfers, and subsidies. Among the governance arrangements discussed here, targeted transfers are the most common mechanism used in the agricultural sector, primarily through input subsidy programs. Targeted transfers generally have a predefined distributional mechanism that determines how the funds are allocated to reach the targeted population. It is common for governments in developing countries to delegate the task of identifying beneficiaries of transfer programs to subnational entities. Those entities may be governmental, community based, or private. Delegating the targeting of transfers to local levels may make targeting more efficient by improving access to information of beneficiaries and enabling the population to hold administrators and authorities accountable for how they distribute resources. Delegated targeting of transfers is different from decentralization in the sense that it applied to a specific governmental transfer program and not a broad set of services and is not necessarily managed by local authorities. Since transfers, in many cases, are formula based, it is the most top-down institutional arrangement included in this analysis. The following discussion focuses on the factors that affect the capacity of delegated targeting of transfers to reach poor or lower-income people, and thus make this form of public spending more pro-poor.

In recent years numerous countries, especially in Africa south of the Sahara, have implemented input subsidy programs that supply inorganic fertilizer, improved seed, and other inputs to smallholder farmers in subsidized rates. In many such countries, input subsidy programs—though in many cases referred to by different names and descriptions—make up a substantial part of the government's agricultural sector budget. Most transfers use subnational entities as part of the distribution process. The nature and involvement of the subnational entities differ across countries. In the input subsidy program in Zambia, individual farmer beneficiaries are selected by farmers' cooperative boards. The Ministry of Agriculture and Co-operatives then allocates the subsidies to districts, in theory based on the lists of beneficiaries. The districts are then responsible for distribution. This is a fairly bottom-up system, at least in theory, where local entities are both in charge of the selection of farmers and the distribution of inputs. In the Food-for-Education transfer program in Bangladesh, targeting decisions are made on both a central and a community level. The central state distributes funds across districts based on a predetermined formula. In a second stage, families are selected on a community level. Table 6.1 provides an overview of a number of transfer programs and evidence on how well they are targeting their intended beneficiaries. The transfers included in the table are either targeted primarily on a subnational level (as in the case of Zambia) or have elements of both higher-tier government targeting and local targeting but the studies look explicitly at within-village or within-community targeting. This makes it possible to compare the performance of delegated targeting with that of central targeting.

Table 6.1 Factors affecting targeting of transfer programs with delegated targeting

Intervening factors driving access to subsidies	Malawi: *Farm input subsidy program*	Zambia: *Farm input subsidy program*	Tanzania: *Input voucher program*	Bangladesh *Food-for-Education*
Year of evaluation	2009/2010	2009/2010	2003/2004/2009	1995/1996
Size of sample	7,795 HHs	8,836 HHs	~650 HHs (37 villages)	1,200 UPs, 3,625 HHs
Level of administration	State allocates across districts. Community-level HH targeting.	Community-level HH targeting.	Community-level HH targeting.	State allocates across districts. Community-level HH targeting.
Elite capture	Relatively well-off HHs (in terms of landholdings and assets) are targeted at the community level.	HHs with larger landholdings get more.	HHs with larger landholdings receive more than targeting guidelines suggest.	Targeting is mildly pro-poor on an intravillage level.
Gender	Gender of HH head not significant.	Gender of HH head not significant.	Female-headed HHs less likely to receive voucher.	Gender of HH head not significant.
Remoteness	Not taken into account.	HHs further from main district marker or feeder road, or both, get less.	No significant difference in distribution depending on access.	Remote villages are less likely to target the poor.
Local political targeting	Village head, VDC member, or traditional authority in HH network more likely to receive and more likely to receive more coupons.	HHs residing in constituency where incumbent president won last election more likely to receive.	HH with member with elected position in village council (11%)/voucher village council (27%) more likely to receive voucher.	Presence of Grameen Bank in village—more pro-poor.

Sources: Kilic, Whitney, and Winters (2015); Mason, Jayne, and Mofya-Mukuka (2013); Pan and Christiaensen (2012); Galasso and Ravallion (2005).

Notes: HH = households; UPs = *union parishads* (local government areas); VDC = village development committee.

One of the main concerns with delegated targeting of transfers is elite capture on a local level. To be able to analyze local elite capture, one has to assess the performance of targeting on a local level, that is, within-community or within-village targeting. The evidence presented in the table does not provide a straightforward answer. Clear evidence of elite capture is identified in the cases of Zambia and Malawi. In those countries, relatively better-off households gained more from the input subsidy programs than the poor. On average, relatively large farmers received more inputs, even though the objectives of the input programs were to support the “resource poor” in Malawi and “vulnerable but viable” smallholder farmers in Zambia (Kilic, Whitney, and Winters 2015; Mason, Jayne, and Mofya-Mukuka 2013). Mason, Jayne, and Mofya-Mukuka (2013) assess the factors affecting receipt of fertilizer subsidies in the 2010/2011 agricultural year in Zambia. They find that even though households with two to five hectares of land made up only 23.5 percent of the country’s poor smallholders, they received 41 percent of total fertilizer subsidies distributed through the program. In contrast, households with one-half to one hectare received only 13 percent of the subsidies, despite being 26 percent of the country’s poor smallholders and making up 24 percent of all households. A multivariate analysis focusing on factors determining receipt of fertilizer subsidies shows that size of landholding, value of farm equipment, and livestock are significantly and positively associated with beneficiary status of farmers, as well as with the amount of fertilizer received through the program. Moreover, households with more educated and older heads living closer to a district town or a feeder road are more likely to receive, and receive large, quantities of subsidies. . A similar analysis on the allocation of fertilizer coupons in Malawi concludes that size of land holdings and value of assets are positively and significantly associated with receiving coupons and the number of coupons received (Kilic Whitney, and Winters 2015). Similar to the case of Zambia, years of schooling and household head age are positively associated with beneficiary status, indicating that social status and seniority are rewarded in a community context. Having a village head, village committee member or traditional authority in the household's network increases the likelihood of receiving a coupon. On the other hand, having a parliamentary member or extension agent residing in the community does not have an impact. These findings indicate that targeting is primarily occurring on a community level rather than a national level.

Transfer programs with targeting mechanisms on both central and subnational levels provide an opportunity to compare the performance of delegated targeting with that of central targeting. Two studies using similar methodologies do that—Kilic, Whitney, and Winters (2015) in Malawi and Galasso and Ravallion (2005) in Bangladesh. The fertilizer subsidy program in Malawi has targeting mechanisms in place on three tiers: governmental, district, and community. Households are selected on the community level. To evaluate the ability of different tiers to allocate resources to the poor population, Kilic, Whitney, and Winters assess the quality of targeting by comparing (1) interdistrict, (2) intradistrict and intercommunity, and (3) intracommunity resource allocation. They construct three different proxies for "resource poverty" using consumption data, landholdings, and assets. They find that the national government and districts are poverty neutral in their resource allocation. It is on the community level that some targeting is taking place. Depending on the poverty measure used, targeting on a community level is either mildly regressive (assets, landholdings) or mildly pro-poor (consumption).

Galasso and Ravallion (2005) look at distribution through Bangladesh's Food-for-Education program. In this program, the central state is responsible for allocating funds across villages, and local committees select beneficiary households at the village level. The study finds no evidence that the central state is targeting poor villages, although the targeting is supposed to be driven by a predetermined formula. In contrast to the fertilizer subsidy programs in Zambia and Malawi, the authors find that village targeting is mildly pro-poor, which contributes to an overall pro-poor effect of the program on an aggregate level. They also find considerable heterogeneity in their results. In 25 percent of villages, targeting was regressive. When looking at factors affecting targeting, they find that land inequality and remoteness in terms of lack of connectivity are significantly and negatively associated with pro-poor targeting on a village level. The quality of pro-poor targeting improved as more resources were transferred to the villages from the central state as the marginal gains benefited the poor. The results indicate that, in the case of Bangladesh, villages' information advantage has a positive effect on pro-poor targeting. Elite capture seems to be a problem only in certain contexts—inequality, remoteness—and under resource constraints. The latter finding was also identified in Tanzania. Pan and Christiaensen (2012) find that input vouchers in a delegated transfer program failed to reach the target group—especially in more unequal and relatively distant districts. Out of the selected beneficiaries, 60 percent were families with members in the village council in charge of determining eligibility of families. This significantly reduced the targeting performance of the program overall. It is an example in which local clientelism through a delegated targeting system negatively affects quality of overall pro-poor targeting and program impact.

In the cases of elite capture looked at so far, the focus has been on intracommunity or intravillage targeting. Another way local elites can capture public resources is by affecting the type of resources being secured by the local authorities. In West Bengal, India, the state allocated agricultural services to villages, which were then distributed across households on a village level. To evaluate targeting, Bardhan and Mookerjee (2006b) use data on allocation of services (including credit, agricultural input kits, employment programs, and fiscal grants) in a longitudinal sample of 89 villages covering the period 1978–1998. They categorize better-off and worse-off households based on landholdings, literacy, and caste. The authors find that villages with relatively high levels of landlessness, land inequality, and low caste status are associated with an overall reduction in receipt of agricultural input kits and grants, which leads to between-village elite capture—that is, relatively poor villages receive less. The authors argue that local governments in richer and more economically homogenous villages are more likely or enabled to secure transfers from the state—and hence receive more. They also find evidence of within-village elite capture. In villages with high levels of landlessness and land inequality, the local government is less likely to select employment programs that generate relatively more employment for poor.

As mentioned above, the local context plays a more significant role when the targeting of transfers is delegated to local entities, since the local context matters for performance. Differences on a local level may influence the overall outcome of a program nationally. In the Chinese antipoverty program Di Bao, municipalities are in control of setting the eligibility criteria in terms of income levels and selecting beneficiaries. To evaluate the effects of having delegated eligibility and selection control, Ravallion (2009) uses a household survey and finds that the program design generated horizontal inequality caused by local heterogeneity, which has a negative impact on the program's ability to reach the poor nationally. The poorer municipalities systematically set the eligibility line at a lower income level, making it more difficult for poor households with an income close to the eligibility threshold to be selected in those municipalities (thus saved resources were not distributed among the very poor). In contrast, the poor that are not among the lowest-income continued to benefit from transfers in the more unequal municipalities where thresholds are more generous. However, the author finds that the impact of this on the overall poverty effect of the program as a whole is very small.

Politics matters for the outcome of delegated transfer programs. De Janvry, Finan, and Sadoulet (2012), for example, look at political incentives of local politicians and program performance. They find that a conditional cash transfer program in Brazil was 36 percent more successful in municipalities where the mayor had a chance of being reelected. There is significant evidence on the prevalence of political targeting of transfers. This is a recurring phenomenon in weak democracies and nondemocracies, and it affects the performance of pro-poor targeting. In some of the cases mentioned above, political affiliation on a local level improved the likelihood of program participation. In Malawi, having a local leader in the household's network had an impact. In Tanzania, households with a family member who was politically active or engaged in the local committee were much more likely to be beneficiaries. National politics matters as well. In the case of Zambia, households residing in a constituency where the incumbent party won the last presidential election were more likely to receive subsidies and more likely to receive larger quantities (Mason, Jayne, and Mofya-Mukuka 2013). Similar effects were found in Malawi, Nigeria, Ethiopia, and Kenya. Findings of political rewarding or punishment strategies are observed, for example, in targeting biased (1) toward districts where the ruling party had political support, as in Zambia and Malawi (Mason and Ricker-Gilbert 2013); (2) toward households residing closer to the locality of origin of political leaders, as in Nigeria (Takeshima and Liverpool-Tasie 2015); (3) against individuals suspected of having voted for the opposition party, as in Ethiopia (Adem 2012); or (4) toward districts where the incumbent received *less* support than the challenger in the last election, in order to secure his or her position in the next election, as in Kenya and Ghana (Banful 2011; Jayne et al. 2013). In the latter case, politicians try to buy votes by using transfers to selectively "win over" households in areas where political support is weak.

Such political factors are important because political targeting may undermine pro-poor prioritization in public spending. A study by Khemani (2015) assesses the impact of vote buying on politicians' incentive to invest in pro-poor sectors, such as education and health, using local electoral data from 2010 in the Philippines. The results suggest that in municipalities where favorable conditions for political targeting—such as vote buying—exist, the elected official will be less likely to carry out pro-poor investments and more likely to deliver public services of lower quality. The explanation for this is that when politicians buy votes through short-sighted targeted transfers, they are less likely to invest in the type of long-term inclusive public services that are typically pro-poor. She corroborates the results from the Philippines using the Afrobarometer surveys undertaken in 33 countries between 2011 and 2013. In that analysis, she finds that vote buying was consistently and robustly associated with lower quality of public services.

7. CONCLUSION

As Table 7.1 shows, the success of various institutional arrangements that seek to improve the responsiveness of public spending to the needs of poor populations is mixed. Political targeting has been identified as an important determinant of spending in all governance arrangements. And local elite capture is a key factor dampening pro-poor spending. More unequal societies are particularly vulnerable to capture. Mechanisms such as participatory budgeting and CDD are assumed to have a decreasing effect on corruption by making spending more transparent, but evidence supporting or disproving this is lacking. Decentralization is found to decrease corruption. In terms of actual effects on responsiveness and pro-poor resource allocation, evidence is scarce but cautiously optimistic in regard to participatory budgeting, CDD, and decentralization. As for delegating the targeting of transfers to subnational authorities, evidence suggests that the effect may be regressive.

To some extent development interventions and reforms have sought to account for political economy phenomena, with the goal or expectation that sensitivity in program design to political economy factors will improve pro-poor spending allocations in agriculture and in other sectors. The discussion, however, also points to the failures alongside the more hopeful outcomes from such interventions. From this evidence emerge some implications for policy makers and international development partners.

Table 7.1 Summary of the impacts of the four institutional arrangements

		Level at which intervention operates	From intermediate to further-reaching outcomes →			
			Political targeting	**Corruption**	**Local capture**	**Responsive-ness of public spending/ services to poor's needs**
From most to least explicit focus (in the design) on participation of the poor ↓	**Participatory budgeting (PB)**	Local administrative unit	Prevalent in top-down initiatives and when civil society is weak	Theorized benefit (little empirical evidence)	Some evidence suggesting over-representativeness of local elites in PB	Increased responsiveness when civil society is strong
	Community-driven development	Communities/ groups of individuals	Politically connected HHs	Theorized benefit (little empirical evidence)	Especially in unequal societies	Mixed
	Decentralization	Local admin. units (such as district)	Splitting subnational units for political gain	Decreasing effect	Especially in unequal societies	Local context matters
	Delegated targeting of transfers	Individuals/ households	Both when targeting administration is centralized and decentralized	Evidence of corruption, but is usually at higher level than actual or intended beneficiaries	Particularly significant for delegated targeting; especially when allocation rules are unclear	Under certain local circumstances

Source: Authors' own elaboration.

Inclusionary mechanisms for public resource allocation, such as participatory budgeting, can be supported and fostered, especially where a strong civil society already exists. The latter is an important complementary institution that can help aggregate citizens' preferences and give them voice—important features in the process of participatory budgeting. In institutionalizing such a reform, using wherever possible already-existing formal and informal platforms and governance arrangements reduces the transaction costs of, for example, setting up participatory committees and other bodies needed for the process. Participatory budgeting arrangements should also go hand in hand with, or preferably be preceded by, reforms to create allocative discretion for resources at the local government level. If certain types of revenues or funds of local government are heavily tied to particular activities, these should be excluded from the budget that will be apportioned using participatory budgeting processes.

Community-driven development projects, which the World Bank and other international agencies have widely supported in addition to developing-country governments' own initiatives, may want to experiment with novel arrangements that mandate the inclusion of poor and disadvantaged individuals in CDD processes. Although this has rarely been tried—and where tried no rigorous evidence on its effects has been collected—lessons can be learned and appropriately adapted from evidence on mandating inclusion and participation of disadvantaged groups in other institutional mechanisms, such as political leadership.

In most developing countries, substantive low-hanging fruit exists to improve the functioning of the institutional mechanism of decentralization, and that may be because the design of this institution serves many purposes, only one of which may be to improve pro-poor spending. The allocation of resources in a decentralized context can strongly benefit from putting in place concrete mechanisms that directly incentivize local government administrators to be responsive to the needs of individuals and not only to local elite groups. Mechanisms to strengthen electoral accountability are perhaps the most direct means, where the broader political governance environment is not prohibitive of such mechanisms. Mechanisms to increase local government actors' incentives to attend to the priorities of poor citizens in their jurisdiction should be matched by support to local officials' public management capacity, as well as support to citizens' information base on the actions as well as the performance of local governments.

The inefficiencies and poor targeting of transfers and subsidies—for example, in agricultural inputs—can be dramatically reduced (even if of course not eliminated) through operational features that improve the clarity and reduce the ambiguity of eligibility criteria, paired with an increase of transparency and information about which localities, and within localities which households, have become eligible to receive the transfers. Under such an arrangement, it is likely that the tradeoff between, on the one hand, the clarity emerging from more straightforward and easy-to-measure eligibility criteria and, on the other hand, the more refined targeting by consideration of more complex, multidimensional factors and characteristics of households will have a net effect of improving access by the intended poor to the subsidies or transfers, given the substantial opening that complex criteria create for diversion. It can also reduce the administrative cost of such programs by cutting back on how involved the eligible beneficiary selection process needs to be.

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