



Can vouchers reduce elite capture of local development projects? Experimental evidence from the Solomon Islands[☆]



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ABSTRACT

External financing of local public goods can potentially create 'political resource curses' by reducing citizen oversight, exacerbating elite capture, and producing policy outcomes that are sub-optimal for the general population. This paper experimentally tests a novel mechanism that seeks to mitigate elite capture of local development projects. Control communities are provided with block grants to fund local public goods, while households in treatment communities are provided with vouchers that they may either contribute to a public good or redeem at a discount for a private capital good. We find that the use of vouchers as a mechanism for aid delivery increases community participation in local public decision-making, changes the nature of allocation outcomes, and improves community satisfaction with allocation outcomes.

1. Introduction

As far back as Montesquieu's "Spirit of the Laws",¹ social scientists have argued that the accountability of political authorities is influenced by the nature of public revenue. Where revenues are derived predominantly from rents instead of direct taxation, citizens are less likely to exert demands on their leaders, which in turn adversely affects the delivery of public goods (Brollo et al., 2013; Herb, 2005). The impact of foreign aid on development outcomes has long considered to be limited by such "political resource curses" (Djankov et al., 2008; Rajan and Subramanian, 2007). Partly due to such concerns, modalities that involve local communities in the selection, management, and monitoring of development projects have become increasingly popular among aid agencies in recent decades (Casey, 2018; Fung and Wright, 2003). Studies indicate, however, that the local public good decision-making processes prescribed by these modalities are often captured by elites (Mansuri and Rao, 2013) and that they may thereby only localize the political resource curse. Innovations to reduce the extent of elite

capture have, to date, met with limited success (Banerjee et al., 2010; Beath et al., 2017; Olken, 2007, 2010).

In this paper, we present a novel mechanism to reduce elite capture of local public decision-making by channeling external resources to fund public goods through citizens. The mechanism provides households in villages covered by a development program with vouchers which households may either contribute to a proposed local development project or redeem at a discount for private use. By providing villagers with the collective ability to de-fund a non-accountable local authority and by establishing the private opportunity cost of public expenditure, this voucher-based modality seeks to encourage the formation of a fiscal social contract between elites and villagers. As such, it is envisaged that the modality will increase the incentive for local authorities to propose and/or support publicly beneficial projects and will increase villager participation in project selection and monitoring, thereby resulting in higher quality projects.

To test the effects of vouchers on project selection, we administered a field experiment across 80 villages in the Solomon Islands, a country

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¹ See "Book XIII. Of the Relation Which the Levying of Taxes and the Greatness of the Public Revenues Bear to Liberty".

where local authorities have historically exercised authority over local public decision-making. The field experiment was centered around structured community activities (SCA) (Casey et al., 2012). In each village, 20 randomly-selected adults were each provided with 10 notes, which could be redeemed for either 10 Solomon Island dollars (SBD 10, approximately USD 1.40) each if contributed to a public fund, or SBD 5 each if retained for private consumption. In the control villages, the maximum fund amount (SBD 2000, approximately USD 300) was provided as a block grant with no individual contributions required and no possibility for households to retain any portion of the grant for private consumption. In both treatment and control communities, the public fund could be used to purchase items selected by participants from a pre-set menu of materials at a local hardware supplier. Importantly, participants made their decisions anonymously, thereby avoiding the potential for intimidation and/or retribution. Apart from the way in which the funds were distributed, all features of the process were the same across both treatment arms.

The results of the experiment indicate that the use of vouchers substantially alters both the selection process and allocation outcomes, although the effects on project implementation outcomes and general welfare are ambiguous. Compared to control villages, the voucher-based modality increases the duration of discussions about project selection among participants and the average number of times community members speak during such discussions. The voucher treatment changes the types of projects that are selected by the group and, specifically, increases the probability of health-related interventions receiving funding. Villagers also perceive project outcomes to be fairer under the voucher scheme. The treatment effects on participation in the discussion and fairness perceptions are stronger for individuals who had not previously taken part in community decision-making. As expected, however, the voucher scheme reduces the volume of funding available to villages, with treatment villages receiving just 79% of funds available (58% of the total available in public good contributions and 21% in vouchers redeemed for private cash payments). With available data, we are unable to assess whether this reduced flow of funds was associated with reduced welfare. Furthermore, with the limited data available, we do not observe differences between control and treatment communities in the speed with which they obtain materials and implement selected projects.

2. Background

2.1. Sample villages

The study occurred between June and August 2013 across 80 villages randomly sampled from the population of villages participating in the Solomon Islands Rural Development Program (RDP). Launched in 2008, RDP was implemented by the Solomon Islands' Ministry of Development Planning and Aid Coordination (MDPAC) and was supported by AusAID, IFAD, and the World Bank. A community-driven development (CDD) program, RDP financed investments identified by villagers through a participatory process. Existing local institutions, such as tribal councils and churches, planned and managed RDP activities at the community level and supervised implementation of small works.

The 80 sample villages are small, with an average population of 488 people, and isolated. The average travel time to the respective provincial capitals is 12 h and it takes an average of two-and-a-half days to reach the capital. The vast majority of villagers (82%) rely on subsistence fishing and horticulture. Most villages do not have access to electricity, running water or sanitation. Four out of every five households use rainwater catchments for drinking water, only have access to solar lamps for lighting, and lack access to improved sanitation. In this context, the financing provided by RDP offers a vital opportunity to upgrade local public facilities and services.

Given the isolation of the sample villages, formal government

structures are of limited relevance. Most of the villages (85%) are governed by traditional village chiefs, with elected leaders (8%) and/or church leaders (13%) providing local governance services in a much smaller proportion of communities, and a number of villages having more than one type of village leader. All villages have one or more churches, which also serve as the community hall for meetings. Religion is an important part of daily life, with nearly all villagers claiming a religious affiliation.

As in other cases, our sample was limited by budgetary constraints, and the precision of cross-village treatment effects are thus limited for some outcomes. We discuss the minimum detectable effects implied by our estimates with each of our primary cross-village results.

2.2. Intervention

CDD programs, and decentralization efforts more broadly, must contend with the challenge that local public good decision-making is often subject to capture by elites. Various studies, for instance, note that participants in local public decision-making are generally wealthier, more educated, hold higher social status, and are more politically connected than non-participants (Mansuri and Rao, 2013; Pradhan et al., 2010; Arcand and Fafchamps, 2012; Mansuri, 2012). As a result, the outcomes of local public decision-making often align with the preferences of local elites (Fritzen, 2007; Labonne and Chase, 2009; Rao and Ibanez, 2005). While such elite capture is not necessarily detrimental to the general interest if it enables better-informed and benevolent elites to exert more influence, villagers perceive that they are worse off in cases where elites have more influence over project selection (Beath et al., 2017). Moreover, CDD programs are found to adversely affect the quality of decision-making by local leaders (Beath et al., 2013), a result attributed to the effect of external financing on the accountability relationships between local leaders and the community (Brick, 2008).²

We therefore aimed to develop an intervention that provided participants with the power to incentivize public spending that is in line with their own individual preferences. Prior efforts to encourage greater participation by non-elites in the public good selection and implementation process had met with little success. For example, many CDD programs employ facilitators who guide communities through a needs identification and implementation process (Mansuri and Rao, 2013), although the presence of facilitators appears to shift the project choices toward the preferences of the facilitators themselves (Platteau and Gaspart, 2003). Referenda to select local projects from a menu provided by a CDD program improve citizen satisfaction, but do not change the type of projects selected (Olken, 2010), nor increase the effectiveness of implemented projects (Beath et al., 2017).³ Rather than alter the process or the participants of discussions around public good funding, we instead chose to provide participants with fiscal control over this funding, while accounting for common free rider challenges.

In the 80 sample villages, leaders were asked to invite all available adults to a community meeting on a specified date. The meeting was typically held in local schools or public buildings, protected from outsiders' intrusions. Attendees of this meeting represent the sampling frame for the participants in the experiment.⁴ From this frame, 18

² A related experimental literature shows the correlation between leaders' preferences and community members' behavior, from cooperation (Kosfeld and Rustagi, 2015) to contributions to public goods and private investment (Beekman et al., 2014; Jack and Recalde, 2015).

³ This result is consistent with evidence on individual valuation of decision processes, independently from decision outcomes (Guth and Weck-Hannemann, 1997; Fehr et al., 2013; Bartling et al., 2014; Owens et al., 2014), and on control aversion among individuals (Falk and Kosfeld, 2006).

⁴ It is possible that leaders may have selectively invited villagers to the meeting and/or that villagers may have self-selected based on their needs and/or capacity to exercise voice. Using data concurrently provided by a random sample of 10 households in each village, we find that participants have slightly higher ownership of toilets than non-

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