



# Elite capture risk and mitigation in decentralized forest governance regimes



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## ABSTRACT

Recent scholarship focuses on elite capture as a driver of social inequality and a source of policy failure across a wide range of governance initiatives. In the context of environmental governance, concerns center on perceived links between elite capture and decentralization, particularly in developing countries where decentralized natural resource governance has been widely implemented. But, there is limited empirical knowledge regarding if, and the conditions under which, decentralization might promote elite capture, or whether institutional design factors can militate against it. We examine how local institutional arrangements under forest sector decentralization affect the risk of elite capture of forest benefits, as well as the potential for a key institutional design factor (linkages to external organizations as an accountability-building mechanism) to mitigate this risk. We analyze forest product harvesting data as well as social, ecological, and institutional data from pre- and post-decentralization across 56 forests and 174 community groups in four countries. We employ hierarchical linear modeling to test the extent to which decentralization is associated with inequities in the distribution of forest harvest benefits within communities, and to characterize the institutional arrangements that affect elite capture outcomes. We find not only strong evidence for increased local rule-making under decentralization, but also significantly higher risk of elite capture of forest harvest benefits. This risk increases with increasing time since decentralization, but it is also substantially moderated in cases where an external organization was involved in organizing the local forest institution. Our findings highlight ways in which decentralization reforms are filtered by institutional arrangements to produce different outcomes, and generate new knowledge on micro-institutional factors that can reduce the risk of elite capture in decentralized environmental governance regimes.

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## 1. Introduction

Elite capture refers to the process by which local elites – individuals with superior political status due to economic, educational, ethnic, or other social characteristics – take advantage of their positions to amass a disproportionately large share of resources or a flow of benefits (Bardhan, 2002). Scholarly concerns over the production and ramifications of elite capture have a long history that extends across a diverse range of governance research, for instance having been scrutinized in contexts as disparate as corporate networks (Useem, 1979), urban politics (Bassett, 1996) and globalization (Farazmand, 1999). More recent concerns around elite capture also feature prominently in development and environmental governance research, including water, health,

forest, and lands sectors, where it is frequently cited as a major risk associated with government decentralization (Bardhan and Mookherjee, 2005, 2006; Blair, 2000; Crook, 2003; Dreze and Sen, 1996; Fox, 1996; Imai and Sato, 2012; Palmer and Engel, 2007; Platteau, 2004), and highlighted as a source of policy failure in natural resource governance spheres (Iversen et al., 2006; Larson, 2011; Saito-Jensen et al., 2010; Topp-Jorgensen et al., 2005; Vyamana, 2009).

While the notion of elite capture as a potentially derailing force for decentralization is widely recognized, there is limited empirical knowledge to date about the institutional and related conditions under which it is produced or intensified (Bardhan and Mookherjee, 2005, 2006; Schreckenberg and Luttrell, 2009; Vyamana, 2009). There is even less understanding of the factors that could potentially militate against the risk of elite capture under decentralized strategies. This knowledge gap is unfortunate, because studies show that elite capture can lead to further social and economic marginalization of individuals who are already poor, and exacerbate existing levels of poverty and inequality in the

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aggregate (Barron and Clark, 2006; Platteau and Gaspart, 2003). Deepened social cleavages, in turn, are linked to a wide range of governance problems, including difficulties in the creation and maintenance of essential public goods, rule compliance more generally, and increases in conflicts, crime rates, and violence between and within different societal groups (Alesina and Spolaore, 1997; Easterly, 2007; Fajnzylber et al., 2002; Sutinen and Kuperan, 1999; Tilly, 1999). A better understanding of how to minimize elite capture is thus essential for achieving more equitable and sustainable governance outcomes in developing country contexts.

Here we examine how forest sector decentralization affects local-level institutional arrangements and, in turn, the risk of elite capture, using a longitudinal social–ecological dataset from 56 forests and 174 community groups across four countries. Our aim is two-fold: (1) to test our dataset for empirical support of the conventional wisdom that elite capture increases under forest-sector decentralization; and (2) to test whether a key institutional design factor hypothesized in the literature (external accountability) indeed can play a significant role in reducing the likelihood of elite capture of forest resources under prevailing decentralization policies represented by the countries in our dataset. We complement these analyses with a brief summary of the extent of changes to forest decision-making that result from decentralization in our dataset, to better understand how these altered local level institutional arrangements affect the distribution of forest benefits across forest users. Our goal is to generate new knowledge on the micro-institutional factors that can reduce the risk of elite capture in decentralized natural resource governance regimes.

Our data are drawn from research sites in the International Forestry Resources and Institutions (IFRI) research program, whose scholars have collected a wealth of longitudinal data on a large number of social, ecological, institutional and governance variables from before and after forest sector decentralization reforms in several sites located in each of the countries represented in our dataset. Our investigation employs a three-pronged strategy. First, we frame the issue of elite capture (that is, the inequitable distribution of forest benefits) in decentralized regimes from an institutional perspective which focuses on how decentralization affects and is affected by the creation and enforcement of socially binding agreements related to forest use, and develop a series of testable hypotheses. Second, we structure our empirical inquiry to exploit the temporal variation of decentralization across a set of 56 forests and communities in four developing countries, also including a set of appropriate control cases that remained centralized over the same time period. Third, we employ quantitative analyses to test the extent to which decentralization influences the risk of elite capture of forest harvest benefits, and whether key local-level institutional arrangements function to alter this risk.

### 1.1. Previous research: core contributions from the local governance literature

The current movement by country governments to decentralize their natural resource sectors (most commonly, wildlife, forests and water resources) is one of the most significant and widespread environmental policy trends in recent decades, and is itself embedded within an encompassing shift to decentralization that has now been embraced by nearly all nations around the world (Faguet, 2013). Over the past thirty years, nearly all developing countries in the world have passed legislation to decentralize at least some portion of the rights, responsibilities, and public resources associated with natural resource governance to local administrative bodies, local community groups (communal management), or some combination of these agents (co-management)

(Agrawal and Ostrom, 2001; Larson and Soto, 2008; Phelps et al., 2010). A large body of literature which scrutinizes the impacts of natural resource sector decentralization has arisen in parallel, seeking to compare these different modes of decentralization, as well as to assess their outcomes relative to centralized approaches. Such research has yielded decidedly mixed results rather than clear consensus. This is perhaps unsurprising given widely varying governance and implementation arrangements for decentralization under different policies, varying country and other relevant contextual factors, and varying research approaches across the methods which are employed and the outcomes that are assessed. Nevertheless, some broad trends are increasingly apparent from the large number of rich case studies and growing number of larger-scale comparative studies and meta-analyses conducted to date. Decentralized natural resource management has clearly increased the variability of outcomes across local governance, resource conservation and livelihoods, as well as to induce more explicit attention to the trade-offs that must be negotiated via attempts to address each of these objectives together. In the context of rural development, recent studies point to broad improvements in local governance (Andersson et al., 2009; Grindle, 2007; Kauneckis and Andersson, 2009) and resource conservation as a whole (Phelps et al., 2010; Porter-Bolland et al., 2012; Somanathan et al., 2009), when substantive authority is sufficiently transferred to local institutions (Larson and Soto, 2008; Persha et al., 2011). But, findings around livelihoods outcomes for community members highlight a range of issues, with some studies pointing to generally positive outcomes, but several others drawing attention, for instance, to widening wealth gaps across households, improvements to subsistence but not income-based components of livelihoods, ineffective pro-poor targeting, or substantial scale differences between household and community level benefits under decentralization (Maharjan et al., 2009; Schreckenber and Luttrell, 2009; Sikor and Nguyen, 2007; Thoms, 2008).

Elite capture features prominently in much of this work, generally highlighted either as an implementation challenge to overcome, an unintended consequence, or a contributing factor for broader failure of decentralized initiatives (e.g., Bardhan and Mookherjee, 2006; Imai and Sato, 2012; Larson, 2011; Larson et al., 2010; Lund and Saito-Jensen, 2013). However, existing work typically does not focus on determining how elite capture itself might be created, sustained, or avoided. Guidance on how to avoid elite capture therefore remains extremely limited, in that it tends to endorse the general importance of local institutional arrangements, but remains stuck in exhortations to attend to structural characteristics such as heterogeneous social representation, gender equity, and elected representation (e.g., Chomitz et al., 2007; Saito-Jensen et al., 2010). Yet, empirical work shows clear examples of elite capture even when such structural characteristics are met. This insufficiency of knowledge on elite capture production, and how local level institutions might be structured to work against it, has wide-ranging repercussions for effective implementation of decentralization reforms around the world.

Here, we explore the extent to which elite capture may be structurally inherent in decentralized natural resource systems, in the absence of institutional arrangements that are designed to mitigate against it. In doing so, we raise the possibility that decentralization-driven improvements to forest conservation and community livelihoods may also come at the expense of increased inequality in the distribution of those benefits amongst local participants, suggesting a possible tradeoff between positive overall environmental and livelihood outcomes on the one hand and declining socioeconomic equality on the other. We therefore aim to juxtapose the current emphasis on decentralized strategies as a route for improved livelihoods and forests, with the suggestion

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