

A Conceptual Framework for Participatory Development

DESPITE THE RECENT UPSURGE IN INTEREST, PARTICIPATORY DEVELOPMENT policy is beset with a lack of conceptual clarity. Allocations of many millions of dollars are justified by little more than slogans, such as “empowering the poor,” “improving accountability,” “building social capital,” and “improving the demand side of governance.” Part of the conceptual challenge lies in understanding what these notions mean, how they fit within broader conceptions of development policy, and how they differ across diverse contexts and over time. This chapter presents a framework within which to think about some of these issues. The goal is to understand participatory interventions as a response to a development failure, much as other development interventions are viewed as responses to market or government failures.

The chapter begins by briefly reviewing the concept of market failure, the key construct used to justify development policy. It then reviews the extension of the basic notion of failure to the state before introducing the concept of civil society failure. The section on civil society failures discusses how a vibrant civil society can help mitigate market and government failures and illustrates how the interaction of markets, government, and civil society failures affect local development. The chapter argues that participatory development interventions should, for the most part, be understood as an attempt to repair civil society failure. This framework leads to an extended discussion of the various elements of civil society failure—the roles of coordination and cooperation, culture, inequality and elite domination, and group heterogeneity—and discusses some consequent challenges and concerns.

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Market Failure

Markets fail when they are unable to allocate resources efficiently. They fail for a variety of reasons: one party to a transaction may have more information than the other; a firm may monopolize control over a market by restricting the entry of competitors; failures in information or coordination may cause a common need to not be provided by the market mechanism, resulting in a missing market.

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Although inequality and poverty can coexist with both efficient and inefficient markets, market failures tend to deepen poverty traps and inhibit growth. Therefore, in theory, correcting or repairing market failures can help economies produce larger pies, and—in situations where the market failure disproportionately affects the poor—allocate larger shares of the pie to the poor. Correcting market failures is thought of as one of the central challenges of development (Hoff and Stiglitz 2001; Devarajan and Kanbur 2005). The other main challenge is distributing resources equitably—in particular ensuring that the poor benefit from development.

Many market failures are caused by externalities—situations in which an act produces a cost (or benefit) that is borne (enjoyed) by a party that was not involved in it. Externalities exist in the marketplace when the exchange of goods and services between two individuals has consequences, positive or negative, for people who were not involved in the decision.

A negative externality occurs when an individual or firm does not bear the full cost of its decisions. In this case, the cost to society is greater than the cost borne by the individual or firm. Examples include companies that pollute the environment without having to pay for cleaning it up. Negative externalities lead to the overproduction of goods and services, because sellers are not charged the full costs their goods and services impose.

A positive externality exists when an individual or firm does not receive the full benefit of its decisions. In this case, the benefit to society is greater than the benefit reaped by the individual or firm. Examples of positive externalities are spillovers from research and development or the pollination of crops by bees. Positive externalities lead to the underproduction of goods and services, because sellers are not compensated for the full benefits of the goods and services they create.

Coordination failures are a special case of externalities in which the failure of individuals “to coordinate complementary changes in

their actions leads to a state of affairs that is worse for everyone than an alternate state of affairs that is also an equilibrium” (Hoff 2000, 145). When parties to a transaction are unable to reliably connect and coordinate with one another, they are often forced into situations that make at least one of them worse off without making the other better off. The market is not always able to solve this problem, for a variety of reasons. Formal and informal institutions to enforce contracts may not exist or may be unreliable, for example, making transactions unpredictable and subject to manipulation and rent-seeking.

Another important cause of market failure is the existence of constraints in the distribution of information. Information is asymmetric when some firms or individuals have more information than others. Poor households typically have very little access to formal credit markets, for example, and rely largely on informal lenders partly because it is difficult for commercial banks to collect reliable information on their ability to repay loans.

Poverty and inequality exist in the absence of market failures, and market failures exist in the absence of poverty and inequality. But a highly unequal distribution of resources can amplify the effects of market failures such as failures of credit and labor markets. Market failures can also lead to highly skewed distributions of power or social status that are resistant to change, leading to poverty traps.

A poverty trap is a situation in which a group of people and their descendants remain in a perpetual state of poverty because of mechanisms such as credit market imperfections, corruption, dysfunctional institutions, or decreasing returns from investments in health, education, or physical capital. In an inequality trap, the entire distribution is stable, because—as noted in the *World Development Report 2006: Equity and Development*—the various dimensions of inequality (wealth, power, social status) interact to protect the rich from downward mobility and obstruct upward mobility by the poor (World Bank 2006; Rao 2006). The unequal distribution of power between the rich and the poor—between dominant and subservient groups—helps elites maintain control over resources and reduces the potential productivity of the poor. Credit and capital market failures tend to have a disproportionate impact on the poor, and asymmetries in information can both be caused by and perpetuate inequalities in income and power.

Consider, for instance, agricultural laborers working for a large landholder. Illiteracy, malnourishment, and indebtedness are likely to make it very difficult for such workers to break out of the cycle of poverty.

Important causes of market failure include externalities, of which coordination failures are a special case, and constraints in the distribution of information.

Even if laws were in place making it possible to challenge the landholder's dictates, illiterate workers would have great difficulty navigating the political and judicial institutions that might help them assert their rights. In many parts of the world, entrenched social structures widen this distance between landholders and laborers: landholders typically belong to a dominant group defined by race or caste, whereas tenants belong to a subservient group. Such group-based inequalities are more likely to be intergenerationally perpetuated when social norms and networks prevent intermarriage across groups.

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Inequity, which can exist even in perfectly functioning markets is, thus, a concern in its own right. In addition, it can combine with market failures to magnify inefficiencies and can result in situations in which the aggregate loss in welfare is disproportionately borne by the poor. These factors provide a rationale for government intervention where it can intervene in ways that improve outcomes—by, for example, providing services such as health, education, credit, or insurance to communities in which markets are unwilling or unable to do so or by implementing land reform or other equalizing interventions to correct for poverty and inequality traps.

Government Failure

The concern with looking to government to solve market failures is that problems of coordination, information asymmetry, and inequality also characterize the government. Government failure occurs when a policy or political intervention makes resource allocation less efficient than the outcome produced by the market (Besley 2006).

It is useful to distinguish government failures, which are common to all political systems, from political failures, which are government failures within a democratic framework. Like market failures, government and political failures are related to failures in information and coordination.

Looking to government to solve market failures is problematic . . .

Information failures. The classic information failure in governance is ignorance—the inability of a government to know the preferences of its citizens. Ignorance results in the misallocation of resources—providing schools where clinics are needed, building roads that head off in untraveled directions while septic tanks fester. Decentralization is often seen as a solution to this problem, because bringing government closer to the

people increases the public's access to information and the government's knowledge of citizens' preferences.

Another cause of government failure is information asymmetries—situations in which one set of agents in a transaction has more relevant information than another. Governments keep vast amounts of information that citizens cannot access—details about contracts for public projects, budgetary allocations, and lists of people under detention.

Coordination failures. Governments are continually subject to various types of coordination failures, which result in some people being unable to influence decision making while others have undue access to state favors as a result of lobbying, corruption, or both. Coordination failures can also arise when incentives in the political system prevent good candidates from running for office, resulting in societies being managed by ineffective leaders, or when polarized sets of preferences result in inaction (a failure of collective action). Coordination failures can create endemic problems such as absenteeism among public servants, which disproportionately affects schools and clinics in poor and isolated communities (World Bank 2004). They can also result in a “loss of the monopoly over the means of coercion” (Bates 2008), leaving countries vulnerable to civil war and ethnic strife.

Inequity. Just as in the case of market failure, the burden of government failure frequently falls disproportionately on the poor. Poor and illiterate people tend to suffer from vast gaps in information about laws and government procedures. In relatively stable societies with deep-seated inequalities, the rich are likely to use their influence to control the reins of power; in cases of complete state failure, politicians can use their power to extract resources from the poor and powerless, thereby transforming the state into an instrument of predation (Bates 2008).

One of the challenges of development is to understand where, when, and how to balance the power of the state against the freedom of markets. Can governments solve market failures and redress inequities in a manner that does not weaken market efficiency? Can markets take over the provision of services such as water supply, health, and education when a government is unable to do so? Can governments provide credit and insurance in underserved areas that the private sector will not enter? What level of government regulation will optimally solve information and coordination problems while not impeding the potential for sustainable growth?

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As markets and governments are fundamentally interconnected, the challenges of information and coordination influence not just failures within markets and governments but also the links between them. Institutional economists have demonstrated that development occurs when institutions are able to resolve market failures and address inequality in a manner that is conducive to long-run inclusive growth (World Bank 2005; Acemoglu and Robinson 2006).

Civil Society Failure

The fundamental goal of local participatory development is to build an effective local civic sphere. The philosopher Jurgen Habermas (1991) argues that civil society is activated by a “public sphere” in which citizens, collectively and publicly, create a “third space” that engages with states and markets. Thus, civil society is symbiotically linked to the effective functioning of markets and governments.

An effective civil society is the social arena in which citizens participate, voluntarily organizing to work toward their collective benefit. It is the space in which individuals turn into citizens. The terms *civil society* and *nongovernmental organization* (NGO) are often used interchangeably, but civil society is much more than a collection of NGOs. As defined by the sociologist Jeffrey Alexander (2006, 4), ideally, civil society is

“a world of values and institutions that generates the capacity for social criticism and democratic integration at the same time. Such a sphere relies on solidarity, on feelings for others whom we do not know but whom we respect out of principle, not experience, because of our putative commitment to a common secular faith.”

Any collective effort to voluntarily mobilize citizens with shared values toward a common goal—consumer cooperatives, credit groups, neighborhood associations, religious organizations, social movements of various kinds, producer cooperatives, and a variety of formal and informal associations and advocacy organizations—is arguably a civil society activity.¹

Following Habermas, contemporary historians have increasingly recognized how fundamental civic action is to the development process. Bayly (2004, 2008) shows that poorer countries that have had high rates

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of growth in recent years, such as India and China, did not simply borrow Western ideas and technologies. Instead, groups of highly educated elites who served as peer educators and activated the civic sphere indigenized those ideas and ideologies. In India, for instance, beginning in the early 19th century, liberal leaders created an *ecumene* (public sphere) that laid the foundation for the vibrant civic and democratic life of the country today. McCloskey (2006) and Mokyr (2010) argue that the creation of an entrepreneurial class requires the development of networks and discourse that foster “bourgeois virtues,” which in turn facilitate the development of innovation and capitalism. An active and effective civil society thus allows citizens to engage with governments and markets, hold them accountable, and generate a culture that facilitates economic and democratic activity.

In their ideal state, the three spheres, while complementary in their functions, have competing ideological bases: civil society involves collective action, with justice, fairness, and other social norms as core goals; ideally, it is based on the principles of reciprocity, open criticism, and debate.² In contrast, markets involve individual actors following individual goals of maximizing profits and generating wealth.

Firms tend to depend on a hierarchically organized division of labor, rather than equality, to meet their goals. Governments tend to be organized around politics, the goal of which is the reproduction of power; they depend on authority and loyalty to function. In contrast, civil society tends to be mobilized around common interests and the principle of equality (Alexander 2006). All three spheres are needed to balance one another—and create a virtuous cycle. Market and government failures and inequity thrive in the absence of an active and engaged civil society, and civil society failures can exacerbate market and government failures. When the three spheres are equally healthy, they work in concert; the unequal tendencies of the market are balanced by the equalizing valance of the civic sphere, and the tendency of governments to monopolize power is balanced by pressures for accountability and openness that come from civil society.

Civil Society Interaction with Markets and Governments

Civic interaction with markets and governments is often conflictual: being held accountable, answering uncomfortable questions, and responding to requests from mobilized groups of citizens are often costly and unpleasant for government officials and private sector actors.

To be effective, civic action often has to force agents of government and the market to act against their private interests and in the interest of citizens.

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Absent appropriate regulation, markets would be motivated solely by profit maximization. In many cases, the short-term interests of a firm or industry do not coincide with the best interests of citizens. Similarly, in the absence of civic accountability, the interests of political leaders would be to hold on to power, capture rents, and preserve the existing hierarchy. Civic action is thus almost never smooth; to be effective, it has to introduce constraints into the decision-making processes of governments and markets that cannot be ignored and that often force them to act against their private interests (by reducing profit margins or limiting power).

In its interaction with markets, a well-functioning civil society acts first as a watchdog—through consumer groups, for instance, that highlight firm behaviors that are detrimental to consumers. These behaviors include practices that endanger people’s lives (such as food and drug adulteration) as well as practices that are unethical, inefficient, and inequitable, such as collusion and price fixing. Pressure from civil society groups has been responsible, in many parts of the world, for the establishment of agencies to regulate drugs, food, automobiles, and corporate behavior. When they function well, civil society groups also watch out for egregious inequities, such as discrimination in hiring practices or price discrimination against particular groups or communities. The civil rights movement in the United States, the Arab Spring in Tunisia and the Arab Republic of Egypt, the Solidarity movement in Poland, and pro-democracy rallies in the Islamic Republic of Iran are archetypal examples of civil society activity. Civil society can be a source of countervailing power that acts as a check on government. Such a check is usually a good thing, but it can sometimes be socially detrimental—as it is, for example, when vigilante groups attempt to impose unpopular points of view through a reign of terror or when extremists capture the state.

In addition to their watchdog function, civil society groups play a direct role in generating economic activity (microfinance organizations are a prime example). Moreover, an active civic sphere can help create an enabling environment for the rise of an entrepreneurial class, by facilitating social networks that transmit information and creating collectives to help with credit and insurance. Trade groups such as farmers cooperatives, industry federations, and ethnic networks that help migrants with credit and jobs are all examples of civil society activity.

An engaged civil sphere is even more critical to good government. If government is transparent and accountable, it is transparent to and held accountable by civil society. Civil society works much more effectively

when it is cohesive—when it has a high capacity for collective action, which is central to the functioning of an effective state—because cohesion gives citizens the capability of engaging effectively with the state. Some scholars follow Putnam (1993) and others in calling this capacity “social capital.” This term dilutes the idea of an engaged public sphere into something conceptually much weaker, making it overly simplistic and therefore less effective as a guide for policy (Mansuri and Rao 2004).

Markets interact with civil society in various ways—by providing information on products and services, for example, or by funding the creation of civil society organizations that are consistent with their interests. Governments engage with civil society in similar ways, providing it with information and attempting to influence and control it, including through rules that prohibit rallies and political organizing. Governments also attempt to nurture, and even create, civil society activity in order to jump-start a participatory development process.³

An engaged civil sphere makes a critical contribution to good government by keeping it transparent and accountable.

Markets, Government, and Civil Society at the Local Level

Civil society, markets, and governments interact at various levels—global, national, subnational (state/district), and local (city/village/neighborhood). Each level has a unique set of challenges, modes of operation, and incentive structures.

Market failures work differently at each level. Market failures in the global sphere require global coordination and regulation to correct—a role that, for instance, the World Trade Organization (WTO) attempts to perform. Market failures at the national level are the concern of governments and central banks. Market failures at the local level may be addressed by local approaches such as microcredit and microinsurance. The appropriate level of action may depend on the type of market failure. The management of river basin issues that affect multiple countries requires regional action, for example; the creation of a collective response to global warming requires global action.

Government also operates at different levels. Concerns about global governance are addressed by the United Nations system and by negotiations between and among governments. The functions of government should be allocated to the levels most competent to handle them. Some functions, such as national defense, foreign policy, and interstate relations, cannot be sensibly decentralized. In allocating other functions to local levels, a few trade-offs need to be considered (Bardhan and

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Mookherjee 2006). Local governments can be better informed about citizen preferences, and they are better able to respond to the needs of citizens because of better information and lower transactions costs. But they may have difficulty coordinating decision making across communities (because of intercommunity externalities or spillovers). Moreover, decentralization leads to a potential loss in scale economies.

Thus, the optimal design of decentralization requires trading off the advantages of better-aligned incentives against the disadvantages of more challenging coordination problems. In general, the provision of local public goods is best decentralized when preferences and needs for the goods are heterogeneous, vary with time, and require a high degree of responsiveness to community needs or local knowledge and when there are few intercommunity spillovers or economies of scale. Public goods and services that typically fall into these categories include sanitation and drainage, local irrigation canals, and village roads. Often common-pool resources such as water bodies and forests can also be locally managed. Conversely, if a public good is homogenous; has significant economies of scale, perhaps because of technical complexity; or requires central coordination, it should usually be managed centrally (examples include national vaccination campaigns and national highways).

The decentralization of government functions could, however, merely result in the decentralization of government failure. Local governments fail for a number of reasons, including the absence of democratic mechanisms by which voters can communicate preferences, lack of effective political competition, and lack of civic capacity. When this is the case, policies tend to reflect the views of the people in power, there is a general lack of accountability to citizens, and the decentralization of resource allocation decisions can actually exacerbate rent-seeking and corruption (Bardhan and Mookherjee 2006; Besley 2006). In making decisions about decentralization in developing countries, it is thus important to understand the nature and degree of potential government failure at different levels of government, as well as the potential for civil society failure, and to balance these considerations with policy prescriptions that rely on politics-free economic theory.

Just as markets and governments operate at different levels, so does civil society. Most political theorists generally think about civil society as operating at the level of nation-states, in the context of national politics (Alexander 2006). But in recent years there has been increasing recognition of a global public sphere and global civil society (examples

include the movement to combat climate change (or the protests against “neoliberal” development institutions that promote “market fundamentalism”). A vibrant civil society at the national level is important not just for its own sake—to make effective citizens—but also for repairing market and government failures. Social movements have made markets accountable by exposing systematic failures in particular industries (an example is Ralph Nader’s highly successful effort to improve automobile safety). They have equalized the rights and welfare of excluded social groups (including indigenous people in Latin America and nonwhites in South Africa) and pushed for greater democracy (in Indonesia) and openness in government (in India). The larger development challenge is to build a virtuous cycle of checks and balances among markets, governments, and civil society that compensates and corrects for the weaknesses in each sphere.

The concern here is with the local civil sphere—groups of citizens who organize themselves into collectives to hold the local state accountable; assist with the functions of government (school committees, public village meetings); remedy market failures such as lack of access to credit or insurance (microcredit and microinsurance groups); and directly manage common resources (forest management groups, water users groups). If government functions are decentralized to the local level, it is important to have citizen groups that watch out and correct for local government failures through a process of active engagement.

Local civil society can also have important linkages with a national civic sphere. Following Rousseau and Mill, local governments, community organizations, and local civic groups are thought to be a training ground for civic activity. If several small local *ecumenes* develop that connect with and learn from one another by exchanging ideas and methods and providing mutual support, they may have the capacity to shift civic culture at the national level.

Defining Civil Society Failure

Civil society failure can be broadly thought of as a situation in which civic action is either absent or operates in a way that results in a net reduction in efficiency.⁴ It can occur because a group is unable to act collectively. For example, a group of individuals may be unable to coordinate their actions and make collective decisions that would leave all members of the group better off over the long run because individuals

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act in their own short-run best interest (the “tragedy of the commons”). It can also occur when one subgroup is able to mobilize collectively to further its interests while other subgroups, with different interests, are unable to do so, with the potential result that the welfare of the average citizen is reduced.

How does participation occur? Collective participation occurs in two stages. Individuals first have to decide to participate in civic groups; the groups then have to be able to resolve the challenges of collective action and act with a common purpose. Failure can affect both individual incentives for participation and the group’s capacity for collective action. There can also be varying degrees of institutional receptivity to participatory activity. For instance, receptivity to participation increases when a country transitions from dictatorship to democracy. It is low in an authoritarian country that functions by suppressing voice and dissent. Even in authoritarian societies, however, there may be some nascent vulnerabilities in the political structure that change activists can exploit—as they did in the Arab Spring and South Africa; if those vulnerabilities increase (say, because of international pressure), the receptivity for participation could increase as well. In the literature on social movements, these vulnerabilities are referred to as the “political opportunity structure” (Kriesi 2007). Such structures can be either “open” (allowing easy access to the political system) or “closed” (making such access difficult). Effective civic action requires that groups have enough information to identify and gauge political opportunities and are then able to mobilize citizens in a manner that takes advantage of them.

Participation is a broad term that covers a variety of activities, including the following:

- participation in decision making through consultative processes or deliberative bodies without the authority to make or veto resource allocation decisions
- the contribution of cash, material goods, or physical labor to construct public goods or provide public services
- the monitoring and sanctioning of public and private service providers
- the provision of information and involvement in awareness-raising activities
- the formation of neighborhood committees (for instance, to reduce crime or resolve local conflicts)
- the selection or election of local representatives.

Instrumental, ideological, and identity-based motives induce individuals to participate in civic activities. Instrumental motives have to do with the economic and political benefits an individual may reap by participating. For instance, if a community development project comes into a village with funds for building local infrastructure, an individual may participate in meetings associated with the project in order to gain access to the funds to repair a road outside her house; he or she may vote in a local council election in order to help remove a corrupt politician from office. Ideological motives have to do with adhering to a shared belief. In some countries, for instance, nationalism is strongly tinged with the ideology of communitarianism, making participation in community projects an expression of patriotism. Identity-based motives have to do with social or religious identity. Examples include helping build a mosque or church or mobilizing a caste group to fight for greater dignity within a village.

Participation entails some costs. The most obvious is the opportunity cost of time, which depends on an individual's economic position, employment status, and family obligations, among other factors. Participation also involves a range of social costs, which can be prohibitively high for individuals or groups that are otherwise proscribed from free engagement in communal public life, as is often the case for women and members of disadvantaged castes, ethnic groups, or tribes. There may also be psychic costs. Years of oppression may have caused low-caste groups to have internalized discriminatory ideologies, making it particularly challenging to mobilize them for development activity. Communities that have grown accustomed to receiving free benefits from the state may find it troubling to be asked to exert physical effort to obtain those benefits. Individuals, embedded in their particular social groups and networks, will balance all these costs and benefits before deciding to participate.

The decision to participate is not merely an individual decision, however, as civic activity is most effective—perhaps only effective—when engaged in collectively. Although an individual may want to participate, the group to which he or she belongs may be unable to come to a collective decision. Participation by groups—the classic challenge of collective action—thus needs to be distinguished from participation by individuals. Furthermore, an individual's decision to participate is deeply connected to the group's ability to cooperate; if individuals believe that the group will be ineffective or unable to reach consensus, they will be less inclined to participate.

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Mancur Olson (1965) theorized almost 50 years ago that without coercion or some other special device to make individuals act in their common interest, “rational self-interested individuals will not act to achieve their common or group interests.” Olson was concerned with “exploitation of the great by the small,” noting that people with smaller interests in a public good would tend to free ride on the efforts of people with greater interests.

Under what conditions will a group of people cooperate? Under what conditions will they trust one another enough to believe that the promises they have made are credible? Ostrom (1990) emphasizes the role of social institutions that generate norms, impose sanctions, and improve the incentives for collective action, basing her analysis on field observations that demonstrate the success of collective action in management of commons. Arguing against a general theory of collective action, she contends that particularities matter a great deal but postulates a set of “design principles” that may serve as a guide. These principles include clearly defined boundaries to the commons, with a defined community associated with the resource; rules to manage the commons that are appropriate to local conditions; arrangements to manage collective decisions, which are themselves subject to collective negotiations; graduated sanctions, with heavier sanctions for repeated or more egregious violators of rules; low-cost and widely accepted mechanisms to resolve conflict; and the absence of excessive government interference. In deriving these conditions, Ostrom was thinking specifically about common-pool resource management; her arguments do not necessarily apply to the wider issue of local participatory development.

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Incorporating these insights and summarizing work by game theorists on collective action over the last four decades, Dasgupta (2009) identifies two necessary conditions for cooperation:

1. At every stage in the agreed course of action, it is in the interest of every party to plan to keep its word if every other party also does so.
2. At every stage of the agreed course of action, every party believes that all parties will keep their word.

The first condition self-enforces promises by ensuring that promises made by one person are expected to be reciprocated by others. This condition is not sufficient, however, because even if it is met, it is still possible that every agent believes that everyone else will act opportunistically.

If this is the case, then all parties will think that it is in their best interest not to cooperate. The second condition is needed to generate trust, by ensuring that all parties believe that everyone else will keep his or her word. Together, the two conditions generate a system of self-enforcing beliefs that facilitate collective action.

What, then, are the conditions and the social environments that ensure that both conditions are met? When are promises that people make to one another credible, hence ensuring cooperation?

People may belong to “cultures”—relational environments that generate ideologies and preferences that are conducive to collective action. People from the same “culture” share the following characteristics:

1. *Mutual affection.* Coordination is facilitated when parties care about one another sufficiently and recognize that others feel the same way.
2. *Pro-social disposition.* If people trust one another enough to know that any promises made are credible, then even in the absence of mutual affection, a group can have strong ties that generate loyalty. Loyalty of this kind can be shaped by group-specific culture and upbringing; members of a community internalize norms of cooperation to the extent that they feel shame or guilt when not cooperating. Loyalty can also arise because of the presence of social norms that prescribe punishment for people who do not have a pro-social disposition toward the group.

Incentives can also help ensure cooperation. People are more likely to keep agreements if a “cooperative infrastructure”—a set of institutions that ensures that keeping promises is in the interest of each party if everyone else keeps them—is in place. Three types of cooperative infrastructure can be identified:

3. *External enforcement.* External enforcement of agreements made within the group requires an explicit contract enforced by an established structure of power and authority, such as the state and its legal institutions or, in the absence of a formal state, a traditional leader (such as a chief, warlord, or head of a traditional *panchayat* [village council]). The external enforcer does not have to act: the very fact that such enforcement exists will lead people to make credible commitments to one another, and promises will be reinforced by the belief that they will be kept. Collective action can be more successful in the presence of a successful state, and

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state failure can reinforce failures in civic action, just as civil society failure can reinforce state failure. When the external enforcer cannot be trusted to enforce agreements, the parties will not trust one another enough to enter into collective agreements, which could result in noncooperation.

4. *Reputation as a capital asset.* Even in the absence of external enforcement, people will keep their promises if they value their reputation enough. Reputation becomes a capital asset because individuals want to maintain status, uphold an ethical code, or preserve long-term relationships.
5. *Long-term relationships.* In a long-term relationship, reputation becomes a capital asset after a transaction is completed, because it enables individuals to enter into other credible contracts. Agreements, therefore, are mutually enforced. To achieve functioning social relationships, the community might impose stiff sanctions on anyone who breaks an agreement.

In practice, characteristics 3, 4, and 5 could blend with one another, as all of these solutions impose collective sanctions on people who intentionally fail to comply with agreements. However, as Dasgupta (2009) points out, “a credible threat of punishment for misdemeanors would be an effective deterrent only if future costs and benefits are not discounted at too high a rate relative to other parameters of the social environment.” In situations in which individuals are forced to become myopic—in periods of civil conflict or social disruption, for instance—such self-reinforcing norms may be rendered ineffective, leading to civic failure (Coate and Ravallion 1993).

Capacity for cooperation can be enhanced where individuals are bound together in multiple social, economic, and political relationships.

Where individuals are bound together in multiple social, economic, and political relationships, the capacity for cooperation can be enhanced. If, for instance, the mutual provision of credit and insurance depends on norms of obligation and cooperation, which in turn depend on commitments for marriage or political support, the violation of one interaction would result in a collapse of all the others. Thus, interlinked agreements make cooperation robust.

They may, however, also make them deeply inequitable. Highly hierarchical societies, such as societies in rural India and West Africa, which depend on elites enforcing norms and “taking care” of others lower in the social hierarchy, may make such societies both highly cooperative and deeply ridden with inequality traps.

Coordination failures in civic action. What makes civic participation effective in some contexts and ineffective in others? What are the challenges local communities face in activating their capacity for collective action?

The most important source of civil society failure is probably coordination failure. An important reason to devolve decisions to the local level is to reduce coordination problems—by allowing the people most affected by projects to manage them directly.

Such devolution by no means implies that coordination failures will disappear. Coordination failures at the local level have two main causes: the lack of a cooperative infrastructure (institutions that make individuals' promises to the collective credible) and the absence of a mechanism to help ensure that individuals in a group have altruistic, or common, preferences (that is, "pro-social dispositions").

Consider the challenges of setting up a project that encourages a community to sustainably manage a local forest. For the project to work, individuals in the community have to agree to restrict their harvesting of trees from the forest. They also have to participate in activities, such as planting and nurturing trees and policing forest grounds to prevent outsiders from poaching. If all individuals were left to their own devices and did not engage in collective action, a tragedy of the commons would occur, leading rapidly to deforestation and the destruction of local livelihoods. In practice, many forest communities around the world have, over centuries, evolved strong norms of collective action to manage common resources, setting up an effective cooperative infrastructure.

The presence of a cooperative infrastructure affects the outcomes of development projects. Say a project wants to improve the collective management of a forest by setting up a community-managed fund that provides financial incentives for individuals to cooperate by compensating them for income lost by limiting their harvest. The fund would be far more effective if a traditional leader was present who was in complete agreement with the aims of the project, was considered honest and beyond reproach, and had the authority to enforce agreements made between individuals and the fund. The fund would also be more likely to succeed if the community had evolved a method by which promises were rendered credible because each individual believed the promises made by every other individual, based on long-term ties and a strong belief that violating promises would result in ostracism from the community. Ideally, the fund would introduce enough additional

The most important source of civil society failure is probably coordination failure.

The presence, or absence, of a cooperative infrastructure affects the outcomes of development projects.

incentives within this favorable cooperative environment to sustain cooperation during periods of change and vulnerability. In the absence of an authority figure or strong long-term ties within the community, the fund would degenerate into a haven for rent-seekers, creating a failure. Thus, an authority figure and the long-term ties that come from repeated interactions among individuals in the community are both examples of effective cooperative infrastructure.

Consider another example, a decentralized program in which a village council is given the authority to select beneficiaries for a centrally managed poverty reduction program. As part of the program, it is mandated that beneficiary selection should be vetted in open village meetings, where anyone in the village can question the choices of the village council. This mandate is an attempt to use local participation and local knowledge to improve poverty targeting, create links between villagers and the central government, and hold local governments publically accountable. If the central government were weak and its functionaries corrupt, decisions made in the village meeting would not be enforced. If this were the case, villagers would decide not to waste their time participating in such meetings, because the benefits would not be worth the cost. The project's attempt to foster participatory, community-based targeting would fail because of a weak state's inability to enforce collectively made decisions.

State enforcement can matter in the management of common-pool goods as well. If communities are required to follow laws and regulations passed by the state and these laws and regulations are poorly enforced, there is no incentive for the community to follow the law. If the community had strong norms of collective action, it would revert to traditional forms of resource management. If it did not, the common resources would be privatized and allocated in a way that reflected the interests of the most powerful.

An interesting example of how cooperative infrastructure helps facilitate participation in the decentralization process comes from Tsai's (2007) work on China.⁵ Tsai asks a simple question: How can variations in the provision of public goods be explained in the absence of formal institutions of accountability? The Chinese state has decentralized to local governments primary responsibility for the provision of basic public goods and services (road construction, drainage systems, irrigation works, primary school facilities, sanitation). Some village governments provide outstanding public goods and services, whereas others provide

barely anything at all. According to Tsai, the explanation for this variation is the presence in some villages of local “solidary” groups, which provide informal institutions of accountability. A solidary group is a collection of individuals who share moral obligations and interests. Of the three types of groups Tsai delineates—village temple groups, village churches, and lineage groups—only temple groups and some lineage groups have the two structural characteristics crucial to Tsai’s argument—namely, the group must be encompassing (open to everyone under the jurisdiction of the local government), and it must be embedding (incorporating local officials into the group as members).⁶ “When the boundaries of a solidary group overlap with the administrative boundaries of the local government, embedded officials have a strong social obligation to contribute to the good of the group,” writes Tsai (2007, 356). In groups with embedded officials, the incentive for accountability is an amorphous sense of moral standing or prestige for the provision of public goods.

This thesis is quite different from the idea of civic “social capital.” Whatever “social capital” such groups may have, groups that do not meet the “embedding” criteria (such as church groups) are not able to hold village officials accountable for the provision of public goods, as Communist Party members are prohibited from membership.⁷ In contrast, village temple groups can be both encompassing and embedded; they are thus able to serve effectively as informal institutions of accountability. Lineage groups play this role only marginally, because their segmentation makes them less cohesive.

A more daring claim made by Tsai is that neither bureaucratic institutions of top-down control nor democratic institutions seem to have a significant positive effect on the provision of public goods by village governments. “Implementation of elections does not guarantee good governmental performance, especially when other democratic institutions are weak” (Tsai 2007, 370).

In countries with strong traditions of electoral democracy, externally induced improvements in the cooperative infrastructure that come from the state, such as improved enforcement of laws or decentralization programs with strong participatory elements, can substantially improve the quality of participation. Consider the case of the South Indian state of Kerala. Kerala has a long history of egalitarian social programs emphasizing education, health, and women’s equality, but until 1996 these efforts were mainly top-down programs directed from

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the state capital. Although Kerala is blessed with a literate and engaged electorate, participation was restricted to the political sphere and to membership in unions.

Following passage of a constitutional amendment in 1993, which mandated that state governments devolve resources and powers to democratically elected village councils (*gram panchayats*), Kerala began to plan and initiate a radical and deeply participatory program of decentralization (Heller and Issac 2003). The program rested on three pillars. It devolved 40 percent of the state's development budget to village councils, devolved substantial powers to these councils, and instituted an extensive people's campaign—a grassroots training and awareness-raising effort to inform citizens about and energize them to participate in the *panchayat* system.

The campaign instituted a planning process based on a set of nested piecemeal stages (for example, working committees meetings and development seminars held in conjunction with the village meetings, which are structured to facilitate participation). Instead of open deliberation, attendees (members of the public) are divided into resource-themed groups or committees. The discussions within each group yield consensual decisions regarding the designated resource. This structure, which operates uniformly in all districts in Kerala, is geared toward increasing the efficiency of consensual decision making about public resource demands and prioritizing individual beneficiaries for the allocation of government-subsidized private benefits. The process has been facilitated by various training programs to instruct citizens on deliberative planning and village functionaries on methods for turning plans into actions that result in more effective public service delivery.

In Kerala, India, the state created mechanisms that strengthened its links with civil society.

In Kerala, direct intervention by the democratic state increased demand for participation not only by creating greater opportunities of participatory planning but also by providing resources to make that planning meaningful while embedding it within a decentralized system of government with enforcement authority. The state thus created mechanisms that strengthened its links with civil society.

Literacy in Kerala was almost 100 percent—much higher than the Indian average at the time of 66 percent; the state also has a long history of civic mobilization because of strong labor unions associated with the communist movement. Local participation in Kerala thus did not start from scratch; it was fostered by channeling democratically and politically aware citizens into participatory avenues that resulted in better

local government. In the absence of Kerala's well-developed democratic and participatory traditions, it is unlikely that the people's campaign would have worked.

To fully understand the nature of a failure of collective action, it is thus important to understand how context, history, and culture shape the nature of cooperative infrastructure. The local history of a community shapes the norms that have evolved to facilitate collective action, the extent to which such norms exclude women or disadvantaged groups, and whether those norms are transferrable. Local collective action norms may be effective enough to manage water resources, for instance, but not school management. Similarly, the history and evolution of the national government—the extent to which it supports an active civic culture and has an effective legal system and democratic systems—has deep implications for the success of efforts to foster local participation.

Culture and civic identity. Coordinating civic action at the local level is also affected by the formation of collective identity—which, in many societies, has been consciously shaped to facilitate cooperation. In a small, ethnically homogenous community, intermarriage may have forged strong ties across families.⁸ In some instances, such ties could result in common preferences and strong deference to the views of traditional authority figures. More generally, a common cultural identity helps individuals anticipate how others in the group will react to their actions, greatly facilitating collective action.

State policy can forge a common cultural identity and common preferences. For instance, the state can actively create a communitarian national identity by introducing notions of cooperation into the constitution; symbols of the state, such as the flag or pledges of allegiance; and school curricula.

One way of thinking about how culture and civic identity affect the capacity for collective action is by thinking about the formation of what Rao (2008) calls “symbolic public goods.” Rao builds on the work of Chwe (1999, 2001), who demonstrates how collective action needs to distinguish between structure and strategy. Chwe's basic argument goes as follows. Most models of collective action assume, implicitly, some preexisting “common knowledge.” When a group of individuals plays a collective action game, whether static or dynamic, it is assumed that individual A knows the payoffs, information sets, costs, incentives, possible moves, and so forth faced by individual B. Individual B, in

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turn, knows all of this about individual A and knows that individual A knows everything about individual B. Individual A, in turn, knows that individual B knows that individual A knows, and so on. This common knowledge assumption permits games of strategy to be played with a common understanding of the rules of the game: everyone knows how everyone else is playing.

In contrast, a cricket player persuaded to play baseball will be quickly confused—enough to be unable to understand or appreciate the skill, strategy, and actions of the other players. It is this aspect of coordination and common understanding that common knowledge attempts to capture. It plays a coordinating function that is a precondition for collective activity, which cannot occur in its absence. Common knowledge is arguably the core concept behind such amorphous notions as “trust” and “social capital,” which figure prominently in the discourse on collective action.⁹

In order to understand collective action, therefore, it is crucial to understand its social context through the symbolic public goods that facilitate it. Yet symbolic public goods are themselves the product of strategy and contestation. They can take a variety of forms, including intangible processes of identity formation such as nationalism; physical entities, such as mosques and temples; and periodic ritual events, such as festivals. All of these forms share characteristics of public goods, in the sense that they can be simultaneously “nonrival” (consumption by one person does not reduce the ability of others to consume the same good) and sometimes “nonexcludable” (it is not possible to deny anyone access to the good).

Symbolic public goods
facilitate the social basis
for collective action.

Indonesia has constructed symbolic public goods to facilitate cooperative behavior. Postcolonial Indonesia was dominated by upper-class Muslims from Java. The country’s history in the decades following independence can be seen primarily as the “Javanization” of the country (Ricklefs 2002). The ideological basis of Javanese belief is that social interaction is “collective, consensual and cooperative” (Bowen 1986, 545). Bowen argues that much of this belief is expressed in the term *gotong royong* (mutual assistance), which has become the framework for Indonesian nationalism and the basis for construction of a national tradition. Sukarno, the “father” of Indonesia, attempted to use the notion to unify the diverse (Islamic, non-Islamic, nationalist, Communist) groups in the new country by calling for a spirit of *ke gotong royong* (*gotong royong*-ness). *Gotong royong* provided a form of cultural legitimacy for state control.

When Sukarno was ousted, in a coup in 1967, his successor, Suharto, introduced a “New Order” economic policy. Especially in its initial phases, the new policy adopted the two-pronged strategy of putting policies in place to enable high rates of growth and passing on the benefits of that growth to the rural poor. An important element in this strategy was to dictatorially force the spirit of *gotong royong* into hamlets and villages around the country. *Gotong royong* became a key element in development strategies in rural areas, particularly in the mobilization of rural labor. In order to protect the political and cultural unity of the Indonesian state, Suharto believed that it had to be strongly authoritarian and that development had to proceed in a cooperative and collaborative manner. By the early 1970s, the Sanskrit word *svadaya* (self-help) started to be used in combination with *gotong royong*, and *svadaya gotong royong* (mobilizing) became central to the implementation of development policy (Bowen 1986).

In a detailed ethnography of local development in a Javanese community, Sullivan (1992) demonstrates that the combination of an autocratic state and the principle of *svadaya* resulted in a form of forced labor. To be a good Indonesian, one had to contribute labor and cash for development projects. Collective action was the norm, not the exception. Mobilizing communities was straightforward: grants received by the village headman (*kepala desa*) were small, because donors assumed that the gap between the expected cost of the proposed project and the funds allocated would be provided locally. In fact, ward leaders actively mobilized contributions from the community. Everyone was expected to contribute free labor; individuals who failed to do so could be labeled unpatriotic or uncooperative and face social, political, material, and even physical sanctions.

In this manner, Indonesian political leaders constructed the symbolic public good of nationalism, deploying “imagined” traditional beliefs that made the individual subservient to the community. As most of this effort was undertaken in the context of a military dictatorship, the approach was successful in coordinating public action.

Suharto’s two-pronged strategy yielded good results for more than two decades, with high rates of growth and substantial improvements in the living standards of the poor. These improvements were achieved in a cost-effective way by, in effect, taxing the poor in the name of community participation. Suharto suppressed freedom and imposed an implicitly regressive tax structure, but he also achieved excellent poverty reduction and human development outcomes.

Indonesia consciously built symbolic goods by establishing a communitarian ethic (*gotong royong*) as state policy via school curricula and public education campaigns.

In the past decade, with the rise of a robust democratic order and a concerted effort to decentralize the political and fiscal authority of state and district governments, the authority of village leaders in Indonesia has been increasingly questioned. But, as recent survey data demonstrate, the spirit of *gotong royong* has by no means disappeared. It has been so deeply institutionalized that not abiding by it is seen as a violation of a communitarian ethic, which remains part of the foundation of what it means to be a good Indonesian. A 2004 survey of the Second Urban Poverty Project evaluation (Pradhan, Rao, and Rosemberg 2010) shows that levels of participation in public goods construction remain high, at 47 percent, with 59 percent of those respondents saying they participate primarily because of “tradition” or “obligation.” This high level of participation has real consequences: communities in Indonesia contribute 37 percent of the cost of village public goods. Indonesia has thus successfully introduced a communitarian ideology that facilitates the spirit of cooperation at the local level, improving the capacity for collective action.

The state can also attempt to directly manipulate preferences to induce behaviors that are in line with its policy objectives.

Rather than build symbolic public goods, the state can attempt to manipulate preferences to induce behaviors that are in line with its policy objectives. Agrawal (2005) provides an example of this phenomenon in India, where, he argues, the state explicitly attempted to shift the preferences of forest communities toward a more collective purpose in order to facilitate community-based forest management. Based on a variety of archival and survey data, Agrawal seeks to understand how villagers in the Kumaon region shifted from violently protesting the government’s efforts to regulate forests in the 1920s to using active community-managed forest conservation methods by the 1990s. He finds that the shift was achieved by the decentralization of decision making to the local level and by explicit efforts to induce community members to value forests as a public good and to build trust between government officials and local forest councils.

Villages with forest councils and active council headmen made greater attempts at regulation and the desire for forest protection grew stronger in villages that were most closely involved in actual monitoring (Agrawal 2005). Efforts to change the way villagers thought about the forests were so successful that council members and headmen often acted against their own material and family interests in enforcing rules of forest protection.

Inequality and the role of elites. One of the purported advantages of local participation is its capacity to improve the match between beneficiaries' preferences and the allocation of public goods and benefits. The principle of subsidiarity states that when preferences of communities are heterogeneous or vary with time, decentralizing decision making and project management results in more efficient outcomes and a better preference match.

Local communities in many developing countries tend to be not only very heterogeneous but also highly unequal. It is therefore also important to understand how both inequality and heterogeneity affect local civic failure.

The seminal insight on the role of inequality in collective action comes from Olson (1965), who theorized that if the rich have a strong interest in the provision of a public good, inequality could facilitate collective action because it would be in the interest of the wealthy to provide the good, allowing the poor to free ride. Economists have extended this basic insight in several ways (Baland and Platteau 2006; Bardhan, Ghatak, and Karaivanov 2006).

Baland, Bardhan, and Bowles (2006) summarize these extensions. They note that inequality can have ambiguous and contradictory effects on collective action, for a variety of reasons:

- Higher income may increase rich people's demand for a public good but also increase the opportunity cost of their time, meaning they may be less able to devote time to its provision. If the opportunity cost of the rich is high enough, it may discourage collective action. It could also result in situations in which the collective objective is achieved by the rich providing money and the poor providing labor.
- Poor participants' lower assets may reduce both their demand for the resource and their ability to extract large amounts of it. Thus, poorer people may choose not to participate in setting up a committee to manage a high school—but they would also be less likely to send their children to the school.
- Inequality may increase the propensity of the rich to contribute toward a public good, but it may also discourage poorer people from participating at all, as Olson (1965) notes.
- Collective provision of public goods may be easier in situations of both very high inequality and almost perfectly equality,

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Olson's seminal insight was that if the rich have a strong interest in the provision of a public good, inequality can facilitate collective action . . .

. . . later theorists have demonstrated that the link between inequality and collective action is more ambiguous.

where everyone has an equal interest in the good. Inequality could therefore have a *U*-shaped effect on collective action.

These results are derived in the context of static collective action problems, where communities are not engaged in repeated interactions. Where community members have lived together for a long time and expect to continue to engage in social and economic relations over the long term—situations that are very common in developing countries—the relationship between equity and the cooperative infrastructure becomes much more salient. Rural communities are often characterized by inequality in income and wealth, which is usually highly correlated with inequality in power and social status. These communities are trapped in an “inequality trap,” in which the same families have been rich, and poor, for generations. The same rich families maintain a tight hold over power relations in the village and rule with dictatorial authority. In such situations, high inequality is combined with a strong cooperative infrastructure; if the local feudal leader believes that collective action is in his best interest, he will ensure that it occurs.

Inequality traps can create situations in which successful collective action exploits the poor.

In such situations, successful collective action comes with high inequality, as in the Olson model. But, as Dasgupta (2009) demonstrates in models with repeated games, rather than allowing the poor to free ride on the contributions of the rich, inequality traps can harbor exploitation. The reason, in intuitive terms, is that the poor who refuse to cooperate could face sanctions that would push them to accept outcomes that would make them worse off than they would have been in the absence of collective action. If they discount their future payoffs at a low enough rate, they may be forced to enter into cooperative situations whose outcomes make them better off than they would have been with sanctions, but worse off than they would have been acting on their own. Consequently, a cooperative equilibrium could be sustained in which the poor would be exploited over the long term.

Anthropologists have long noted that in such situations the poor tend to internalize such unequal norms: a disadvantaged group may view its status within the hierarchy as correct and appropriate and therefore be subject to what Rao and Walton (2004) call “constraining preferences.” For instance, preferences derived from the Hindu caste system may create an acceptance of hierarchy and constrain the motivation for mobility. These beliefs are also simultaneously external constraints; individuals from lower castes who engage in class struggle may face severe social sanctions. For people at the top of the hierarchy, both types

of constraints provide the means to maintain their high position; for people at the bottom, these internal and external constraints can limit aspirations, create discrimination and exploitation, and block mobility. Inequality can thus result in the systematic exclusion of disadvantaged groups and women.

An important aspect of the relationship between inequality and collective action is the role elites play in local development. An influential strand of the literature on elites focuses on “capture,” arguing that elite domination sharply increases the risk that elites gain control over community development resources provided to benefit local communities (see, for example, Abraham and Platteau 2004). In contrast, studies of organic collective action emphasize that the leaders of such social movements usually emerge from the educated middle and upper classes (Morris and Staggenborg 2004).

One problem in understanding the role of elites in development is that the term refers to a large and heterogeneous set of people. Elites can be the most educated or the most experienced members of a community, or they can be the wealthiest and most powerful. *Elite* can also refer to men or to people who belong to a dominant ethnic, religious, or caste group. None of these characteristics is mutually exclusive; an elite individual may possess many of these attributes simultaneously. The relevant question is the purpose to which elites direct the dominance and influence they possess.

When power is used to facilitate collective action toward the public good—because of an ethic of public service, a communitarian norm, or another reason that results in altruistic behavior—elite control can be an effective part of the cooperative infrastructure: elites can help mobilize communities, persuade others, and shepherd them toward collectively driven, welfare-enhancing behavior. Local development projects demand fairly sophisticated leaders; educated elites are in a position to negotiate with bureaucrats, read and interpret project documents, manage accounts, and engage in other important activities that are part of the everyday business of local projects. This type of control can be described as a form of “benevolent capture” (Rao and Ibanez 2005; Beard and Dasgupta 2006).

However, even benevolent elites have social networks and work within them to facilitate change. Thus, beneficiaries of local projects are likely to be people who are more closely linked to the leadership. In developing countries in particular, younger generations tend to be better

Elite control can be an effective part of the cooperative infrastructure when power is used to facilitate collective action toward the public good.

Control becomes malevolent capture when elites extract public resources for their private benefit.

It is important to distinguish capture from clientelism.

educated than older generations, so any form of participation is likely to be led by younger people, creating a degree of intergenerational conflict.

Control becomes malevolent capture when elites extract public resources for their private benefit. Capture can manifest itself in various ways, including theft, corruption, and the distribution of benefits to close relatives.

It is important to distinguish capture from another practice that is, generally, inimical to the public good—clientelism. Clientelism occurs when leaders allocate public resources to feed and nurture their networks and relationships in an effort to consolidate social status and power.

In nondemocratic settings, within which many communities in the developing world function, whether capture is benevolent or malevolent is a function of the particularities of the community: whether leaders are hereditary or appointed by higher levels of government; the degree to which communitarian norms or “symbolic public goods” have developed in those communities; and, as in Tsai’s example from China, whether nondemocratic forms of accountability exist. In nondemocratic settings, clientelism is largely a consequence of social norms and alignments. Benefits are doled out to individuals and groups to whom the leader has a social obligation, or to build alliances, or sustain a potlatch.

The local context also determines the nature of elite capture in the presence of democratic decentralization. Bardhan and Mookherjee (1999, 2000) construct a model of elite capture with electoral competition. They find that the level of capture depends on the nature and extent of political participation, the political awareness of different groups in the population, and the evenness of competition between local political parties representing different interests. Wealthy groups can make contributions to the finances of politicians, who can then use the funds to recruit “unaware” voters. Aware voters vote on the basis of their interests. Levels of political participation and awareness depend on the distribution of literacy, socioeconomic status, and exposure to media. Democratic decentralization will result in a greater dispersion in the quality of governance, increasing the gap between more and less advanced regions. It will also tend to highlight local inequalities and the distribution of interests, making the extent of capture much more specific to the local context.

Clientelism in democratic settings occurs when relationships between citizens and politicians are predicated on a material transaction, “the

direct exchange of a citizen's vote in return for direct payments or continuing access to employment, goods and services" (Kitschelt and Wilkinson 2007, 2). As Bardhan and Mookherjee (2011) point out, (democratic) clientelism has several important negative consequences for development. First, resources are directed toward short-term benefits with quick political gains—cash payments and private goods (housing, subsidized food) rather than goods that contribute to development in the long term (education, health). Private transfers, moreover, tend to be directed toward swing voters at the expense of voters who are not amenable to switching votes. Voters who are more easily monitored by the political party (to ensure that the transfers result in clear political gains) benefit at the expense of voters who are more difficult to monitor. The consequence is that allocations are unequally distributed even among deserving beneficiaries. Clientelism can thus reduce efficiency and exacerbate inequality even in the absence of explicit capture.

When initiating a local development project, it is therefore important to understand the role of elites and to distinguish between elite control, which often contributes to effective participation at the local level; clientelism; and outright capture. Understanding local structures of inequality and local social and political relationships insulates against the naïve and potentially disempowering belief that participation will necessarily benefit the poor. Explicitly recognizing structures of power and dominance could result in designs to address such inequalities with affirmative action programs, such as the mandated inclusion of women and minorities in village councils, the adoption of programs that exclusively target certain groups, or the use of monitoring and audit systems to reduce the prevalence of capture.

Group composition and collective action. The number of groups in a community makes a difference, particularly if each group has a distinct identity and preferences. Groups tend to care more for their own members than for the members of other groups. Consequently, individuals may balance their individual incentives to participate with the interest that derives from their group identity.

The fact that larger communities have more groups within them would suggest that collective action is more difficult to achieve in more populous communities. However, as Alesina and La Ferrara (2005) point out, more heterogeneous societies may be more productive, because diversity may allow different skills to play complementary roles in the production process. The presence of groups that are interlinked

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The number of groups in a community can make a difference, particularly if each group has a distinct identity and preferences.

in production processes may increase incentives to avoid disagreement and conflict.

The relationship between the size of a community and its capacity for collective action goes beyond the issue of heterogeneity. As Olson (1965) argues, larger communities also have more free riders, because the impact of each individual defector is smaller. Moreover, if the public good generated is not “pure” (not nonexcludable), an individual’s share in the public good declines in larger groups, reducing the incentive for collective action. This phenomenon is known in the literature as the *group-size paradox*. However, in the case of pure (nonexcludable) public goods, Olson’s result is reversed, as larger groups are able to produce more of them. Moreover, Esteban and Ray (2000) show that when the marginal cost of participation rises sufficiently, larger groups have a greater capacity to come to agreement even if the good is excludable (that is, it has characteristics of a private good).

To understand what this means, consider a situation in which poor people need to mobilize to counter a powerful and exploitative local leader. The marginal cost of participation of a poor person in this case is extremely high, both because, being poor, the opportunity cost of her time is high and because the more she participates, the more visible she becomes and the more she risks becoming a target of the leader. Consequently, mobilization against the leader is unlikely to happen unless a large enough number of poor people would benefit from doing so.

Larger, more unequal, or more heterogeneous communities are not necessarily more prone to collective action failure.

It is therefore not necessarily true that larger communities, more unequal communities, or more heterogeneous communities are more prone to collective action failure. The impact of these factors is complex and highly dependent on the purpose underlying the collective action, the extent of interdependence within the community, the nature of the cooperative infrastructure, the opportunity cost of participation, the level of poverty, and the extent of literacy and political awareness.

Information failures. A purported advantage of decentralization is that it solves an important information failure—the inability of distant central governments to observe the preferences of people who are socially, administratively, or geographically far away from central decision makers. This lack of information becomes particularly acute when preferences are highly variable, either across heterogeneous populations or over time. Decentralization promises to make governments more responsive to the needs of citizens by making it more proximate to citizens. Whether decentralization actually solves the information problem

by improving the match between policy decisions and the preferences of beneficiaries is an empirical question.

Information failures in the civic arena are largely failures in the links between civil society, the state, and markets. Such failures are widely prevalent and highly correlated with inequality and heterogeneity. They include imperfections in the availability of information about such basic issues as transparency in village budgets, citizens' knowledge of legal and bureaucratic procedures, and opportunities for credit and insurance. Greater inequality contributes greatly to asymmetric information; richer and more powerful people are likely to have better connected networks, better access to powerful people in government, more education (and therefore greater awareness), and greater capacity to influence decision making. Lack of information and transparency greatly hampers efforts at political and social accountability (Khemani 2007). The rectification of information failures (by mass media, information campaigns, or "report cards" in a credible manner and on a regular basis) has the potential to improve the ability of citizens to mobilize themselves to hold states and markets more accountable. With better information, citizens become more aware and better able to make more informed electoral decisions, which results in greater electoral accountability. Even in the absence of electoral accountability, better information may enable citizens to engage in a more informed version of "rude" accountability—that is, confronting public officials directly and forcing them to be more responsive to their needs (Hossain 2009).

In confronting the government, lobbying for resources, and making demands on the state, unequal communities face a problem in that the interests of the rich differ from the interests of the poor and the rich have more voice. Even if the poor mobilize, inequality may create distortions in linking civic groups to the state (Esteban and Ray 2006). More unequal communities will have more polarized lobbies, which have distorting effects when governments lack information about the preferences of different types of citizens. More polarized lobbies may also be more effective in voicing their interests. Consequently, governments may be more influenced by the preferences of extreme groups and end up making inefficient decisions. Thus, in the Esteban-Ray model, inequality creates a particular type of civil society failure.

Solving imperfections in the provision of information is relatively straightforward, in that it is less likely to involve a reversal in local power relations. However, solving information asymmetries—equalizing

Information failures in the civic arena are largely failures in the links between civil society, the state, and markets.

Equalizing access to information is relatively straightforward . . .

access to information between the rich and the poor—is often not enough. Direct confrontation with structures of power may be necessary to create more accountable and responsive policies. Whether the provision of information improves the functioning of states and markets and the capacity of citizens to mobilize remains an empirical question.

Conclusions

. . . but citizens may need to confront the structures of power directly to use that information to make governments more responsive to them.

Fads, rather than analysis, tend to drive policy decisions on participatory development. Passionate advocates spark a wave of interest, followed in a few years by disillusionment, which gives ammunition to centralizers, who engineer a sharp reversal. In time, excessive centralization generates negative fallout, which reinvigorates the climate for local participation.

There have been at least two such waves in the post–World War II period (as shown in chapter 1). If current trends are extrapolated, another centralizing shift may have begun. Advocates and the vicissitudes of fashion are perhaps unavoidable in the aid allocation process, but they need to be supplemented by a thoughtful diagnosis of market, government, and civil society failures; inequality; and a contextual understanding of the best ways to rectify them.

Participatory development policy needs to be driven by a thoughtful diagnosis of the interaction between market, government, and civil society failures.

These spheres do not operate independently; well-being is enhanced by both improving the functioning of each sphere and enhancing the links among them. The problems of information asymmetry and coordination that affect markets and governments also affect civil society. Decisions about whether, when, and how to promote local participation are therefore never easy. They need to be made with an understanding of the cooperative infrastructure; the role of elites; and the economic, political, and social costs and benefits associated with localizing decision making in a given country at a given time.

Notes

1. Effective civic action can also have harmful consequences for the average citizen, particularly when multiple groups with competing interests coexist within the same society—when, for instance, a fringe group is able to impose its beliefs on society at large by effectively mobilizing its members and cowering the majority into submission (Kuran 2004). This

situation represents a case of civil society failure that is, arguably, not a sustainable equilibrium in the long run.

2. These notions of justice and fairness may vary from society to society and group to group. But every social group has norms that determine what is fair and just, and civic action is mobilized based on these norms.
3. See Bardhan (2005) for an elaboration of this point. Another way of looking at the connection among governments, markets, and civil society is to examine them within the frame of accountability relationships (see figure 3.2 in World Bank 2004). When citizens/clients organize collectively, they engage with the state by participating in politics and finding various other ways of expressing voice. The state consists of politicians and policy makers who engage in a compact with service providers. The compact can be managerial, with the state directly managing the service providers through a government bureaucracy, or the government can delegate the provision of services to the market by having private providers deliver public services to citizens. The 2004 *World Development Report* specifies two routes by which a group of citizens can hold service providers accountable. The “long route” involves electoral accountability; citizens reward governments that are responsible for service provision by reelecting them or removing them from office by voting for their opponents. The “short route” decentralizes service provisions to communities, so that frontline providers are under the direct control and management of citizens, who exercise “client power” to hold them directly accountable.
4. The standard benchmark for market and government failures is “constrained Pareto efficiency”—the failure of self-interested individuals to obtain a Pareto optimum subject to constraints of information, given fixed preferences and technology. In the civic sphere, preferences cannot be assumed to be fixed; deliberative processes are intended to change preferences. Furthermore, coordinated actions can change information and the possibilities for contracting. For these reasons, a tight definition of civil society failure is elusive at this stage. The authors are grateful to Karla Hoff for alerting them to this point. For discussions of the related concept of “community failure,” see Hayami and Kikuchi (1981), Baland and Platteau (1996), Aoki (2001), and Bardhan (2005).
5. In the course of a year of research, Tsai surveyed 316 villages in four provinces in northern and southern China.
6. Village temple groups are organized around a village guardian deity, an aspect of Chinese popular religion attacked during the Cultural Revolution period but subsequently rehabilitated. Lineage groups are organized around village ancestral halls.
7. Village church groups cannot be embedded, because Party members are prohibited from taking part in church activities. By contrast, given the centrality of the village temple as a symbolic resource—and the fact that the temple council is a fulcrum on which moral standing and prestige are regulated—Party members are almost always members of the temple council and among the top donors to temple activities.

8. The focus here is on the role of culture in building collective identity. For more on how a cultural lens can help with development policy, see Rao and Walton (2004) and Lamont and Small (2008).
9. See Bouchard (2009) for an exposition of the related idea of “collective imaginaries.”

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