



Corruption in community-driven development A Kenyan case study with insights from Indonesia

Jean Ensminger

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Jervis Sundays, Kenya Red Cross Society (Creative Commons). A boy and a woman struggle with the dusty wind looking for water in Wajir, Kenya.

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Author

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Abstract

Community-driven development is a widely employed development strategy for empowering people to choose their own development priorities, to select their own project leaders, and to monitor the implementation of their projects. It is often assumed that this model results in lower corruption rates. In this paper we take a look at two such projects, the Arid Lands Project in Kenya and the KDP/PNPM project in Indonesia. These projects had strikingly different corruption rates, even though the countries in which they operated had similar corruption perception rates at the beginning of the projects. The goal of this paper is to highlight the specific design elements that may account for the different rates of corruption in these two projects.

About the author

Jean Ensminger is the Edie and Lew Wasserman Professor of Social Science at the California Institute of Technology. She has conducted extensive research in Kenya since the 1970's, and is known for her work on the political economy of Africa. Her work sits at the interface of economics, political science, development, and anthropology; her current research focus is on corruption. She is a past President of the Society for Economic Anthropology and served as Division Chair for the Humanities and Social Sciences at Caltech from 2002-2006. In 2006-2007 she was a visiting scholar at the Russell Sage Foundation, and in 2011 she received a John Simon Guggenheim Fellowship.

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Indexing terms:

Community-driven development
Corruption
Kenya
Indonesia
Monitoring and evaluation
Project design

Abbreviations

AIJ	Association of Independent Journalists
AfriCOG	African Centre for Open Governance
ALRMP	Arid Lands Resource Management Project
CAP	Community Action Plan
CDC	Community Development Committee
CDD	Community-driven development
CDF	Constituency Development Fund
CDPO	Community Development Program Officer
DC	District Commissioner
DMI	Drought Management Initiative
DMO	Drought Management Officer
DSG	District Steering Group
EACC	Ethics and Anti-Corruption Commission
EU	European Union
FMR	Financial Monitoring Report
FY	Fiscal Year
IGA	Income Generating Activities
INT	Integrity Vice Presidency (World Bank)
KACC	Kenya Anti-Corruption Commission
KDP	Kecamatan Development Project
KESSP	Kenya Education Sector Support Program
Kshs	Kenyan Shillings
M&E	Monitoring and Evaluation
MET	Mobile Extension Team
NGO	Non-governmental organization
NDMA	National Drought Management Agency
NRM	Natural Resources Management
PAD	Project Appraisal Document
PCU	Project Coordinating Unit
PICD	Participatory Integrated Community Development
PMD	PNPM's Community Development Office
PNPM	Program Nasional Pemberdayaan Masyarakat
RLF	Microfunding Groups
SLD	Support to local development
TPK	PNPM's Activity Management Team
UPK	Kecamatan Financial Management Unit
VAT	Value Added Tax

1. Introduction

Community-driven development (CDD) is a participatory model of development generally expected to reduce corruption. This paper contrasts the experiences of CDD projects in two countries with roughly comparable levels of national corruption during the projects' early tenure: Kenya and Indonesia, and investigates why the rate of corruption in one project was much higher than in the other.

Kenya's Arid Lands Resource Management Project (Arid Lands or ALRMP, 1996-2010) was not renewed in 2010, after a damning forensic audit that exposed widespread corruption problems. In contrast, Indonesia's Kecamatan Development Project (KDP, 1998-2006), later converted into the Program Nasional Pemberdayaan Masyarakat (PNPM, 2007-2015), was widely considered one of the most successful CDD projects in the world. As a result of its success, the Indonesian government absorbed the project into the Village Law decentralization initiative in 2015. This paper investigates variations in design elements and contextual issues that may explain these differences in performance.

While corruption is just one factor contributing to the success or failure of a project, it is a particularly important one in systemically corrupt countries. This paper addresses the ways in which different design elements may contribute to corruption, including: 1) project organization and tone at the top, 2) discretion versus rule-based and competitive systems for village and project selection, 3) hiring, training, and technical assistance, 4) transparency, and 5) monitoring systems and complaints management. In almost all areas, the design of the Indonesian project provides checks and balances and greater flows of information to better contain corruption. While these factors may explain much of the difference in performance, we also consider the possibility that country context was a factor.

The aim of CDD is to lower the level of corruption and increase efficiency by empowering people at the grass roots level to choose their own development projects and preferred leaders to implement the projects. The assumption is that villagers will be actively engaged and monitor the performance of those to whom they have delegated these responsibilities. Access to information is crucial for effective monitoring. However, access to information varied significantly between the Kenyan and the Indonesian projects.

It is assumed that CDD results in greater transparency for beneficiaries by reducing information asymmetries between them and the village leaders and the project staff. Yet Kenyan villagers consistently confronted a wall of silence regarding project specifications and expenditure data. This lack of information, together with poor training about their rights, affected their ability to choose projects and leaders, to monitor leaders and staff, and to blow the whistle about suspected irregularities. Transparency was also a problem in the Indonesian project. However, a key difference is that the Indonesian project took bold steps to fight for more openness. This variation points toward differences in the management culture at the top of the projects.

We turn first to a discussion of the methods used for analysing the case studies. This is followed by a brief introduction to the literature on CDD. Next, we examine the country contexts in which these two projects were situated in the late 1990s. The bulk of the paper is devoted to the two case studies, which detail the differences in project design and how this impacted the incidence of corruption in the projects. The final section highlights lessons learned. The practice differences between the two CDDs, and their consequences for corruption, are summarized in table form in Appendix A.

2. Methods

CDD has been implemented in widely different ways around the world. Mansuri and Rao (2012) use the large world sample of participatory projects to address whether this model of development aid is delivering on its promises. The diversity of designs, combined with the diversity of country institutional contexts, make it difficult to untangle the causal connections between specific design elements and outcomes. Here, I adopt a different approach. I provide an in-depth study of a well-documented case of failure (Kenya's ALRMP), and contrast it with a more successful case (Indonesia's KDP/PNPM). Given the parallels in country contexts at the beginning of both projects, we have some confidence that design elements played a significant role in the different outcomes.

This paper presents new evidence on how project design facilitated the creation of a corruption network in a large CDD project in Kenya. The qualitative data presented here are drawn from hundreds of interviews with people knowledgeable about the workings of the ALRMP project.¹ In the discussion below, I use direct quotes from the interviews to establish how the project worked in practice. Most of the interviewees directly connected with the project requested anonymity out of fear of retaliation, and for that reason, names and specific identifying information are withheld.

People were willing to talk about the problems that plagued the ALRMP for a variety of reasons. Some expressed a deep sense of moral outrage that resources intended for the poorest of the poor in Kenya were being diverted to the pockets of elites and the campaign coffers of the ruling party. This group included disheartened staff working for the project and educated members of the communities in which the project operated. Some informants agreed to speak only after being encouraged by persons they respected and trusted.

Early on, I had the support of four prominent members of civil society in Kenya who opened many doors: John Githongo (Kenya's first anti-corruption czar), Maina Kiai (former head of the Kenya Commission on Human Rights), Gladwell Otieno (head of the African Centre for Open Governance, AfriCOG, a prominent governance NGO), and Mwalimu Mati (co-founder of Mars Group, a Kenyan governance database). I also worked for two years with Otsieno Namwaya (now with Human Rights Watch in Kenya), who has a background in investigative journalism and conducted many interviews in villages served by the Arid Lands project. I was also fortunate to have the mentorship of several high-ranking World Bank officials who were frustrated with their efforts to reform the Bank from within.

Although qualitative interviews help explain processes and mechanisms, it can be challenging to establish the truth through interview data. Interviewees sometimes contradict one another, requiring an assessment not only of the reliability of the information, but also of the informant's own trustworthiness. In all cases, conclusions and quotations are used only when they came from sources that were deemed credible based upon the preponderance of the evidence. Many interviews took several hours, and multiple informants were interviewed numerous times. This provided ample opportunity to contrast individual testimonies against other informants' information. The study relies particularly on patterns corroborated by multiple independent sources and replicated across different districts.

1 Interviewees included project employees (from management to office sweepers), community beneficiaries, members of the community development committees (CDC), members of civil society, members of the district steering groups (DSG) that provided oversight for the project, contractors, civil servants, partner donors such as the United Nations (UN) and the European Union (EU), United States' State Department officials, consultants, the press, members of the Kenyan parliament, World Bank employees (in Kenya and Washington), and members of the World Bank's Integrity Vice Presidency (INT).

For the Kenyan project, in addition to the qualitative interviews, we have a detailed forensic audit report (Integrity Vice Presidency 2011a) conducted by INT, and a subsequent INT joint audit report with the Kenyan government's Internal Audit Department (Integrity Vice Presidency 2011b). Other sources include a number of project related documents (African Centre for Open Governance 2012; Camel Bell Ltd nd; Integrity Vice Presidency 2011c; Johnson and Wambile 2011; Wanjigi *et al.* 2007; World Bank 1996, 1998a, 2003a, 2003b, 2005, 2006, 2012).

In contrast to the Kenyan case, the analysis of the Indonesian project is based almost entirely upon secondary sources in the form of project reports and academic papers (Bebbington *et al.* 2004; Chaves 2010; Dasgupta and Beard 2007; Guggenheim 2006; Neate 2013; Olken 2007, 2009; PNPM Support Facility 2011a, 2011b, 2014a, 2014b, 2014c; Sari *et al.* 2011; Syukri *et al.* 2013; Voss 2008; Wong 2003; Wong and Guggenheim 2005; Woodhouse 2002, 2012; World Bank 1998b, 2010). Additionally, I benefited from conversations with Scott Guggenheim, who designed and oversaw the project for many years, and Benjamin Olken of MIT, who conducted extensive research on corruption in the project.

3. Community-driven development

Successful collective action is crucial for economic development. It is, then, not surprising that the World Bank and other donors have aggressively promoted mechanisms to foster collective action in developing countries. Community-driven development (CDD) is one such effort. The logic behind it is that beneficiaries know their own needs, and have the best information and incentives to implement them efficiently. For CDD, this translates into allowing village beneficiaries to prioritize and choose their own projects, to elect their own project managers, and to financially manage, monitor, and implement their projects. In this way, value for money is achieved and poverty is reduced (Binswanger-Mkhize, de Regt, and Spector 2009; Mansuri and Rao 2012; Wong 2012). Proponents of CDD, including the World Bank, also argue that CDD has benefits beyond the project as the resulting empowerment facilitates subsequent collective action and encourages villagers to demand greater accountability in governance.

CDD was an understandable reaction to top-down efforts to aid rural communities. In the 1960s and 1970s, it was common for western donors to conceive and design projects in the US or Europe with, at best, token consultation with elites in the beneficiary country's capital. Often, the first that local villagers knew about a project was when tractors arrived unannounced. There was rarely consultation with the local community regarding their development priorities, let alone attempts to seek their counsel in design and execution. CDD was an effort to respond to some of the obvious failings of top-down development.

CDD has its roots in earlier experiments with United States Aid to International Development (USAID) funded cooperatives in the 1950s and 1960s and Social Funds in the 1980s (Mansuri and Rao 2012). The World Bank has used CDD widely since the early 1990s. In the first decade of this century, the World Bank alone spent over US\$ 85 billion on CDD-like projects, and in 2012 it was funding about 400 CDD projects (Wong 2012). Other donors and governments around the world have also widely adopted the mechanism (Mansuri and Rao 2012).

The logic behind community-driven development projects is that beneficiaries know their own needs, and have the best information and incentives to implement them efficiently.

CDD and its related approaches have long had their critics. Judith Tendler (2000), writing about the Social Funds movement that preceded what came to be known as CDD, was one of the earliest critical voices, and this study validates many of her conclusions. She was deeply sceptical of three crucial issues. First, she questioned whether the projects were really as decentralized as they were characterized to be, given that they were run by entities of the central government. Second, she questioned whether local actors really selected their own projects, given the menu driven nature of selection, as well as the potential for undue influence by outside elites. Third, following Stiglitz (1985), she suggested that, rather than alleviating asymmetries of information and power, social funds might actually exacerbate them. As we shall see below, these problems were central to the failure of the Kenyan CDD.

The literature evaluating more recent CDD projects is now large (see Mansuri and Rao 2012 for an extensive review). Common themes include elite capture (Bardhan 2002; Conning and Kevane 2002; Cooke and Kothari 2001; Platteau 2004; Platteau and Abraham 2002; Platteau and Gaspart 2003, 2005; Rao and Ibáñez 2005), corruption (Ensminger nd; Olken 2007 and 2009), and the degree to which CDD succeeds or fails to foster trickle-down cooperation and to teach villagers to demand greater accountability from government (Casey, Glennerster and Miguel 2012; Fearon, Humphreys and Weinstein 2009; Wong 2012).

In the case study analysis that follows, I attempt to tease out the reasons why the positive effects of CDD are better realized in the Indonesian case than in the Kenyan one. When does empowerment fail, and how does that failure affect project selection, choice of leaders, and financial management? Which aspects of project design contribute to higher levels of corruption and defeat successful project implementation? Before turning to project design, I begin with a discussion of the country economic contexts in Kenya and Indonesia at the beginning of both projects.

4. Country context: Kenya and Indonesia compared

The Kenyan Arid Lands (ALRMP) and the Indonesian KDP/PNPM projects ran roughly concurrently. Both projects had precursor projects, the ALRMP Phase I began in 1996 and the KDP began in 1998. The Kenyan project closed in 2010 and the Indonesian project continued to run until 2015. For purposes of comparison, I shall focus on country characteristics for the period from 1998 to 2010.

In the Kenyan newspapers today, which are now freer to write about corruption than in the past, it is common to refer to government agencies, such as the lands ministry and the police, as cartels controlled by criminals. The Chief Justice of Kenya's Supreme Court, Willy Mutunga, recently said that Kenya is at war with mafia style cartels run by corrupt politicians and business people (Lindijer 2016). Few Kenyans would have disagreed with this statement in 1998, but they would have been more fearful to say it.

In 1998, President Daniel arap Moi was just beginning his final term as President of Kenya, having first come into office in 1978. Although there was some opening of the press, and political and economic systems in the 1990s, Moi was frequently referred to as a dictator. Extra-judicial killings were common, as was torture by various arms of government, and human rights abuses abounded. Corruption was the norm, and Kenya ranked 74th out of 85 countries (87th percentile) in Transparency International's corruption perception rankings in 1998.

The Indonesian KDP project began in the spring of 1998, which was a chaotic time for Indonesia. In the previous year, Indonesia endured a violent election and faced the Asian Financial Crisis that began in 1997. The rupiah fell to one-sixth of its previous value and GDP per capita fell by roughly one-half. Violence and rioting were widespread, and corruption was rampant; Indonesia ranked 80th out of 85 countries (94th percentile) according to Transparency International's data for 1998. Within weeks of the beginning of the KDP project, long-term President Suharto resigned. The legendary corruption of Suharto and his family was a major reason for his downfall.

In short, Kenya and Indonesia were challenging places in which to run aid projects at the dawn of both of these projects in the late 1990s due to their difficult institutional environments.

Both Kenya and Indonesia experienced approximately two decades of relatively flat economic performance from 1980 to 2000. Indonesia, however, achieved roughly double Kenya's level of gross national income per capita by the mid-1990s. Though this advantage was lost briefly in 1998, during the financial and political turbulence, Indonesia began to take off economically from approximately 2000; Kenya followed a similar trajectory beginning in 2002. In each case, the turnaround coincided with the end of long-standing presidential rule. In 2002, Moi ended 25 years of rule in Kenya, and in 1998, Suharto ended 31 years of rule in Indonesia. Both countries are now officially middle-income countries. However, by 2010 Indonesia enjoyed roughly 2.5 times the gross national income per capita as Kenya (\$2530 versus \$1000).

While Kenya's political and economic trajectory has considerable similarities to Indonesia, its struggle with corruption over the 1998-2010 period has been less successful. Although both countries began in roughly the same place in 1998, Kenya's Transparency International rank barely moved from 1998 (74th out of 85 countries, the 87th percentile) to 2010 (154th out of 178 countries, the 87th percentile). In contrast, having begun at the 94th percentile in 1998, Indonesia's corruption record began to gradually diverge from Kenya's around 2006, and by 2010 the country was ranked 110 out of 178 countries (the 62nd percentile).

Given that there is no meaningful difference in the country-level corruption rates for Kenya and Indonesia before 2006, it seems likely that something other than the generalized country corruption norms also played a role in explaining the differential rates of corruption in the two projects.

There is evidence in the literature for a negative correlation between corruption levels and economic growth (Mauro 1995), education (Glaeser and Saks 2006), and freedom of the press (Brunetti and Weder 2003). Kenya had significantly lower GDP per capita than Indonesia, which we might expect to find

Country-level differences in wealth, education, press freedom, and corruption rankings do not appear to explain the differences in the corruption levels in community-driven projects in Indonesia versus Kenya.

associated with higher levels of countrywide corruption, all other things being equal. Kenya had only moderately lower education levels than Indonesia; Kenya had 91% of primary aged children in school in 1999 and Indonesia had 111%.² Again, this would lead us to expect higher rates of corruption for Kenya, all other things being equal. According to Freedom House data for 2011, Indonesia ranked 108th, and Kenya ranked 112th in the world in press freedom.³ These

rankings are virtually identical. The differences in wealth, education, and press freedom appear not to have been sufficient to lead to differences in countrywide corruption rankings, at least for the first half of the tenure of these projects (1998-2006), and it therefore seems unlikely that they would explain differences in the corruption performance of the two projects over the same period.

In conclusion, I do not find compelling evidence that country differences in wealth, education, and press freedom can explain the better corruption performance of the Indonesian project. While we cannot rule out the impact of other unmeasured factors, there is compelling evidence to suggest that design elements and management style played a strong role in the relative success of the Indonesian KDP/PNPM project.

I turn now to the detailed case studies of the Kenyan and Indonesian CDD projects, with an analysis of the relationship between design elements and corruption outcomes.

² Percentages exceeding 100% of the typical primary school age indicate that older individuals are also attending primary school.

³ 2011 is the first year for which we have press freedom data for both countries.

5. Kenya's Arid Lands Resource Management Project

In 1965, just two years after independence, Kenya issued Sessional Paper Number 10 that divided the country into low and high potential areas and established a policy that preferentially steered development funds to high potential areas (Government of Kenya 1965). The arid and semi arid territories, those served by the ALRMP, were declared low potential. The vast majority of the population in these areas made their living herding livestock, and many communities were nomadic. From 1965 until the new Kenyan Constitution of 2010 that brought in revenue decentralized, these territories were highly marginalized and denied basic infrastructure and resources that were common in other parts of Kenya. For the intervening 4½ decades, the arid lands depended almost entirely upon donor support for what little development they received. For close to two decades, the ALRMP dominated these efforts (African Centre for Open governance 2012).

Kenya's ALRMP (1996-2010)⁴ was launched by the World Bank to break the cycle of crisis from drought and poverty in the arid districts of Kenya. The project had three components: community-driven development (CDD), natural resources and drought management (NRM), and support to local development (SLD). In Phase II of the project, 17 semi-arid districts were selected to join the project, but they did not participate in the project's CDD component. By the end of the project, it served 28 districts, covered over 75% of Kenya's land area, and had cost US\$ 224 million. A major difference between the SLD component and the CDD component was that the project staff did the contracting and decision making about development investments under SLD, whereas the communities were meant to do so under CDD.

5.1 Project organization, and village and project selection

The 2003 Project Appraisal Document (PAD) for ALRMP II (World Bank 2003a), lays out the project's operating procedures, most of which continued through its closure in 2010. In this section, I introduce the basic design of the project's operation and discuss how the practice differed from the design.

Project organization and operating procedures

The Arid Lands Project maintained a national headquarters office in Nairobi, which oversaw the project with a staff of 59 employees in 2008. There were also 28 district offices employing another 359 staff. The headquarters staff was in charge of overall project procurement, financial management, and district staff supervision of each of the project's components. Only the original 11 of the 28 districts were "arid," as opposed to "semi-arid," and these were the only districts that ran the CDD component. CDD funded community block grants for infrastructure development, income generating opportunities, and matching grants (mostly through a 50% top-up of savings). The following discussion concerns only the 11 districts with CDD projects.

Each of the arid districts had a drought management officer (DMO) who headed the district office, and senior staff responsible for each of the project components (CDD, SLD, and NRM). The second in command in each district was the community development project officer (CDPO) who oversaw the CDD

⁴ The Arid Lands Project consisted of a precursor project and three subsequent renewals: the Kenya Emergency Drought Recovery Project (EDRP 1993-1996), ALRMP Phase I (1996-2003), ALRMP Phase II (2003-2006), and ALRMP II Supplemental (2006-2010). The project had a formal board date for an additional five-year renewal, but it was instead closed in December 2010 as a consequence of INT's unfavorable forensic audit report (Integrity Vice Presidency 2011a).

component of the project. Mobile extension teams (METs) of three members worked with the CDPO to train villagers in community development. They also worked with part-time “pool” METs, who were borrowed from government ministries and non-governmental organizations (NGOs). Technical expertise was obtained by borrowing officials from government ministries; they were paid per diem allowances for the days they worked.

The selection of the original nine arid districts does not seem to have been controversial, as they were the poorest territories and were associated with pastoralism and chronic drought. Moyale and Ijara became the tenth and eleventh districts, when they split from other districts already in the project. In contrast, the selection of the 17 semi-arid districts added in Phase II of the project was highly controversial. The original plan had been to include five coastal districts, based upon their poverty and drought vulnerability. According to informants, however, political factors intervened in 2003 to exclude these districts in favour of five other districts that had closer connections to the government. In 2006, the original coastal districts were also added.

It is unclear how budgetary allocations were decided across districts, but headquarters had some discretion. It is clear that the budgets were not assigned on an equity maximizing formula based on population, land area, and level of poverty, as is the case today in allocations to Kenya's county governments. For example, Ijara, one of the smallest districts, received 86% of the support that Turkana, the largest district, received in 2008. Turkana had over 13 times the population of Ijara, six times the land area of Ijara, and Turkana has consistently topped the poverty indexes as the poorest district in Kenya.

Each district had a bank account into which headquarters deposited their funds. Communities with CDD projects opened their own bank accounts and withdrew funds for their activities; most, if not all, of their expenditures were paid in cash. Communities were meant to receive their funds in tranches following the successful completion of work stages.

Village selection was intended to proceed as follows. After the district office identified a village, the District Steering Group (DSG) representing the entire district, was asked to approve its selection. Next, the district project staff approached the village and trained the entire village in participatory integrated community development (PICD). This training was intended to last 14 days under the direction of between four and six METs (Camel Bell *nd*). The villagers learned about the project, discussed their village assets, ranked households by wealth, discussed their development goals, and elected a village CDC of about 20 members (at least some of which had to be women). Three of the CDC members were then elected as officers, who were the signatories to the village's bank account. Committee members were taught to write project proposals of up to US\$ 10,000. Typical projects included livestock restocking, classroom and dispensary buildings, generators for irrigation, water projects, donkey carts, provision of beehives, construction of outdoor toilets, and matching grants (usually a 50% top-up to savings).

The district office selected village proposals and presented them to the DSG for endorsement. The reasoning behind DSG oversight was that there should be coordination at the district level to ensure that projects did not duplicate other efforts by NGOs, donors, or the government. The DSG was large (often more than 40 members), and included government officials, members of parliament, elders, civic and religious leaders, and NGOs. The DSG had to approve all village projects. The drought management officer (DMO), who headed the district office, served as secretary and set the agenda for meetings.

Proposals for CDD projects required a community contribution of 30% of the project's total cost in cash or kind, typically labour or goods procured locally from the bush, such as poles for fencing. The rationale

for such contributions, of which 5% had to be in cash, was to ensure that communities had a sense of ownership in the project. Projects using general contractors required competitive tendering.

The village CDC, the Arid Lands CDPO, the relevant government line ministry, and the DSG were all involved in various stages of inspecting and approving projects prior to the release of funds in several tranches. Upon successful completion of a first project, villages were eligible to apply for a further US\$ 25,000 block grant to be disbursed in a series of three projects following the same procedures.

Project guidelines required the local CDC committee to hold village meetings to inform the beneficiaries about the project. During the process, the district project staff (the CDPO and the METs) organized various trainings to educate the committee in proposal writing, project leadership, management, procurement, record keeping, monitoring, and financial reporting.

In many respects, the actual practice of CDD diverged from the specifications in the Arid Lands guidelines. Much as Tendler (2000) predicted, there was far more top-down control than the design intended. The next two sections will discuss how the practice of village and project selection diverged from project specifications and contributed to top down control.

Practice: Village selection

The DMO's discretion over village selection was a central flaw in the Arid Lands Project. The district offices exercised effective monopoly control over the process, which granted them considerable bargaining power over local CDC committees and villagers.

Although the DSG was responsible for approving both village and project selection, the DMO ran the meetings and set the agenda, and the DMO's will seemed to prevail in virtually all decisions. One may question why the DSG, whose membership included senior community leaders, would not stand up for the villagers against the DMO? Part of the explanation lies in the power that DMOs commanded through their control of large discretionary funds, such as the drought contingency fund, which was especially subject to abuse. It was common for DMOs and other senior staff to lend project vehicles to local MPs for their personal use when they came to visit their constituents. Gifts of cash, petrol, and delivery of water to local elites, politicians, merchants, and high-ranking government officials were also common. Senior district ministry staff also sat on the DSG and had many conflicts of interest with the project. They looked to the DMOs for supplementary employment as trainers, as technical experts to projects, and even as recipients of project contracts. With such vast resources at their disposal, some DMOs were viewed as the most powerful persons in their district. As a consequence, DMOs met little opposition from the DSG.

The DMO's discretion over village selection was a central flaw in the Arid Lands Project.

So how and why did the district staff decide which villages to fund? The citizens of Kenya's arid districts were not strangers to external efforts to relieve drought and poverty. News about new donor aid opportunities spread rapidly among a well-connected circuit of entrepreneurial young men and women eager to participate. Rather than the project staff going first to the village beneficiaries and explaining their rights and opportunities as a community, well-connected individuals from the villages showed up at the offices to learn how to access the newly available resources. Academic literature calls this phenomenon the "prime mover" effect (Araujo et al. 2006). Project officials were often receptive to such approaches. Commonly, the parties already knew each other, and easily came to an agreement about kickbacks to the district office against the promise of a specific project for the village. Once the project officers arrived at

the village to formalize the process, villagers were often quite willing to elect these individuals as officers in the CDC, as it was rightly perceived that their initiative had brought a project to the village.

In many cases, villagers endorsed their new CDC officers and the project that these “prime movers” had promised them before they were trained in their rights and project procedures. This process created deference to the CDC officers, and similarly, the CDC officers were deferential to the project district officers. Another consequence of this practice was that the district office had little incentive to replace cooperative CDC officers. Their tenure was supposed to last only two years, but it was common for them to stay in office permanently. Some villagers attested to the degree of top down control exercised by the Arid Lands office over local decision-making:

I was also a member of the CDC and saw what was happening. They [the three CDC officers] never called a meeting before making decisions. What they were doing was the CDC [officers] met with Arid Lands officials and the Arid Lands’ officials told them what to do.

Interview with a CDC member, September 14, 2010.

In some communities that understand their rights, they hold elections and Arid Lands come to witness, but in other places Arid Lands basically decides what should happen.

Interview with a community religious leader, September 17, 2010.

Even if it involves the community, the community is ignorant of the funding. They don’t have much knowledge and capacity to demand for service. They only receive. They end up recipients, not participants.

Interview with a community activist, July 4, 2009.

Practice: project selection

Once the district office selected a village and the village had elected their CDC committee and officers, the committee developed a priority list of projects, or a Community Action Plan (CAP). This process revealed the heavy hand of district officials in the selection process and, as discussed above, the first project was often a foregone conclusion. Interviewees frequently reported, for example, that beekeeping, donkey carts, and VIP toilets were chosen as projects, but these did not actually reflect their true preferences. District staff preferred projects from which they could most easily commandeer contracting and extract

District staff preferred projects from which they could most easily commandeer contracting and extract high kickbacks.

high kickbacks. Most communities wanted income generating projects like goat or cattle restocking, and community infrastructure like school classrooms, dispensaries, and water projects. Many of the latter projects did get funded, but so too did a large number of the former ones. The villagers and CDC committees were easily manipulated through the entire process, as villagers feared district officials would deny them future projects if they did not comply with all of their requests.

The DSG had to approve the selection of projects for funding. The DMO was in charge of setting the agenda for these meetings. From interviews with DSG members, it seems that they rarely challenged the DMO, and when

this did happen, it usually had to do with inequitable distribution of projects across ethnic groups within a district. Informants described the DSG as a rubber stamp. Members of the DSG in two different districts characterized the situation this way:

I doubt the DSG approves the work plan [with budgets for forthcoming projects]. I am a member of the DSG and I never saw approval of the Arid Lands work plan. Approval would mean we all had [an] opportunity to see and approve this work plan. I have never seen it. The secretary of the DSG is the DMO. The chair is the DC [District Commissioner]. They can collude and print our names and sign off. What we normally discuss is food security issues for Arid Lands.

Interview with member of the DSG, July 4, 2009.

I am a DSG member. I attend the DSG, but every time I ask for the DSG minutes I am told to wait one month and I never get them. They don't want to release DSG minutes because they know that the projects that are discussed in DSG meetings aren't those that are implemented. [He then shows an SMS inviting him urgently to a DSG meeting at 9 AM; the message was received at 9:50 PM the night before.] No agenda was distributed. The meeting was about relief food. But all meetings are similar: last minute, no agenda, no minutes. You can fight and never get them [the minutes] because of differences between what is discussed and what is implemented.

Interview with member of the DSG, September 17, 2010.

In many areas, village CDC committees rarely met to discuss project priorities, and the three elected officers made their own decisions without informing the rest of the committee or the village community. Villagers and Arid Lands' staff members confirmed this was the case:

They are not using the action plan [the community ranking of priority projects]. We are tired of the CDC [officers]. They are not holding meetings or discussing with the committee. Only three officers run things.

Interview with a CDC committee member, September 18, 2010.

At training time during the PICD [first village training], the village produces a community action plan. But in July, [when the project receives its annual funding,] now the CDC chairs from the villages come with [other] priorities—now new ones without consulting the community. To make it worse, they are even written by the Arid Lands staff, not in the community.

Interview with an Arid Lands staff member, May 1, 2009.

In conclusion, excessive levels of discretion in the hands of project staff worked to undermine the authority and choices of villagers. The level of discretion that headquarters held over the budgets of the districts gave them leverage over the district offices. Furthermore, the discretion that the districts held over the selection of villages and projects meant that the district offices were able to exert undue influence over the CDCs and the villagers. The result was a heavily top down project that sometimes even determined project selection for communities.

Excessive levels of discretion in the hands of project staff worked to undermine the authority and choices of villagers.

5.2 Hiring, training, and technical support

Staff hiring was handled internally by the project; hiring firms were not used. Some senior staff was hired on contracts and some was seconded from government ministries. All senior hiring, including senior positions in the districts, was supposed to be publicly advertised through the usual national government channels and subject to meritocratic process.

Informants made many allegations about irregular hiring in the Arid Lands Project. I verified cases of nepotism, ethnic preference, and political appointments. It was also alleged that many individuals in the districts did not meet the minimum educational qualifications for their posts, while others had fraudulent academic certificates. The length of tenure of top management staff in the project was a red flag to many of my informants. They remarked that some district DMOs and other senior district staff had been in the same positions for over a decade and seemed suspiciously uninterested in promotion or transfer. In some cases, this was because they lacked the minimal qualifications for an equivalent job elsewhere.

Informants made many allegations about irregular hiring in the Arid Lands Project.

Training in the Arid Lands project was deficient, in part due to unqualified senior staff. Even though it was a requirement to have a university degree, a large number of first officers (DMOs) in the arid districts did not have degrees at the time of their appointment and were selected above more qualified candidates. In one district, experienced and high performing MET trainers with university degrees were replaced with less qualified personnel. Several credible informants familiar with the case explained that the qualified trainers were terminated because they were unwilling to collude in over-invoicing the project for trainings.

The strategy of employing under-qualified staff was common throughout the project. One explanation is that less qualified employees were more loyal to headquarters and/or the district managers, because their job prospects were more limited. Loyalty translated into higher kickbacks. There was also evidence that hiring favoured the friends and relatives of powerful politicians and Arid Lands' senior staff, regardless of their qualifications.

Villager training came under criticism for the use of an antiquated curriculum developed early in the project's history and used up to the end of the project in 2010. Failure to update the training is consistent with suspicions that one long-standing training contractor colluded with headquarters to over-invoice for training exercises.

Villagers frequently complained that they did not know their rights; yet, learning their rights was meant to be part of the original PICD village training. So what went wrong? PICD trainings were supposed to last for 14 days under the direction of the CDPO and the three permanent METs trainers, with the help of pool METs. Frequently, however, districts used pool METs for key portions of the training--or even for all of it. Senior government officials were sometimes collecting payment for participating in the training, but less qualified individuals were actually doing the work. These substitute trainers often had minimal or no training themselves and were unable to answer simple questions about the project rules and procedures they were meant to be teaching.

A senior Arid Lands official explained the poor quality of the training:

The days [of PICD training] are never 14. Typically not more than five to seven days... PICD is supposed to be 100% for mobilization [to the entire community] the first day. Then you remain

with 50 [people] to train for 14 days. In reality, they remain with no more than 20 to 30 [people] for the other days. The villagers call it child's play. They draw pictures in the sand—just like children... Then [following the PICD,] a procurement and accounting training is supposed to be three plus three days [six days total], but it is always done in one day... They [the villagers] listen, but they don't learn because you can't learn [everything] in one day. They are illiterate.

Interview with an Arid Lands staff member, May 1, 2009.

A member of the MET pool, who conducted about seven trainings, also reflected in an interview on the problem of insufficient staff:

MET pool trainer: “[There were] two of us [trainers] there each day, but there were supposed to be five.”

Interviewer: “When all five trainers are present, does the training go better?”

MET pool trainer: “Yes. The participation from the community was very high. If you go with fewer trainers you have to [train about] a topic you don't know. It was so nice at [village name] because all [the trainers] knew what they were training [on].”

Interview with an Arid Lands pool MET, January 10, 2010.

These testimonials reflect a pattern seen across many districts. Though there was variation, the tendency seemed to be that PICD ran for five to seven days, rather than the 14 days billed to the project, and that only two or three trainers were present each day, instead of the four or five being paid. This averages to 15 actual person days, versus the average of 63 reported person days that were reimbursed; resulting in an over-invoice of 320%. The number of village participants was also inflated to justify higher food reimbursements. Similar issues occurred in other specialized trainings for the CDC committees, but with those there was a higher probability that the trainings on the books had not taken place at all. Overall, it is clear that village training exercises were a major revenue stream for many of the district offices. As noted in the preceding quote, the poor quality of the training (in terms of the reduced number of days, the use of unqualified trainers, and the antiquated content) was exacerbated by the low level of education and literacy among the populations served by the project.

The project relied upon government ministries in the districts to provide technical support. For example, goats purchased at auction for restocking projects required a health inspection from a veterinary officer in the Ministry of Livestock prior to their sale. This was rarely done and people from several districts reported that sick goats were purchased at auction and delivered to communities, where they then infected the local goats. Engineers from the Ministry of Water and the Ministry of Works were meant to be involved in advising and approving water projects and school and dispensary constructions. According to informants, if such inspections did occur, they were cursory.

When the district staff was colluding with the CDCs to extort funds, it was not in the interest of either group for the district technical experts to cite projects for violations. In fact, I never heard of an infrastructure project failing inspection. District staff ensured the cooperation of government officials by paying them allowances for this work, granting them contracts for projects run from district offices, and diverting project vehicles, fuel, and water for their private use. These benefits also ensured their cooperation on the DSG, where many of them had a seat, and where the DMO needed approval for village and project selection.

In conclusion, the generously funded training component of the Arid Lands Project was largely ineffective due to the appointment of unqualified district staff and because large amounts of funds were misappropriated via foreshortened and non-existent village trainings. The technical expertise obtained from government ministries was compromised because of patterns of side payments and collusion with senior project management.

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5.3 Transparency, monitoring, and complaints

Interviewees complained that secrecy in the project was a problem from top to bottom.

Effective monitoring requires access to information. Interviewees complained that secrecy in the project was a problem from top to bottom. Project guidelines required that budget data be posted at the district offices. Reports from many districts indicate that this was almost never done. The exception was when pre-announced World Bank missions came to visit; typically, project documents were posted the night before the visitors arrived and taken down immediately after their departure. Normal practice was described as follows:

Interviewer: “Did you ever see work plans posted in the districts?”

Staff member: “No, no. Top secret... The Phase II document [World Bank 2006] said there had to be a board in each district showing the disbursement of funds and what was received. But it was not implemented in any district... No district displayed those boards, ever.”

Interview with an Arid Lands staff member, June 21, 2010.

The second [form of] corruption is [evident] in the fact that in Kenya today every [government] department budget is known, but the Arid Lands budget is never known.

Interview with a DSG member, September 17, 2010.⁵

They have told us in the PCU [headquarters] to publicly declare how much was given to the community, but even that is done one in a thousand times. You are supposed to take the check to the community, hold a public meeting, and ask the community if this was your priority. That is not done.

Interview with an Arid Lands staff member, May 1, 2009.

⁵ In 2009, I formally requested that the ALRMP make public each district’s annual reports, which included a record of all funded CDC projects. This was the level of budgetary transparency promised, but not delivered, in the 2006 project renewal document (World Bank 2006). After considerable back and forth, and only after the intervention of the U.S. Executive Director of the Board of the World Bank, several years of annual reports for most districts were made available on the project website. Neither the district reports for the final year of the project (FY 2010), nor any of the quarterly audit reports the project document promised, were ever made public.

Interviewer: “Have you seen the project work plan posted?”

Activist: “No, I have never seen it.”

Interviewer: “Have you seen the contracting specifications posted for any village project?”

Activist: “Never... What I know is they work in mystery; secretly. They have never shared with people their budget.”

Interview with a community activist, July 4, 2009.

A common complaint from villagers and CDC committee members was that they lacked information about project specifications and budgets. Sometimes, the CDC officers had all the relevant information and failed to share it with the rest of the committee and the villagers. This occurred when they had colluded with the district officers and contractors. Frequently, however, even the CDC officers were in the dark because the district office took over the contracting, in violation of CDD rules. Villagers and their CDC committees complained that if they did not know what the plans for a classroom or a water pan (small reservoir) required, they could not monitor whether the project met specifications. In the case of water pans, villagers were often suspicious that they were not dug as deep and wide as the contract specified or that the intake was not properly prepared, but their efforts to secure the plans were often thwarted by their own CDC officers and the project office.

The CDPO was supposed to inspect village projects (often with a technical expert from the relevant line ministry) before releasing the second tranche of funding. Contrary to project guidelines, in many cases all the funds were distributed in one check at the beginning of the project. As we shall see, the district office often received large kickbacks when these funds were turned over to the village CDC officers. Once the office was complicit in this way, it was unlikely that they would hold the village officials to account for failing to produce a successful project. Co-conspirators make poor monitors. One CDC chair explained the process he witnessed:

But there is no monitoring [from the Arid Lands office]. He [the CDPO] monitors while sitting in the vehicle when he goes to the field. But he can't go to a place like [name of a village] and ask the people if there are problems. So here corruption comes in. He writes a report [stating] that he checked the [specific] project. But he was sitting [in the district office]. I asked the question so many times—why don't you go to the field and monitor the projects? No one answers. They say they are too busy.

Interview with a CDC chair, October 23, 2009.

The DSG was intended to be the main oversight body outside of the villages and district office, but they too suffered from lack of access to information. Their role was not only to vet villages, projects, and work plans before they were funded, but also to inspect finished projects to ensure that standards were met. The DSG was occasionally taken out to villages to oversee projects, but these trips were rare, short, and more like courtesy excursions to a handful of projects, rather than supervisory missions.

Interviewer: “Who decides which projects [the DSG will] visit?”

DSG member: “The DMO's office... He tends to send us to the ones that are working well.”

Interview with member of the DSG, January 7, 2012.

Monitoring missions from headquarters and the World Bank also failed to establish the truth. These missions were almost always described by staff members as “stage managed,” meaning they were highly scripted and controlled by the project. The projects to be visited were carefully pre-selected, and project officials made visits in advance to instruct project recipients about exactly what they should and should not say. Each village expected follow-up projects, and villagers knew that future funding depended upon staying in the good graces of district officers. They knew better than to criticize those officers in front of their bosses, whether from Nairobi or from Washington. The following describes what happened when senior staff from Nairobi came on a supervision mission:

Some [kickback money] goes to Nairobi [from the district office], otherwise they will come to make trouble for you. When they [headquarters staff] get paid off they just come and sit in the Land Rover and say what a lovely dam [water pan]. They ask the people “are you happy with the project?” Sometimes the people want to tell the problems, but we hear this is the boss and if you tell them we won’t get more projects. When the bosses [from headquarters] come, the one you want to accuse [a staff member from the district office] is with them. There are challenges, and he [the district staff officer] comes with language of promising another project. So you fear. And the time [that the mission is in the village] averages 40 minutes. They say, “we are traveling far.” When he leaves, you regret you didn’t speak.

Interview with a CDC chair: October 23, 2009.

A number of project staff members criticized the World Bank for sending the same international team members on monitoring missions over and over again. They felt that more independent-minded outside experts, less friendly with the senior management, would have been more inclined to probe and speak the truth about what was going on. These staff members wondered, “how could Washington not know?”

There is little record of complaints about the Arid Lands project, for many reasons. As already noted, villagers did not know their rights and were unsure of their expectations for the project. Their own CDC village officers often colluded with the project district staff and the government ministries that were meant to be overseeing quality. Project details and budgets were kept secret by the colluders to serve their own interests. Without this information, it was difficult for villagers to know precisely what they were not receiving. Villagers who did raise concerns were often warned that if they persisted, their village would be cut-off from the project.

More educated members of the public, especially those in larger towns, had ways of learning about the project that illiterate village recipients lacked. Some were contractors, who knew that procurement regulations were being violated and that contracts were being issued without tenders. I interviewed people who formally protested to the district project officials, and some who went all the way to Nairobi to confront project management at headquarters. The typical response to such complaints was an attempt to buy off the complainant. In many cases, this was successful, and the paltry sums offered suggest that the prospects of achieving anything with a protest were low. Contractors who made a lot of noise were sometimes offered no-compete contracts to buy their silence. Other complainants refused to be bought off, but were still unsuccessful in achieving changes in project operations. In several districts, the project staff was cocky in their rebuff of complainants, taunting them and proudly proclaiming that nothing would come of it, as they were protected by high-level government ministers and were thus untouchable. Apparently, they were correct. Hostility toward the project in such districts was particularly intense.

In the later stages of the project, district offices were required to maintain a complaints box. Given that Arid Lands’ compounds were often gated and guarded, it is difficult to imagine how anyone could file an

anonymous complaint. Furthermore, given that the very same people who were being criticized would read the complaints, it is hard to understand how this would be effective.

In conclusion, there was a failure of transparency, monitoring, and the complaints process across the Arid Lands Project. Beneficiaries could not get access to the information they would have needed to monitor the financial management of their own village projects, let alone the project as a whole. When they considered complaining they were threatened with the loss of all future projects for their village.

There was a failure of transparency, monitoring, and the complaints process across the Arid Lands Project.

5.4 Evidence of corruption in the Arid Lands Project

The Arid Lands case study is unusual in that there is both extensive qualitative and quantitative information documenting corruption in the project. In this section, I first discuss the World Bank forensic audit of ALRMP, and then turn to the qualitative evidence, which helps us better understand the practices behind the numbers.

5.5.1. Integrity Vice Presidency forensic audit

The World Bank initiated a forensic audit of the Kenyan ALRMP in 2009. The audit was performed by the World Bank's INT, the unit tasked with investigating complaints of corruption in World Bank projects.

The INT audit report was published in 2011 (Integrity Vice Presidency 2011a), and was quickly followed by a review conducted jointly with the Kenyan Internal Audit Department to confirm the findings (Integrity Vice Presidency 2011b). As a result of the audits, the Kenyan government was required to repay the World Bank US\$ 3.8 million.⁶

The audit involved an analysis of 28,000 transactions from seven of the 28 districts (five arid and two semi-arid) served by the project for the two fiscal years between July 2006 and June 2008.⁷ Details of how these seven districts were chosen were not made public, but some districts were excluded on security grounds, as the World Bank is subject to the same travel restrictions as the UN. This was an intensive audit; investigators travelled to the selected districts to field verify the legitimacy of vendor receipts and tenders.

INT classified each of the transactions as: eligible (for World Bank reimbursement), suspected fraudulent, or questionable.⁸ All components of the project were examined, except salaries, which were excluded due to the lack of cooperation from the project's staff (Integrity Vice Presidency 2011a). Table 1 shows the results of the INT analysis, which includes all components of the project, not just the CDD component.

⁶ The US\$ 3.8 million represented only a small fraction of the funds that may have been misused in the project. Only seven out of 28 districts were audited, and only two years' worth of transactions in its 14-year history were examined. The World Bank could reclaim the ineligible payments only from the audited sample, despite concluding that the problems were systemic across districts and sectors of the project.

⁷ A transaction is equivalent to a line item expenditure for one activity, such as a training exercise, which may be supported by a pile of receipts covering, for example, conference room rentals, stationary, hotel rooms, meals, trainer salary, and travel for participants.

⁸ INT originally classified suspected fraudulent and questionable transactions as "ineligible," which is the technical term used by the World Bank for non-reimbursable expenditures. After considerable internal negotiations between operations and INT, a compromise was reached that avoided referring to these expenses as "ineligible," and instead classified them as either "suspected fraudulent" or "questionable" (personal communication with INT staff).

Table 1. ALRMP: INT suspected fraudulent and questionable transactions by district (FY 2007 and 2008)

DISTRICT NAME	% Suspected Fraudulent	% Questionable	% Suspected Fraudulent and Questionable
Garissa	49%	13%	62%
Isiolo	53%	21%	74%
Kajiado	35%	25%	60%
Nyeri	57%	13%	70%
Samburu	43%	24%	68%
Tana River	29%	15%	44%
Wajir	62%	13%	75%
All Districts	49%	17%	66%

Source: Forensic Audit Report: ALRMP. Phase II. Redacted Report (Integrity Vice Presidency 2011a: Table 3, p. 23. Note: The all district percentages are calculated based upon the budget size that each district contributes to the total.

The INT found considerable evidence of misappropriation of funds in all seven districts, with an average of 66% suspected fraudulent and questionable transactions. In headquarters, 44% of the transactions fell into these categories. The data show that the problems were not limited to a few rogue districts, but rather, were widespread across the project.

Table 2 shows that the pattern of suspicious transactions extended across all components of the project. For the CDD component, 75% of the transactions were deemed suspected fraudulent, and an additional 9% were deemed questionable, giving a total of 84% suspicious CDD transactions.

Table 2. INT Forensic Audit findings for the Kenyan ALRMP by project component

	Com- munity- driven devel- opment (CDD)	Support to local devel- opment (SLD)	Drought Contin- gency (DC)	Training	Transport	Other	Total all project compo- nents
% Suspected Fraudulent	75%	64%	23%	22%	58%	12%	49%
% Questionable	9%	24%	22%	13%	12%	20%	17%
Total % Suspected Fraudulent & Questionable	84%	88%	45%	35%	71%	32%	66%

Source: *Forensic Audit Report: Arid Lands Resource Management Project - Phase II, Redacted Report (Integrity Vice Presidency 2011a); Table 4, p. 25.*

The CDD operation drew heavily from the budgets for training and transport. It is surprising that the percentage of suspected transactions in training is lower than that in other categories, given that training funds are often the most vulnerable to fraud because they are difficult to verify. The qualitative data would lead us to expect higher rates of fraud in this sector. Indeed, in this case, the auditors deemed it impossible to audit many of these training-related expenditures, and thus they were classified as eligible for reimbursement (personal communication with INT staff). Many of the CDD training exercises took place in remote nomadic villages, and the costs reported in project accounts were a sum of the number of per diem days paid to trainers, village participant meal costs based upon attendance, and driver and transport costs to the site. Although villagers were meant to sign in each day (using thumb prints if necessary), there was no way for the auditors to verify that the lists were accurate, or even that the trainings took place at all. Consequently, few of these expenditures were actually audited. In short, the auditors confirmed that a great deal of fraudulent behaviour in the training activities might have gone undetected (personal communication with INT staff).

INT documented multiple methods for perpetrating fraud in the project. They found use of pro forma invoices in lieu of proper receipts for expenses such as senior staff training exercises at hotels and large fuel procurements. Pro forma invoices are estimates that vendors provide to help a potential client estimate costs; they are not actual receipts for service rendered. There was also considerable evidence of single sourcing when competitive bids were required, and there were many instances of irregular allowances (per diems) for training and travel (Integrity Vice Presidency 2011a).

The banking data that were audited revealed large discrepancies in two respects. First, some districts reported nil or negligible bank balances at the end of the fiscal year in their financial monitoring reports (FMR) to the World Bank, yet audit calculations revealed the same districts had actual balances of 10 to 20 million Kenyan Shillings (US\$ 150,000–300,000). The auditors concluded that it was “highly likely” this occurred because a district “overstated its expenditure within the reported FMRs”. A second red flag was the many past-due checks presented over 30 days after being written. The auditors noted that such

behaviour is often an indicator that the goods or services for the underlying transaction were not provided (Integrity Vice Presidency 2011a: 31).

INT found numerous instances of irreconcilable accounts, and in many districts there was clear evidence that the cashbook had not been produced at the same time as the bank records and quarterly financial accounts. In some cases, it was evident that significant parts of the cashbook were completely re-written (Integrity Vice Presidency 2011a).

The INT report calls attention to suspected systemic collusion across institutions. One such situation involves the district accountant, who was co-signatory to the Arid Lands accounts, together with the DMO. Many of the irregularities thus point to collusion between the DMOs and the district accountants (Integrity Vice Presidency 2011a).

A second form of suspected collusion across institutions occurred in banking. Although the banks failed to fully cooperate with the auditors, by, for example, not handing over a significant portion of the cancelled checks, many banking irregularities were spotted in the bank records that INT was able to acquire. In particular, Kenya Commercial Bank (KCB), partially owned by the Kenyan government, cashed numerous checks in which the original payee had been crossed out and another name substituted. In many such cases, the original payee was the Commissioner of VAT (Value Added Tax). INT also observed that numerous checks written to the Commissioner of VAT were never presented for payment, but ATM withdrawals matching the exact amounts were withdrawn. In some cases, the dates on the cleared checks had been altered. When INT compared the bank statements provided by the project to those provided by the banks themselves, they observed changes to the bank statements in the narrative description of a transaction: “for example the client version made reference to the transaction being a cash withdrawal, where the bank version of the bank statement had no reference to the fact that the transaction was a cash withdrawal” (Integrity Vice Presidency 2011a: 37).

In Kajiado district, two checks for a total of US\$ 35,250 were deposited and followed shortly by cash withdrawals for exactly the same amount in the name of the DMO. INT was not able to determine where this revenue originated; the income may have come from the sale of project vehicles or from funds from other donors, for example. There was no record of revenue receipts in the books of any district, so INT was not able to determine what happened to all of the vehicles that were replaced over the projects’ 14 years (Integrity Vice Presidency 2011a).

Arid Lands was the beneficiary of funds from other donors, particularly from the European Union (EU) through its Drought Management Initiative (DMI), and from the UN. There was considerable overlap among the mandates of these projects and ALRMP, as was also the case with government initiatives from the ministries and the Members of Parliaments’ Constituency Development Funds (CDF). INT was not able to access the accounts of these other agencies; therefore, it was not possible to determine whether specific activities had been charged to more than one project (Integrity Vice Presidency 2011a). Qualitative interviews conducted by this author point to a high probability of such double dipping, especially with EU and UN funds and with the MPs’ CDF. In fact, Kenya’s Auditor General found both Arid Lands and CDF claiming funds for the same projects (Gatumbu 2009).

In one particular case, the INT was able to access the accounts of the Kenya Education Sector Support Program (KESSP), also funded by the World Bank. INT found eight instances of schools in Tana River District that appear to have been charged against both projects. This occurred immediately before the December 2007 general election. INT uncovered expenses for Mobile School Allowances charged to ALRMP in FY07/08 that were also paid by KESSP (Integrity Vice Presidency 2011a).

The INT investigators concluded that the problems in Arid Lands ran across districts and sectors throughout the project. Furthermore, they saw evidence of conspiracies to defraud that linked to government, through the complicity of the district accountants and the banking system. Such extensive networks of corruption are expected in systemically corrupt countries.

The Kenyan government was required to repay the World Bank US\$ 3.8 million, and the World Bank failed to renew the project in 2010. Further, in 2011, INT referred the Arid Lands' case to the Kenyan Anti-Corruption Commission (KACC), together with supporting documentation from the forensic audit. KACC and its successor, the Ethics and Anti-Corruption Commission (EACC), failed to take any action. Until now, no one has been indicted or prosecuted for fraud in the project, and many former senior members of the project staff currently hold high-level Presidential appointments; still others continue in their former capacities in the new National Drought Management Authority (NDMA) that serves the arid lands and continues to receive EU funding.

The forensic audit data give us a picture of widespread suspicious behaviour in ALRMP, as well as insights into the techniques employed. However, the data provide limited insight into how these suspicious transactions affected operations on the ground or were facilitated by design flaws, or other contributing factors. Here, the insights from participant observation and interviews with people across different districts and headquarters can help us reach a better understanding of the system and mechanisms that let corruption flourish.

5.5.2. Qualitative evidence of corruption

Interviews with many independent sources depict a well-coordinated corruption cartel centred in the headquarters office of the Arid Lands Project, with roots in the government ministries from which many staff originated and with leverage over many in the project's district offices. That said, it is important to stress that many well-intentioned individuals worked for the Arid Lands Project over the years and attempted to deliver benefits to the target communities as best they could. They sometimes managed this, even while encountering many obstacles.

The Arid Lands Project was more top-down driven than project documents would lead one to believe. The project was housed in the Office of the President of Kenya for most of its existence, and later in the Prime Minister's office. According to sources, there was pressure from the highest levels of government to produce kickbacks, both for private pockets and for campaign coffers. This gave project staff cover, license, and a template for stealing money for their personal use as well. Much of the money taken by headquarters staff was directly skimmed from headquarters' funds, but a good portion also came from the districts in envelopes delivered monthly to headquarters.

Not all districts participated in kickbacks to headquarters. Some senior managers in headquarters referred to the districts that refused to participate as "the axes of evil." In particular, districts with high-level political connections, and DMOs who were highly educated (and therefore more employable elsewhere), could more easily resist the pressure for kickbacks. These districts were not necessarily stealing less; some were just keeping more of the skimmed funds for themselves or for local cartels.

The persistent siphoning of resources from the districts put constant pressure upon district staff to skim resources from their own budgets, including CDD and the easily targeted training and transport categories that supported CDD. But as was the case for headquarters, it also created cover for their own skimming. The emerging picture is one of a well-oiled machine facilitating the extraction of funds. Collaborators at each level demanded their own private rents as the price of cooperation. This included many CDC village

officers responsible for implementing village projects. The village CDD projects themselves became the residual claimants at the end of this chain.

The three budget areas from which most of the CDD funds were stolen were: 1) training, 2) vehicles and fuel, and 3) procurement. I have discussed the mechanisms used in the first two above. Those mechanisms often included the fabrication of receipts for non-existent fuel purchases and training exercises, or the over-invoicing of the same. Here I concentrate on the mechanisms used to extract resources through procurement in the CDD process, and the consequences that these systems had for village empowerment.

An Arid Lands source described two mechanisms through which the office captured kickbacks from CDD. The first was a payment to senior project staff directly from the CDC project bank account. The second mechanism involved the Arid Lands office taking direct charge of the procurement. For the SLD component of the project, the Arid Lands office was meant to be in charge of all of the procurement. It turns out that even for the CDD component, the office frequently told the CDCs that the office had connections and would take care of the procurement, in direct violation of the procedures. The motivation behind taking charge of procurement is evident in the following explanation from an Arid Lands staff member, as the size of the kickback for the office climbed from a high of 25-30% to 40-60%.

There are two procurement processes. One is the community is given the project and given leeway to procure. They pay a kickback. If [the project] is Kshs 700,000, they pay back 25-30% to the district officials. In the second type of procurement, the project officers collude with the district tender commissioner and deal with known suppliers. This is the most common, and it is entrenched in the government system. They [the illicit payments] go up to 40% in cash kickback and 60% in goods. They collude at the preparation of bills and quantities. The project officers collude with the civil engineer to overvalue the cost and volume of materials.

Interview with an Arid Lands staff member, October 23, 2008.

Village CDD procurement

Villages were meant to always do their own procurement, and many times they did. Project guidelines required competitive tenders, but this was rarely done. In fact, Arid Lands district offices actually taught some CDCs how to create fake tenders in order to work with a preferred contractor who would collaborate on over-invoicing. A CDC committee member explains how this was done in his community:

Project guidelines required competitive tenders, but this was rarely done.

CDC member: For example, when a project—donkey carts or goat restocking—is supposed to be implemented [in the proper way,] the CDC committee sits down and floats the tender and then decides who has the best bid. Instead, [in practice,] the CDC has about five rubber stamps; these stamps are five different companies that do not exist. They prepare the quotations with these stamps under the direction of the Arid Lands office in [district name] and they stamp the documents.

Interviewer: “Where did they get the rubber stamps?”

CDC member: [The] “Arid Lands office makes the stamps and brings [them] to them. When I was in the CDC committee I knew what was going on, but I was side-lined.

Interview with a member of the CDC, September 14, 2010.

In another district, the district office split the spoils with the CDC, and instructed the local villagers in embezzlement. A contractor explains how this worked:

If you look at projects in [this district,] they have failed... They all fail. You won't see a project existing... Why are they failing? They [the Arid Lands officers] demand money. If Kshs 750,000 is given to use, they take Kshs 400,000 back. The remaining is Kshs 350,000. They say to the CDC, divide it by two. Do something for show and keep the rest in cash. So you have something to show the auditor. But they are cheating this person. He is still happy because he has never had Kshs 175,000 in his hand. But Kshs 175,000 cannot sustain the project, and it encourages him to be lazy to get Kshs 175,000 without working.

Interview with a contractor, September 16, 2010.

INT appears to have captured this process for one livestock restocking project (Integrity Vice Presidency 2011a). The day after the grant was received, 27% of the funds were withdrawn from the account, even though the actual restocking did not take place until two months later. When interviewed by INT, the chair of the CDC could not explain the reason for the withdrawal. Although we cannot be certain where the money went, interview data confirm that kickbacks to district staff in the range of 25–30% were common.

Money siphoned out of the CDD projects was usually shared among just a handful of project district staff, with the largest shares going to the DMO, the CDPO responsible for CDD, and the district accountant who signed off on all Arid Lands transactions. CDC officials from different districts reported that the Arid Lands staff often insisted upon going to the bank with the CDC officials when they cashed their checks from the project; that was when the payoff to district officers occurred. It was common for all of the funds to be withdrawn at this time, which meant that there were no checks on the quality of work along the way, despite this being a prerequisite for the release of the second and third tranches of payment.

Goat restocking projects were common since they were a high priority for most communities. It was often left to communities to do their own procurement for these projects. People from many districts reported that over-invoicing was rampant, as was the practice of paying relatively small sums of cash to beneficiaries instead of delivering actual goats.

Ensminger (nd) discusses a goat restocking project. The intended price of goats written into the project plan was Kshs 1000 each. However, the actual average price paid was Kshs 600. They were cheaper, in part, because they were younger than specified. To make things worse, some were purchased sick at auction and infected the local goats, leading to losses for the community that exceeded the value of the project. In addition, as was commonly the case with restocking projects, fewer goats were purchased than were specified in the plans. These savings yielded 50% of the project's budget to be shared between the Arid Land's office and the CDC officers. Interviews with individuals from other districts turned up similar examples of CDCs purchasing sick animals at auctions. Pastoralists generally buy breeding stock from known herders of good reputation and are aware of the high risk of disease at public auctions. For that reason, they avoid purchasing breeding stock there. Most animals sold at auction are destined for butcheries.

As a result of the kickbacks to the district office and the additional contract skimming from CDC officers, many projects ended up significantly underfunded. Another cause of underfunding was the requirement that the community contribute 30% of the project's costs. In poor communities, this was impossible if the contribution had to be paid in cash rather than kind (labour or local materials such as poles and sand). In

many places this requirement was ignored in practice, even though it appeared as part of the budget. This meant that the project began with 30% less funding than required. When the requirement was enforced, it often operated as follows:

[The DMO] sends a businessman to the CDC. He gives the 30%. After that, he gets his commission. If it is Kshs 150,000 [that he advanced], they increase Kshs 30–50,000 ... When the money comes from Arid Lands, it goes to the CDC and then they repay the businessman.

Interview with a businessman who did business with Arid Lands: September 15, 2010.

In the case described above, 36% of the budgeted funds were already gone before the project began: the 30% principal that was borrowed and repaid, plus the additional 6% fee to the lender. Even if no other money went missing, a building built with 64% of its budget might be undersized, be made of cheap materials, and have a poor foundation. All of these problems were common, and contributed to the shortened lifespans of buildings funded by Arid Lands.

The Arid Lands office takes over the procurement

The Arid Lands office had considerable financial incentive to take over procurement from the villages. This meant they also had a vested interest in which type of project the villages chose to implement; they preferred those in which they could realize the highest skimming from contracting (Shleifer and Visny 1993).

The procurement of donkey carts was especially lucrative for the district officials, as they were fabricated and sold in the informal markets in the cities where the Arid Lands offices were located. The project staff commonly commandeered contracting for these projects, as one local businessman recounts:

They were supposed to get donkey carts. The Arid Lands office should release the total amount to the CDC account. Then the CDC [should] float the tenders and buy. But here the CDC officials were informed that donkey carts were going to be provided. No choice of contractors. Rather than the money going to the CDC, the Arid Lands office in [name of the district] paid the CDC officers Kshs 10,000 each. They were told the Arid Lands office would bring the carts; they waited and the carts were ferried to the people.

Interview with businessman who did business with Arid Lands, September 14, 2010.

The Arid Lands office also insisted upon doing the contracting in other communities that received donkey carts. In one such community, an enterprising resident did some research and discovered that the actual price of each of the 32 donkey carts Arid Lands purchased was Kshs 9,000. However, the price in the budget was Kshs 16,000 each. The Arid Land's office also kept the cash contribution of Kshs 1000 collected from each of the 32 beneficiaries. This brought their proceeds from the project close to 50% of the total budget.⁹

⁹ The CDC village officers were also accused of raising cash contributions from many more beneficiaries than actually received. It was also alleged that most beneficiaries paid Kshs 2,000 toward their local contribution instead of the Kshs 1,000 credited in the project's documents. Many of these extra funds appear to have been retained by the CDC officers, who were operating independently of the committee, which was a common occurrence. Those who paid but did not receive carts complained. They were promised that they would receive carts in a subsequent project. The promise of a future project was a tactic frequently used to dampen dissent; in this case no more carts were forthcoming.

While a 50% loss is shocking enough, these cases are even worse than they appear. The donkey carts provided by several district offices were so inferior that they fell apart quickly. Worse, while some of the communities along rivers and near urban environments actually wanted donkey carts, many rural communities did not value the carts, and the office manipulated them in order to get carts on their priority lists. An Arid Lands staff member expressed the situation as follows:

Donkey carts are funded through IGA [income generating activities], so they can't be for water, that is, for household [use]. They [the carts] should be for firewood for sale. All proposals write this, or building materials, etc. These villages are not along the river; there is no firewood. And there are no markets in the hinterland... Villages did not want donkey carts. Arid Lands' staff pushed the community. They write them on paper. Where they [the district office] purchase [the carts], they buy cheaply. *Jua kali* [informal open air markets] have no receipts. You create your own.

Interview with an Arid Lands staff member, September 12, 2010.

Beehives were another endeavour that Arid Lands officers imposed on communities (Ensminger nd). Many villagers had no experience and were not enthusiastic about taking up beekeeping. But, as with donkey carts, the project officers were persuasive. The district officials often insisted on doing the procurement for beehives. They typically reported buying long beehives budgeted at Kshs 4,500 each, but delivered short ones that were purchased at sub-par firms for Kshs 2,500 or less. They were cheaply made of soft wood and did not last long. In one case with which I am directly familiar, the tender was given to a local ministry civil servant.

Elite Capture

In some districts, elites managed to capture a high proportion of the project's benefits. Village elites sometimes received stock intended for the poor through restocking (see Ensminger nd), but even more targeted forms of elite capture also existed. A common CDD project in Garissa district was the distribution of generators to facilitate group farm irrigation along the Tana River. The testimony of numerous informants indicates that many of these generators were not provided to cooperative farms, but rather to individuals, including the head of the CDC, business leaders, the chief, and civil servants who were not local to the area. Private farms owned by Arid Lands' staff also benefited from the generators.

In some districts, elites managed to capture a high proportion of the project's benefits.

One of the most extreme forms of elite capture occurred through the matching grants program. The program required a large group of individuals to each save small amounts of money and demonstrate that the funds had been in a bank account for one month. The total savings were then matched, usually at a rate of 50%, by the project (World Bank 2003a). In two Tana River District communities it instead worked as follows: the CDC officers collected the names, identity cards, and service fees from many participants, but only a few individuals shared the actual matching grants. An official investigation of the operation indicated:

The project in 2006 contributed Kshs 2,928,000 [US\$ 44,364], while the [Bura] community ‘contributed’ Kshs 2.8 [million], although it was expected to contribute Kshs 7.7 [million]. Most of the groups were hurriedly formed and registered to benefit from ‘the free money’. Most of the beneficiaries are either CDC officials or people associated with the officials. The CDCs constitute their own self-help groups. Some groups benefited twice in one disbursement. The groups were hurriedly formed to reap from the matching grant funds. There were no indications of individuals making savings. The CDC officials were charging Kshs 2,000 per matching grant beneficiary group and Kshs 400 per individual as service charges to benefit the CDC members. [Wanjigi *et al.* 2007: 22-23).¹⁰

This was one of several matching grant sites in Tana River District. My sources indicate that only a handful of people actually benefited from the funds, and the officers of the CDCs in each of the communities embezzled almost all of the funds. According to an Arid Lands staff member, Tana River District was no exception to the rule: “Matching grants—all a fraud--; all over Arid Lands, it was never used correctly” (interview with an Arid Lands staff member, September 12, 2010).

What emerges clearly from the qualitative analysis is that corruption was widespread in the project from top to bottom. Many of the operating principles upon which CDD rests, in particular, beneficiary choice of project and financial management of procurement, were sacrificed in the process. The leverage afforded to headquarters in the allocation of district budgets, and to districts in the selection of villages, helps explain why it was so easy to control people, and in the process to disempower the intended beneficiaries.

10 This investigation and report were produced by Arid Lands’ headquarters per instructions of the World Bank office in Washington in response to a paper by this author (Ensminger nd). The ALRMP head office was asked to investigate corruption in its Tana River district office. Since the report was a government document, it had to be distributed to relevant government ministries. I was told that Arid Lands staff subsequently went around to those offices to collect back all copies of the report. Neither the Kenyan office nor the World Bank have publicly released the report.

6. Indonesia's Kecamatan Development Project

Indonesia's Kecamatan Development Project (KDP), which ran from 1998 to 2006, was designed to address rural poverty by delivering block grants directly to villages (World Bank 1998). In 2007, the KDP was replaced by the expanded National Program for Community Empowerment in Rural Areas (PNPM-Rural). This program continued until 2015, when the government began an even more ambitious fiscal decentralization effort to send additional resources to every village in Indonesia. Together, the KDP and the PNPM spent over US\$ 4 billion, making it by far the largest CDD in the world. It also has the reputation of being one of the most successful CDD projects. A comparison of design variation between the KDP/PNPM and the Arid Lands Project reveals mechanisms that may explain many of the differences in corruption performance between the two projects.

Both the KDP and the PNPM were dynamic projects that were the subject of substantial research and analysis. As a consequence, the project guidelines changed over the years as the managers learned from mistakes and experimented with new designs. The following discussion refers to the KDP experience, unless otherwise indicated.

6.1 Project organization, and village and project selection¹¹

Over its first three years, the KDP reached about 1000 sub-districts (*kecamatan*), covering one in four villages in Indonesia (Wong 2003). Sub-districts were selected based on greatest need, as defined by poverty levels, and budget allocations were distributed according to population size. In later years, under the PNPM, the project included virtually all the villages in the country. As we shall see, the rate at which the project was scaled-up created huge challenges for maintaining quality and containing corruption. The project's rapid growth and change also complicates our ability to make conclusions about the project as a whole, as some of the failings of later years were not present earlier, while some early mistakes were addressed over time.

The national office of the KDP/PNPM project was staffed with management consultants, and each province had one management consultant representing the project. Together, these offices were responsible for contracting with private firms to hire facilitators and district engineers, oversight of monitoring and training, data analysis, reporting on progress, and interface with government (World Bank 1998b).

Each district (*kabupaten*) in the province employed one experienced civil engineer to review proposals, supervise the facilitators and technical assistants contracted by the villagers, and provide a final sign-off on the technical quality of all civil works proposals before work proceeded. The engineer also created a pre-qualified list of local engineers who could provide technical assistance to villages at market rates. The district engineer was expected to travel to the villages to oversee the quality of operations and monitor the work of the technical experts and facilitators. The sub-districts were the bases of operation for the facilitators, who worked in the villages. Each village selected two resident facilitators to work with their assigned facilitator (World Bank 1998b).

Although the project maintained offices at many administrative levels, KDP was specifically designed to by-pass the intermediate levels of government power. Project funds went directly from the national office to the villages, bypassing the provincial and district government (Wong and Guggenheim 2005). As

11 The information in this section comes mainly from the original project document (World Bank 1998b) and from Guggenheim (2006) and Wong (2003).

Guggenheim (2006:128) noted, “the collection of commercial and political interests that maintained a stranglehold over government in the districts was much weaker in the sub districts.” This was an important means by which the organization kept powerful government corruption networks out of the project.

Sending project funds directly to the villages was an important means by which government corruption networks were kept out of the project.

Sub-districts were the basic level of project implementation, and averaged between 20 and 25 villages, with a total population of about 60,000 (Wong 2003). The use of the sub-district as the main implementation centre brought the project much closer to the villages and made facilitators and technical expertise more accessible.

Information about the project was first disseminated through workshops at the provincial, district and sub-district levels to encourage villagers to apply for project support. The villages and sub-district facilitators disseminated information and held meetings to discuss KDP procedures and project ideas. Each village could present up to two projects, and one had to be proposed by women. In the first phase of the KDP, projects ranged from US\$ 4,375 to US\$ 18,750. Beneficiaries had a lot of choice about how they could spend their block grants, but most projects involved infrastructure (particularly local roads, bridges, and irrigation) and microcredit. Proposals for public infrastructure had to specify how they would help the poor, had to meet technical quality standards, and had to include a plan for future maintenance, such as user fees (World Bank 1998b).

Village projects were selected through a participatory process at the sub-district level. With facilitator guidance, communities met to discuss their priorities, settled upon a project, and wrote a proposal. The proposals were then submitted to the sub-district forum, consisting of members selected by each village in the sub-district. Here, the proposals were subjected to competitive selection. After a review of the proposals, which included input from the district engineer, the voting members from the participating villages selected the projects that would be funded that year (World Bank 1998b). This mechanism of project selection kept project selection out of the hands of project staff and away from government interference.

The proposal selection process was designed to encourage competition among villagers to promote quality projects, including larger commitments of local resources. Some reports indicated that there was a tendency for this process to revert to a rotation among villages in deference to equity outcomes over competition (Guggenheim personal communication; Syukri *et al.* 2013; Woodhouse 2002). However, there is also solid evidence that competition was present, and that it drove down costs (Chaves 2010).

Chaves (2010) analysed data from the first five years of the project focusing on road construction, which made up close to 50% of all projects. He measured the level of competition in the selection process, primarily on the basis of the number of villages competing for funds. He found that doubling the level of competition reduced the per unit road cost between 10% and 20%. These findings suggest that competition had a positive effect on project cost. There is also evidence that this mechanism selected higher quality projects. One year, there were extra funds available and projects that had not made the first round of selection were also funded. Guggenheim and Majeed (2013) report these projects were less successful than those chosen in the first round.

Money was disbursed in stages: 40% in advance, 40% after a village meeting half way through, and 20% at completion, after approval from the district engineer. While there was no mandatory contribution

from the village, including a contribution from the community in the proposal was assumed to make it more competitive. These voluntary contributions averaged 17% of project costs (Wong and Guggenheim 2005).

The use of general contractors was strictly forbidden. Villagers had to do their own sub-contracting and were required to get three bids from different suppliers. These were read out at village meetings, and facilitators were encouraged to include the bids in their reports, though this was not always done (Woodhouse 2002).

Infrastructure projects needed to obtain technical assistance. Villagers were provided with lists of pre-certified, non-governmental engineering consultants, who were hired at market rates for project design and implementation.

Once a village's project was selected, the village elected a five-person community implementation team to oversee the project and the community contributions. The facilitator helped organize meetings to keep beneficiaries informed of progress halfway through and at the end of the project, when the final accounts were presented. Project budgets and updates were supposed to be posted on a public board in the community. To broaden village participation and increase transparency, KDP banned written invitations to village meetings, as these suggested exclusivity (Woodhouse 2002). The project also adopted smaller, hamlet level meetings, which tended to be more broadly attended, especially by the poor.

6.2 Hiring, training, and technical support

The use of facilitators and non-governmental technical experts appears to have been crucial for the success of the KDP project, even if the practice sometimes failed to live up to expectations.

The use of facilitators and non-governmental technical experts appears to have been crucial for the success of the KDP project.

Facilitators were based in the sub-district, but worked in the villages. They were responsible for visiting each of their villages every other week and worked with two locally elected facilitators in each village who helped explain the project to the villagers, write proposals, ensure that villagers were adequately informed about project budgets and implementation, that meetings were held regularly, and that project progress was monitored. Facilitators also played a key role in village dispute resolution.

Facilitators were recruited and trained in a competitive process conducted by private consultancy firms. Facilitators were rotated regularly to reduce the risk of collusion with village officials. The district, provincial, and national levels provided layers of supervision for the facilitators (World Bank 1998b; Woodhouse 2002).

Hiring facilitators through consulting firms and relying on private technical expertise appear to have been good choices. Woodhouse (2002) notes that avoiding dependence on government staff meant facilitators, technical experts, and the consulting firms that did the facilitator hiring, could easily be terminated for cause. Sanctions were applied to facilitators and in 2010, over 300 facilitators were terminated due to breaches of the conduct code.

Especially in the early years of the KDP project, facilitators were crucial in helping control corruption in the project for a number of reasons. First, the better the facilitation, the more villagers participated in the project and the more transparent the process was at the village level. Second, facilitators were an independent source of information for both villagers and project staff. And third, the facilitators were

independent from government and local elites, helping to prevent capture; many of them had NGO or reformist backgrounds. In the project's first two years, over 70% of the complaints about the project, including misuse of funds, were filed by KDP staff themselves (primarily facilitators), while only about 15% came from community members (Woodhouse 2002).

KDP did experience problems with training and facilitation as the project grew from zero to 15,500 villages in just three years. Indonesia is vast and diverse, and some areas had difficulty finding sufficient staff with adequate credentials. However, despite early recruitment challenges, facilitation appears to have performed better in the project's early years than in its final stages. Under PNPM, the project very quickly reached 63,000 villages, with nearly a fourfold increase between 2006 and 2009. Woodhouse (2012: Section 3) noticed that

demand for good facilitators has risen sharply. This means that the bulk of facilitators see their work as a standard job, not as part of a social movement, and accordingly can treat their role as one of executing a project, not as doing the long, hands-on work of helping to empower communities. "Before they were called by their hearts," one provincial consultant said of facilitators, "now they are called by money."

Woodhouse also indicates that by 2012 facilitators' salaries were no longer competitive, leading to chronic vacancies and vastly higher workloads for the remaining staff. To make matters worse, the standard and length of training for facilitators had declined. In later years, facilitators were spending a greater portion of their time doing paperwork and engaging less with the community. These changes weakened their connection with the communities, which in turn reduced their effectiveness in dispute resolution (see also PNPM Support Facility 2011b).

There was some competition in the hiring of technical assistance, with consultants chosen from a list and paid market rates. In some provinces, especially Papua, there was a shortage of qualified engineers. To address this problem, the project developed a barefoot engineers program with the aim of increasing the pool of talent for technical expertise. In areas with a shortage of engineers, this program sent promising individuals to a two-year training course so they could qualify as technical assistants.

The mechanism for providing technical assistance to the project was not without problems. Woodhouse noticed that the process of selecting technical assistants, "too often does not work the way it should" (2002: 49). There were cases of interference with the lists of pre-certified technical assistants, unqualified friends and relatives of village elites sometimes got on the list, and some villages used technical assistance when they did not need it, perhaps in return for kickbacks.

The KDP program made considerable use of competitive market models in CDD for project selection and for hiring facilitators and technical expertise. By hiring outside of government, they also avoided government corruption networks and made it easier to fire for cause. The project design purposefully avoided the middle levels of government that were most associated with corruption. This had the added advantage of bringing the level of implementation closer to the villagers who were served by the project.

6.3 Transparency, monitoring, and complaints

The KDP/PNPM project relied on a broad range of monitoring mechanisms, including standard techniques found in many CDD projects, such as posting budgets on billboards, holding village

The project adopted many highly innovative techniques to promote independent monitoring.

meetings to increase village level transparency, national audits, and World Bank supervisory missions. In addition, the project adopted many highly innovative techniques to promote independent monitoring.

Both the KDP and the PNPM struggled with transparency at the village level. The implementation committees of the KDP almost never announced the required three estimates from suppliers at an open village meeting (Woodhouse 2002). The implementation teams would often argue that they were unable to get three estimates, or that they had to substitute materials. Village meetings were the primary mechanism through which the program tried to bring transparency to village projects. Although the entire village was welcome, elites tended to attend and actively participate in them in far greater proportions than other groups (Syukri *et al.* 2013). Notice boards were often poorly maintained, so villagers had incomplete information about the projects' finances (Woodhouse 2012).

Villagers were expected to monitor their projects and their implementation committees. Facilitators encouraged the creation of special groups of villagers to independently check financial accounts, to monitor bank transactions and purchases, and to confirm the cost of goods (Wong 2003). The facilitators were also tasked with reporting irregularities in their monthly reports.

In 2001, the project set up a Financial Supervision and Training Unit (Wong 2003). Its goal was to improve the financial skills of the sub-district units, the village boards, and the loan groups in the villages. They were conceived as "roving accountants" who would both train villagers to solve problems by themselves, and monitor the quality of financial management. Any problems uncovered would be sent to the complaints unit.

In assessing the relative effectiveness of these monitoring mechanisms, it is important to differentiate between the original KDP program and the much larger PNPM program. Under the PNPM, accountability was eroded at the village level. According to a PNPM governance update:

The October 2011 mission noted that despite previous agreement with PMD [the Community Development Office], many of the basic accountability mechanisms are no longer functioning properly (e.g. village information boards are empty; village accountability meetings are not conducted; funds channelled to TPKs [Activity Management Team] and RLF [micro-lending] groups often do not have proper fiduciary controls etc.

PNPM Support Facility 2011b: 16.

Furthermore, the financial management team from the national support facility conducted a financial assessment and found that 41% of sampled community groups at the sub-district level received unsatisfactory ratings. The team ascribed this to the lack of training and oversight of the facilitators, which was compounded by heavy workloads and vacancies. Woodhouse (2012) found many of the same weaknesses in information sharing and transparency. While village meetings were held, and were relatively well attended, information was not always shared in easily understandable ways. Elite capture became a problem, and members of oversight bodies, "did not necessarily have the financial literacy or clout to effectively monitor how funds were used" (Woodhouse 2012: Section 1c).

National project managers tried to integrate independent organizations into the monitoring process. In July 2000, the KDP sent out terms of reference and requests for applications to serve as watchdogs to hundreds of provincial NGOs, including those recommended by donors. As a result, 27 NGOs were competitively selected to monitor the program in the provinces. They provided monthly reports documenting problems identified in the project (Wong 2003).

Perhaps the most creative of the monitoring innovations was a program to provide funding for the media to report project-related corruption. The government signed a contract with the Association of Independent Journalists (AIJ) to monitor the KDP and publish or broadcast their findings without prior review of their stories. In order to maintain media independence, a blind mechanism was established in which AIJ selected journalists and financed their work. As evidence of commitment, the World Bank made this a legally binding condition for the loan. The program produced 250 visits from journalists to KDP villages and 850 stories (Guggenheim 2006; Wong 2003).

The collaboration with journalists yielded mixed results. Although KDP paid for refresher training for journalists, “there were problems with the clarity of writing, accuracy, balanced reporting, cross checking sources, and unfamiliarity with KDP procedures” (Wong 2003: 21). Some journalists did not have investigative reporting skills, and some faced intimidation while investigating cases. Although the original collaboration with AIJ ended, the PNPM continued to engage with civil society and the media, particularly with community radio. These efforts kept stories about corruption cases in the news through talk shows and print media (PNPM Support Facility 2011a).

The project was unusual in the degree to which it employed independent academics, who were granted a special dispensation from the usually mandatory World Bank review and approval rules prior to publication (Olken 2007, 2009; Chaves 2010). These studies complemented internal World Bank research (especially, Woodhouse 2002, 2012). Some of these studies provide crucial insights into the practice of corruption in the project.

Anyone could file a complaint against the KDP/PNPM project. Facilitators were the most common complainants, followed by community members. The complaints unit verified and published these complaints. A formal complaints mechanism was created, which included an office to receive and respond to complaints. Over the project’s first three and a half years, 1909 complaints were received, of which 38% were cases of financial abuse (Wong 2003). Most of the time, the community managed these cases through traditional dispute resolution and in nearly half of the cases, the money was mostly or completely recovered (Guggenheim 2006).

There is some disagreement among observers regarding the willingness of villagers to report abuses in the project. Syukri *et al.* (2013) found that the failures of transparency and accountability at the village level resulted from age-old, patron-client relationships, which explained the lack of confidence to challenge the elite for wrongdoing: “demanding transparency and accountability means accusing concerned parties to have been hiding and even swindling certain resources, and that is a morally serious accusation in the rural area” (Syukri *et al.* 2013: Section 6.3.1).

Woodhouse (2002) discusses problems of fear and intimidation in the KDP that resulted in a failure to report corruption and other problems. She reports that retaliation against whistle-blowers occurred. As a consequence, villagers often complained in groups, or through their facilitators, who filed most corruption complaints. However, facilitators were themselves intimidated and the KDP also recorded cases of NGOs and journalists intimidated for reporting on the project.

Conversely, Guggenheim (2006: 133) argued that “KDP villagers are surprisingly vocal, and as confidence that there will be a response to their complaints grows, villagers file more and more reports of abuses by officials that would have been hushed up in the past.”

In addition to intimidation, Woodhouse attributes villagers’ reluctance to file complaints to a combination of factors: 1) villagers often feared that complaints could result in the village being dropped from the

program, 2) expectations that complaints would be acted upon were low as the capacity for dealing with complaints was overburdened, and 3) during one period the SMS system was not working to accept new complaints (Woodhouse 2012). By 2011, there was improvement in these areas. The new governance report noted that, with a more accurate reporting system, the number of complaints doubled that year (PNPM Support Facility 2011). Furthermore, there was a substantial increase in the number of cases reported by members of the community, as opposed to facilitators.

Efforts to publicize cases of corruption through NGO monitoring, the project newsletter, independent journalists' accounts, and the complaints unit, were aimed at using transparency as a deterrent. Newsletter readers were most interested in following the stories about corruption cases (Guggenheim 2006 and Guggenheim personal communication).

The accountability measure that attracted most attention was the suspension of entire districts affected by endemic fraud. Woodhouse (2002: 27) reports that, "the entire district of Jayawijaya in West Papua was dropped from the project, funds for the entire province of South Sulawesi were suspended, and the district of Tapanuli Selatan in North Sumatra was in the process of being dropped at the time of writing the report." The PNPM (2007-2015) continued to use this sanction against endemic corruption, and issued frequent governance reports tabulating current and past cases of fraud, as well as progress towards funds recovery.

In conclusion, the program incorporated many internal control mechanisms. Facilitators helped ensure that bulletin boards were maintained and village meetings were held. They were also expected to discuss cases of corruption in their regular reports. Villagers could report corruption suspicions to an SMS complaints line that was monitored and investigated by a team. The World Bank commissioned multiple reports to investigate corruption in the project. The most original steps taken to monitor corruption included the aggressive use of independent, external organizations, including the media, NGOs, and academic researchers. In this regard, the project stands out in its practice of transparency and encouragement of constructive criticism, and in its efforts to reform based upon the lessons that came from all these sources. However, there is evidence that even this level of commitment to reform was eventually overwhelmed by the challenges brought on by the speed with which the project scaled-up.

6.4 Evidence of corruption

We know quite a bit about corruption in the KDP/PNPM project from the studies that the project itself commissioned and encouraged. From the beginning, regular governance reports presented the available information about corruption and about the status of known corruption cases (PNPM Support Facility 2011a, 2011b, 2014a, 2014b, 2014c; Woodhouse 2002, 2012; Wong 2003). There are also several fine case studies of corruption on the KDP (Olken 2007, 2009; Chaves 2010) that provide us with information about both the level of corruption in road construction projects and the effectiveness of government audits in controlling corruption.

Olken (2009) conducted a randomized field experiment on over 600 road projects in the provinces of East and Central Java in 2003-2004. To measure corruption, Olken estimated what the costs of materials and labour should have been and compared these to reported project costs. He used engineers to determine the actual quantity of materials used in roads, a worker survey to estimate what wages should have been paid, and a supplier survey to determine what the prices of materials should have been. He compared the resulting quantities and prices with those reported by the village implementation team in the final financial report, which also included the labour contributed by the village. In addition to measuring the total length and width of the road, the engineers dug ten core samples on each road to estimate the

quantities of materials used. Olken then estimated “missing expenditure” figures for sand, rocks, gravel, and unskilled labour for each road. He concluded that the upper bound for losses was about 30% of expenditures, though he cautions that the data were noisy and dependent on assumptions about the materials’ loss ratios. Almost all of the unexplained losses involved reported versus actual quantities of materials used. There appeared to be little cheating on reported price data, and this was probably because village monitors could more easily verify prices versus quantities. This research gives us an approximate measure of the level of corruption in road projects in Java, where roads represented 77% of all projects at that time.

In another study, Olken (2007) examined the efficacy of pre-announced audits. In a random controlled trial, villages were divided into two groups: treatment and control. In the treatment group, the villagers were told that they faced a 100% certainty of an audit, and that the auditors would come to the village to publicly announce the results, which would also be reported to the central government and the project. The control group was subject only to the usual 4% probability of being audited. The study showed that pre-announced audits reduced the percentage of missing expenditures by 8.5% in comparison with the usual probability of being audited. However, the study does not clarify the cause of the change, which could be the threat of public shaming, the possibility of prosecution, or the risk that the village would be suspended from the project. In another test, Olken found only limited impact from increasing social monitoring, though the result could not establish whether this was because monitoring was ineffective or because existing social monitoring had reached its limits.

Chaves (2010) examined the effectiveness of competitive project selection in reducing project costs. He found that missing expenditures in the more competitive sub-districts (with over 16 villages competing for funds) were 8.9%, while they reached 22.7% in the least competitive sub-districts (where less than 10 villages competed). This suggests that competition in project selection had a positive effect on corruption control.

In both the KDP and the PNPM, evidence indicated that the microcredit part of the project had the highest risk of corruption. Wong (2003: 1) reports that, “KDP had great difficulty controlling the economic loan portion of the portfolio.” Repayment rates were averaging only 40%. During the final years of PNPM, microcredit continued to be the most problematic part of the program. A World Bank document described the situation as follows:

The microcredit part of the project had the highest risk of corruption.

The revolving funds have grown very large in some sub-districts but oversight of UPKs [Kecamatan Financial Management Unit] by facilitators and supervisors is limited. Many big UPKs are overloaded, handling too many accounts and transactions... More cases of embezzlements are reported and involve bigger amounts of money.

(PNPM Support Facility 2011b: 17)

The creation of false borrower groups was a common form of fraud in this area, which sometimes led to theft far more serious than typically encountered in small village projects. In November 2013, a facilitator in East Java reported a case in which the management team at the sub-district level was responsible for embezzling US\$ 626,463. Of the 307 lending groups in the district, 240 were potentially fictive (PNPM Support Facility 2014a).

A World Bank review (PNPM Support Facility 2011a) identified the primary types of fraud encountered in the PNPM: embezzlement of block grants from revolving loan funds (often with bank collusion), formation of ghost borrowing groups, kickbacks from contracts with suppliers in infrastructure projects, over-invoicing in community procurement, inflation of various costs associated with trainings and workshops, and nepotism and bribery in the recruitment and placement of facilitators. Interestingly, the discussion concludes that the forms, stages, and perpetrators of corruption were similar to those found by Woodhouse (2002) in the KDP ten years earlier.

The KDP and the PNPM both openly struggled with corruption problems. The best estimate of the level of corruption in the KDP project comes from Olken's (2009) work in Java, which suggested that up to 30% of road construction funds went missing. The default rate in the project's microcredits was always high (Wong 2003), and from the data reported above, it is clear that the level of fraud in these funds was possibly higher than that in the road projects. The project struggled with serious problems in microcredit throughout its history, and never seems to have been able to overcome the challenges of corruption in those funds.

Two important studies provide solid evidence of effective interventions that can mitigate the risk of corruption. First, the guarantee that an audit would take place and the broad sharing of the findings resulted in an 8.5% reduction in missing expenditures in road projects (Olken 2007). Second, the increase in cross-village competition for funding is associated with an even greater reduction in missing expenditures, from 22.7% down to 8.9% (Chaves 2010).

There is additional evidence that the PNPM projects were more cost-effective than government projects, which may also be capturing differences in corruption. In 2012, the World Bank conducted a technical evaluation of rural infrastructure in the PNPM covering 1,765 projects, 42% of which were roads (PNPM Support Facility 2012). Of these, 82% of the projects were classified as "high quality," 14% as "acceptable quality," and 4% as "failed." In comparison to similar government funded infrastructure, the PNPM projects were on average 15 to 25% cheaper. Similarly, Woodhouse (2002) cites a 2001 World Bank report that calculates that KDP projects are 20–30% cheaper than other projects. She attributes the savings to less corruption and the elimination of general contracting.

In conclusion, we know a lot about corruption in the Indonesian project because the project openly encouraged research on the topic: 30% is probably the upper bound on corruption in road construction, a 100% probability of an audit appears to reduce overall corruption in road projects by 8.5%, and the competition built into project selection is most likely reducing corruption. Microfinance remained a seriously problematic area for corruption throughout the project's history.

Microfinance remained a seriously problematic area for corruption throughout the project's history.

7. Lessons learned from community-driven development projects in Kenya and Indonesia

Given the considerable similarities in the country corruption levels and political economy of Kenya and Indonesia during at least the first half of their CDD project histories, some competing explanations for differences in project corruption levels can be discounted. This paper has focused upon the role of CDD design in explaining corruption rates. Our best estimates are that the Kenyan Arid Lands Project realized losses of about two-thirds due to corruption and that the Indonesian KDP/PNPM had losses of less than half of that. But what specific design differences might account for such outcomes?

We can lump the design issues discussed in the paper into four categories: 1) tone at the top, 2) avoidance of government centres of corruption, 3) substitution of market mechanisms and fixed rules for discretionary decision-making, and 4) robust transparency and third party monitoring.

The tone at the top matters a lot

The Indonesian KDP/PNPM project managed from its inception to set an inspiring tone that attracted reformers. This effect was felt right down to the level of the facilitators in the villages. While both the Indonesian and the Kenyan projects existed under governments that were captured by corruption cartels, the presence of reformers within the senior management of the Indonesian CDD meant that the KDP was fighting back from within. The reformist culture was also evident in the degree to which senior management opened itself to genuinely independent criticism, which it then incorporated into project reforms, including those directed at stemming corruption. In contrast, one comes away with the impression that the ALRMP in Kenya was largely captured by the corrupt systems of government. There were, of course, also reformers in the ALRMP who struggled from within, but theirs was an uphill battle.

The tone at the top of the Indonesian project also had a trickle-down effect that may have been crucial to project success. Most significantly, fellow reformers were attracted to work there because committed individuals ran the project; once there, one presumes that reformers were more likely to stay. In contrast, I interviewed many people of high integrity who joined ALRMP with idealist aspirations, but left once they realized the true nature of the culture within the organization. Worse yet, there are credible reports of excellent staff having been forced out because they were not willing to accept corruption.

The tone at the top matters particularly because even the best design elements are defeated if they are not implemented and enforced. For example, the Arid Lands Project actually had a highly progressive transparency policy written into its design. They were supposed to make public all work plans and expenditure data for individual projects in the villages. The problem, however, was that the data were not made public as promised, and in fact, the project was highly secretive about budgetary information at every level of administration. This was a failure at the top, both because the right kind of people were not recruited and retained in district offices and also because some senior managers in headquarters were complicit in corruption with the districts. It was not in the interests of those involved in corruption to provide evidence of how they were claiming that project funds had been spent. This is precisely why we should pay particular attention to projects that limit expenditure transparency, both through their failure to mandate it in policy design, and in their failure to monitor compliance.

Arguably, the biggest failing of the Indonesian project was that it ramped up in size too fast. This made it impossible to maintain the same level of reformist vigour among new hires, as demand was outstripping the talent pool, especially for facilitators. It also meant that workloads for facilitators increased and made the work less attractive.

Avoid government centres of corruption

The architects of the KDP project went out of their way to work around government centres of corruption. Most particularly, they largely bypassed the provincial and district levels of government. The funds for CDD projects moved directly from the national to the village level. The main centre of operations was at the sub-district, which had minimal government presence and did not attract the bevy of contractors and others who sought proximity to government revenue streams. This also positioned facilitators and technical experts closer to the villagers who depended upon them.

The KDP project removed much direct hiring from the project. They used private firms to vet applicants for facilitator jobs and those hired became consultants, rather than employing government staff, which meant that it was easier to fire them for cause. Instead of using government ministry personnel as technical experts for project design and sign-off, as the Arid Lands Project did, the KDP established a list of pre-qualified experts and allowed the villagers to hire their own experts from this list at market rates. These are just two of several ways the project used the market effectively.

In contrast, all of the Kenyan Arid Lands employees were hired directly by the project and many were seconded from government ministries. The tight connections they maintained with their former ministries brought the project into well-established corruption networks. The project also employed technical experts from ministries for the oversight of CDD projects. There is little evidence that these civil servants, who were already employed full-time by the government, provided much service to the communities in exchange for the large allowances they were paid. Furthermore, district project staff awarded them contracts from the project, creating considerable conflicts of interest that challenged their oversight roles on the DSG and over project compliance.

Discretion versus competition

In many contexts, discretionary decision-making is a highly efficient way of taking advantage of local knowledge, unforeseen opportunities, and a fluid environment. In systemically corrupt environments, however, it comes with a great deal of risk. The Arid Lands Project teaches us what those risks look like, and what the consequences can be.

Two of the biggest differences between the Kenyan and the Indonesian projects were the selection processes for choosing both villages and projects. In Indonesia, the project staff had no discretion over either of these decisions, but in Kenya the staff controlled both of them, subject to the approval of the DSG. In practice, the DSG was most often a rubber stamp.

In Indonesia, sub-districts served by the project were selected based upon the poverty statistics. Once a sub-district was chosen, budgetary allocation was calculated based upon population size. All villages within the sub-district were eligible to propose projects. In Kenya, the Arid Lands district staff selected the villages that were eligible for the project. This level of discretion was a fatal flaw in the project. It privileged those villages willing to offer the highest kickbacks to the office, and shifted bargaining power toward the office in their dealings with the villages.

Project selection was also significantly different in Indonesia than it was in Kenya. In the case of Indonesia, all villages in a sub-district were eligible to submit project proposals and compete for available funds. Representatives from each village in the sub-district met and ranked the projects; the top-ranked projects were funded until the money ran out. The project staff had no say in the decision over which projects

got funded. Based upon research discussed above, there are strong indications that adding a competitive mechanism raised the level of project quality and reduced corruption.

In Kenya, just as the district staff decided which villages to select, they also decided which projects would be funded. Again, the DSG was usually impotent in this process. One of the most harmful consequences was that villagers sometimes forfeited their right to choose their own development project, as the office used their leverage to commandeer the contracting and persuaded villagers to choose projects that maximized the office's ability to over-invoice. The DSG members went along with these manoeuvres sometimes because they were kept in the dark and sometimes because they were bribed.

By banning general contracting from CDD projects, the Indonesian project minimized one source of corruption. However, there were still problems when the villagers who handled the sub-contracting inflating the quantity of labour and goods used, for example, in road projects.

The Indonesian project also built competition and market forces into hiring for facilitators and technical experts. In contrast, the Kenyan project relied upon direct hiring by their own staff. As noted above, in Kenya there were many cases of nepotism, political favouritism, and hiring of people who lacked the minimal credentials for the job. In the Indonesian process, all of this discretion was removed from the project staff, although the senior staff did select the private firms that ran the recruiting, and some of the firms were susceptible to corruption. However, it does not appear to have risen to the level seen in Kenya.

Transparency and monitoring

Without access to information, villagers cannot effectively monitor their own projects. One of the core principles of CDD is that villagers are empowered to monitor their own leaders and the implementation of projects. Village monitoring of their leaders and their projects is fundamental to the core principles of CDD. So, the question we have to ask is what do villagers need to know in order to monitor their projects effectively? Most importantly, they need to be able to follow the money from start to finish. They should have complete access to project specifications and accounts. It should not be assumed that village representatives on the CDD committee have the best interests of the village at heart.

These two projects had extremely different profiles when it came to transparency. In Kenya, virtually everyone I spoke with on this subject complained about secrecy in the Arid Lands Project, including journalists who tried to follow the projects. Even district senior staff for the Arid Lands Project complained that they were not able to see the complete project budget for their own district. The facilitators in Indonesian villages managed to achieve a higher level of transparency in the villages than the Kenyan project, as measured by the frequency of public meetings and the postings of project details on bulletin boards in the village. But even their success was far from optimal. Village meetings did not always take place as required and village boards frequently lacked budget updates. World Bank reports also noted that the villagers speaking at these meetings did not always attempt to communicate with beneficiaries in a meaningful way; there was some intentional obfuscation of details.

The Indonesian project really stood out in their transparency efforts, and in particular, in their aggressive recruitment of independent third parties—journalists, academics, and NGOs—to undertake their own corruption investigations so the project could learn from its mistakes and make improvements. The KDP project also commissioned its own qualitative studies that sent independent consultants into the villages for extended periods of time to win the trust of villagers and uncover truths about the project. In contrast, the Kenyan project was repeatedly criticized by locals for “stage-managed,” pre-announced, supervision missions organized by the headquarters and district staff. The same World Bank team members came back

repeatedly and were criticised by my informants for being too close to the senior management and for failing to see the problems.

Villagers also need a safe place to report suspicions about illegal activity and wrongdoing. An anonymous complaints system linked to SMS is probably ideal, but it must be monitored and backed up with investigations and reports of the results of those investigations, as in the Indonesian system. To my knowledge, the Kenyan project published nothing about complaints, and my informants revealed that those who did complain were usually bought off to silence them.

Most CDD projects mandate that village accounts must be posted in the community and that regional offices must post budgets. The problem with these well-meaning mandates is that there is effectively no way to monitor their enforcement. A partial fix for this is to require that data also be posted on the Internet. Then compliance can be monitored from anywhere. Increasingly, smart phones are penetrating remote areas, and this will be an increasingly effective way to get information into the hands of those inclined to monitor local projects. At present, an anonymous SMS complaints system may be the best strategy for handling village and third party reports of corruption. What the Indonesian case shows us is that keeping up the investigations, the follow through, and the reporting of cases can be challenging, but is essential to the success of the system. People will not run the risk or make the effort if they think that no good will come from their report.

The lack of transparency evident in an aid project can be a revealing diagnostic of hidden problems.

Summary of lessons learned

Both projects suffered from the same types of corrupt practices: over-invoicing in procurement, training and travel; nepotism and bribery in hiring; kickbacks from contracting; and fake groups being formed to obtain micro financing. Villagers in both projects stole from their own communities. But why were the

A key difference stands out: in Kenya, corruption was part of the project's culture from top to bottom, while the Indonesian project was not captured in this sense.

losses so much greater in Kenya? A key difference stands out: in Kenya, corruption was part of the project's culture from top to bottom, while the Indonesian project was not captured in this sense. Appendix A gives a summary of the major design elements that explain these divergent outcomes across the two countries.

One question worth asking about the Kenyan project is why World Bank management in Washington did not know how bad things were? Kenyan beneficiaries put the question to me slightly differently: "How could they not have known?" Here again we can turn to the Indonesian experience for insight. Those who set up the Indonesian project anticipated the power of the corrupt forces they were dealing with and tried to engineer around them. In my conversations with the Washington overseers of the Arid Lands Project, even after red flags had been raised, I encountered denial and the highest praise for the senior management of the project and its overall operations. In 2007, a new Kenyan CDD project was launched modelled upon the "exemplary" success of the Arid Lands Project. Several third generation CDD projects are currently underway in Kenya. Independent boots on the ground should have quickly disabused anyone in 2007 that all was well with the Arid Lands Project, something that the Indonesian project understood very well from the beginning. The same can be said in 2017 for the World Bank's current CDD projects in Kenya that failed to learn the lessons of Arid Lands.

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September 17, 2010	Interview with a DSG member.
September 18, 2010	Interview with a CDC committee member.
January 7, 2012	Interview with a DSG member.

Appendix A: Summary of Kenyan and Indonesian project differences

Activity	Kenyan ALRMP Practice	Corruption Risk	Indonesian KDP Practice and Corruption Risk
Organizational Structure	Project offices located in main government administrative centres	Facilitates development of corruption cartels between the project, government civil servants, and contractors	Bypassed mid-level administrative centres where government corruption was most entrenched Placed facilitators close to the villages where they worked
Tone at the top	Project did not have the reputation for hiring reformers in senior positions	Senior managers had strong links with cartels in government ministries Senior management dampened the spirits of those in the organization who were there to do good in poor communities	Senior managers had reputations as reformers and this attracted other reform-minded staff Senior management fostered an experimental and open culture
Staffing	Many staff were seconded from government ministries The project staff did some direct contract hiring from the private sector	Corruption cartels from government ministries moved into the project with seconded staff Nepotism, ethnic patronage, and political appointees were common Unqualified staff were hired without minimal required credentials	Facilitators were hired from the private sector Commercial firms ran the searches for facilitators Some of the private firms corrupted the hiring process Each village elected two resident facilitator assistants who helped the staff facilitator
Staff discipline	Dismissal for cause	Termination of government civil servants for cause was close to impossible Termination of contract hires was easy	Facilitators were frequently dismissed for poor work and for corruption

Staff and committee rotation	No staff rotation mandate CDC committees were to be re-elected every two years	Corruption cartels form among district project staff, local government civil servants, beneficiaries, and contractors Senior district staff stay in their jobs with little interest in promotion or rotation CDC committees rarely replaced	Facilitator staff rotated regularly; helps prevent collusion with village leaders
Technical expertise	Government ministry officials had to sign off on technical aspects of projects Government ministry experts sat on the DSG that approved villages and projects	Conflicts of interest because government ministry officials received project contracts, vetted projects, and served on the DSG oversight committee Collusion between project staff and corrupt government civil servants resulted in poor technical input	Villagers hired private engineers at market rates from a pre-approved list generated by the project staff engineer Some technical experts were illegitimately pre-approved due to nepotism and bribery Some villages over-used engineers and kickbacks were suspected
Beneficiary selection	District officers select villages to be included in the project, subject to DSG District officers select projects to be funded, subject to DSG	DSG is a rubber stamp due to conflicts of interest District staff effectively have full discretion in village and project selection Discretion over selection grants district officers too much leverage over villages, which translates into top down control of the entire process, including project choice	Fixed formula based on poverty statistics and population size determines district eligibility Projects are selected competitively by committees composed of equal representation from all of the participating villages Evidence that competitive selection led to more efficient and less corrupt projects

Training	The district staff ran the CDD trainings in the villages	Massive fraud in trainings; many ghost trainings and doubling and tripling of reported training days, number of participants, and number of trainers present	Facilitators rotated among their assigned villages every two weeks When the project scaled up so much that qualified trainers were hard to find, work loads increased, and the reformist ideology associated with the work diminished
Procurement	Villagers often used general contractors and 3-5 tenders were mandatory	Tenders were commonly fabricated, often with help from the district project staff Kickbacks to the committee and over-invoicing by the contractor were the norm Many project offices commandeered the general contracting from the villages in order to capture the kickbacks; this provided the office with an incentive to steer village project selection to projects that maximized kickbacks	General contracting was forbidden Villagers did their own sub-contracting with suppliers; tenders were required There was a tendency to inflate quantity, but not prices, in their sub-contracting; quantity was harder for the villagers to monitor
Village contributions	30% of the project budget had to come from local contributions of labour and cash 5% minimum must be in cash	Local contributions were almost always ignored, yielding underfunded projects When local cash contributions were unavoidable, money lenders were often engaged for a fee, leading to even greater underfunding of projects	No mandatory village contributions, but voluntary contributions (which averaged 17%) made proposals more competitive in the selection process

Complaints	Box at the district headquarters publicly visible and monitored by the same officials who might have been the subject of the complaint	Villagers felt they had no complaints recourse Villagers were warned that if they complained about the project to outsiders they would be cut off from future projects	Complaints received via SMS and other means Sometimes investigations of complaints and reporting lagged Prosecutions did occur, but most cases were resolved with repayment of funds
Transparency	Budgetary and expenditure data required to be posted at district office Village meetings required to share project information	Information not posted and meetings often not held Beneficiaries were denied access to their own project specifications Secrecy and lack of financial information throughout the project	Facilitators helped organize village meetings and spread project information Village boards were not always maintained and public meetings were not always transparent about project finances
Monitoring	One senior officer in headquarters oversaw all district CDPOs, who ran the CDD operation and managed village training Ministry technical experts signed off on village projects DSG oversaw project quality World Bank supervision missions periodically visited the project	Insufficient headquarters supervision of remote locations; many corrupt activities in training and projects were overlooked The ministry technical experts and the DSG rarely if ever called out a project for technical failure; they were compromised World Bank missions were criticized for running “stage managed” visits staffed by friends of the project managers	Facilitators were assigned to a limited number of villages and visited on a two week rotation Facilitators played a key role in reporting corruption in their regular reports District and provincial monitoring of all facilitators Senior management brought in independent, third party monitoring by media, civil society, reformist NGOs, and academics

U4 Anti-Corruption Resource Centre
Chr. Michelsen Institute (CMI)

Phone: +47 47 93 80 00

Fax: +47 47 93 80 01

u4@cmi.no

www.U4.no

P.O.Box 6033 Bedriftssenteret

N-5892 Bergen, Norway

Visiting address:

Jekteviksbakken 31, Bergen

This U4 Issue is also available at:

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Project design

Community-driven development is a widely employed development strategy for empowering people to choose their own development priorities, to select their own project leaders, and to monitor the implementation of their projects. It is often assumed that this model results in lower corruption rates. In this paper we take a look at two such projects, the Arid Lands Project in Kenya and the KDP/PNPM project in Indonesia. These projects had strikingly different corruption rates, even though the countries in which they operated had similar corruption perception rates at the beginning of the projects. The goal of this paper is to highlight the specific design elements that may account for the different rates of corruption in these two projects.