

Elite Capture in Urban Society: Evidence from Indonesia

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Abstract

It is argued that the potential gains of community-driven development (CDD) approach in poverty program are large as it may result in a sustained poverty reduction. However, recent literatures show that community's involvement promoted by this approach might increase the risk of elite capture towards the program's benefit. Particularly in more unequal communities, the risk can be higher since the gap between the poor and the non-poor is larger with limited mobility between groups, the poor would find it difficult to increase their bargaining power to voice their own choice. This paper contributes to the limited empirical literatures regarding the existence of elite capture in social programs. Using community and household level data of the Urban Poverty Project 2 in Indonesia, we find robust evidence regarding the existence elite capture. In relatively unequal community, the allocation of pro-poor projects is significantly lower. At the local decision making process, we find that only if the decision makers share the most similar characteristics with the non-elites in terms of consumption, education and social network, then the chance to get higher share of pro-poor projects increases.

JEL Classification: H42, I32, D63

Keywords: Elite capture; Community-driven Development; Inequality; Poverty; Indonesia

1. Introduction

Community-driven development (CDD) approach has become a common mechanism in decentralizing anti-poverty programs. It works by the promotion of local community's involvement in the project's implementation, in order to get a better knowledge regarding the local conditions, the capacities and necessities, as well as the genuine poor. One typical set up of this approach is the establishment of a local non-government institution that consists of local's representatives who are selected in a participatory manner. This institution is responsible to manage and allocate the project's resources to several anti-poverty actions that respond directly to the poor's needs.

Accordingly, it is claimed that the potential gains from the CDD projects are large, as it not only target benefits to the poor, but also empowers them through collective action that generate social capital which then may result in a sustain poverty reduction (Mansuri and Rao, 2004; pp.2). However, the CDD projects that rely on community's participation may in fact not always effective in targeting the poor. Theoretical and empirical literatures showed that social programs could be vulnerable to local elites, who might capture the program's benefit for their own. The elites might abuse their power to alter the nature of poverty programs by influencing the local decision making to deliver the outcome that benefiting them (Bardhan and Mookherjee, 2000; Platteau, 2004; Conning and Kevane, 2002). Araujo et al. (2008) define that elite capture in social program occurred when a powerful minority has succeeded to alter the nature of the program for their own benefit.

In the last decade, the discussion regarding the role of elite capture in the social program has moved towards the role of local elites under inequality setting. Most papers highlighted that higher inequality might induce the existence of elite capture, and distort the program's outcome (Bardhan, 2000; Alesina and La Ferrara, 2000; La Ferrara, 2002; Rosenzweig and Foster, 2003; Galasso and Ravallion, 2005; Araujo et al., 2008; Labonne and Chase, 2009; and Platteau, 2009). For instance, Platteau (2009) discussed that higher inequality, might raise conflicts of objectives among locals who intend to promote their own agenda. To push the aim, people in the top of the distribution do not hesitate to exploit the information gap which existed between the donors and the communities. At this point, the poor at the bottom of the distribution will be more difficult to increase their bargaining power.

The existing theoretical literatures conclude that the relationship between local capture and inequality is complex without a clear pattern. Bardhan, et al. (2000) and Dayton-Johnson and Bardhan (2002) showed that the link is not necessarily monotonic, and can be U-shaped relationship. These studies then suggest that the correlation between the two variables can be context specific, and therefore further empirical research are needed to identify the nature of elite capture under different condition and setting.

The aim of this paper is to empirically investigate the existence of elite capture in a World Bank project so-called the Urban Poverty Project 2 (UPP2), implemented in Indonesia. Using the CDD approach, the project requires every targeted community to establish a local institution that is granted the authority to manage and implement the project's resource allocation. We analyze the pattern of project's type received in every community, and associate it with the level of inequality in terms of household's consumption. Our econometric results confirm the elite capture hypothesis: more unequal communities receive lower fraction of pro-poor projects. The results are robust for different inequality measurement and model specifications.

This paper contributes to the limited empirical studies regarding the existence of elite capture in social programs. We take the case of Indonesia, the country with a long history of poverty where the locals has the unique characteristics the so-called "gotong royong" or mutual cooperation between residents, yet the country is currently experiencing development transition after the Suharto era.

Furthermore, we analyze the local decision making process and focus on the bargaining power dynamics among the local members. We define elite status of the board's member based on consumption, education and social networks. We find that if only the board's members share the most similar characteristics with the non-elites, then the chances to receive higher fraction of the pro-poor projects is significantly higher.

Our findings are related with the growing literature on collective action and local capture. On the logic of collective action, Olson (1965) emphasized that group members are rationally maximizing their self interest, as competition remains, where the dominant member is willing to bear the costs involved to get a higher share of the outcome. Such behaviour is found in several community-based schemes. For instance, in Argentina's

Trabajador community work program, it is found that some local manager perform worst in targeting because they act under the influence of local elites (Ravallion, 1999a). In India, Lanjouw and Ravallion (1999) showed that the poor experience difficulties to gain the program's benefit at the beginning of the program (located in remote area, limited information, etc.). The benefit will be captured first by the non-poor who argue that they have the right for it, in exchange for their tax payment

A few empirical studies showed that inequality increases local capture. In Bangladesh's Food for Education Program, higher inequality in terms of land holding reduces the allocation to the poor due to a greater power of local elites (Galasso and Ravallion, 2005). Bardhan (2000) constructs a local elite parameter on the basis of farmer perception, and found that both gini and elite parameter have a significant negative effect to water cooperation performance. Furthermore, it is revealed that the allocation rules are more often to be violated by the better-off farmers with powers to avoid any punishment. In other studies, Alesina and La Ferrara (2000) and La Ferrara (2002) found that inequality lowers the incentive of participation and group's interaction, discourages groups to take a decision by vote, and therefore higher reports on poor group performance and the misuse of funds.

Matching the ex-ante community preferences with the actual funded projects, Labonne and Chase (2009) reported that in unequal communities, a village leader is more likely to override the community's preferences. An interesting study by Araujo et al (2008) found that elite capture in poverty programs occur when communities receive types of project that are not exclusively intended for the poor. Examining India, Rosenzweig and Foster (2003) investigate local government allocation in public facilities under different local governance structures. The paper argued that irrigation construction gives higher benefit for the land owner groups, while road construction benefits the landless groups. They found that higher proportion of the landless population has a positive effect on road construction and negative effect on irrigation facilities.

Concerning community's composition and collective action, Vigdor (2004) shows that individuals have altruistic behaviour towards the community where she belongs to, especially if she share the similar characteristics with the (majority of) community. The study examined individual's decision to return Census questionnaires by mail, and showed that individual responses depend on how much the individual internalizes the benefit

bestows on the community at large. The similarity between individuals in terms of age, education and race community will then determine the internalization of the benefit.

Though many studies found negative effect of the local elite's role in social programs, there are also studies showing that their existence doesn't always harmful for collective action. Local elites, who are mostly coming from wealthier, more educated groups with a larger social network, might be the only ones that can communicate effectively with the community members, manage the project records and write reports. A qualitative study from Rao and Ibanez (2005) showed that collective action process in Social Fund project in Jamaica is dominated by wealthier and well-educated groups. Yet 80 percent of the community were satisfied with the project's outcome.

This paper proceeds as follows. The next section will discuss the UPP2 and its delivery mechanism. Section 3 presents the elite capture hypothesis and the empirical strategy to examine it. Section 4 describes the data and statistics. Section 5 presents the empirical results. Finally, in section 6, the main results are summarized and conclusions are drawn

2. The Urban Poverty Project 2

During the 1997-98 economic crises, Indonesia experienced a massive capital outflow that initiate numerous companies cutting back their production and declared bankruptcy. As the result, there was a spike on the unemployment rate and thus the poverty rate. The number of people living under the poverty line increased significantly, especially those living in the urban area that were more exposed to the financial crisis that time.

The Government of Indonesia responded to the crisis by launching a nationwide poverty alleviation program so-called the National Program for Community Empowerment (PNPM), which was claimed to be one of the largest poverty alleviation program with CDD approach. In Indonesia, this approach maximizes the Indonesian nature of *gotong royong* or the spirit for mutual assistance among residents in the development activities.

One part of the PNPM is the Urban Poverty Project 2 (UPP2), approved in June 2002. The project expands the UPP1, the precursor coverage area, UPP1, to southern part of Java,

Kalimantan, Sulawesi and West-Nusa Tenggara. In total, the \$127 million project targeted 2,058 urban *kelurahan* that are spread in 13 provinces.¹

The selection of the UPP2's *kelurahan* is based on a composite poverty score computed at the sub-district level using socio-economic and demographic variables from Indonesian village census data (PODES). The score then used to exclude the richest 20 percent sub-districts, where all *kelurahan* located at the rest sub-districts are eligible to participate and have the access to the grant.

The amount of grant awarded depends on the population size and poverty density. For instance, *kelurahan* with population less than 3,000 people have access to grant allocation up to US\$ 15,000, while *kelurahan* with more than 10,000 people received up to US\$45,000. For *kelurahan* with population between 3,000 and 10,000, have access to US\$ 25,000. Furthermore, the poverty density may as well determine the amount of grant received. If there are 300-1,000 poor households in *kelurahan* with population less than 3,000 people, the allocation will be adjusted to US\$25,000. Also, if there are more than 1,000 poor households in a *kelurahan* with 3,000-10,000 people, the allocation will be up to US\$ 45,000.

The project requires every beneficiary community to set up a new local community organization so-called *Badan Keswadayaan Masyarakat (BKM)*, which consists of 9-12 elected community representatives. The members are then delegated the authority to manage and implement the project resource allocation, including selecting potential beneficiaries and type's of action.

Given the important role of the BKM members, the election mechanism is conducted in several stages. Before the grants are disbursed, the UPP2 project facilitators invite local residents in the ward/neighbourhood level (one level below *kelurahan*) to attend a neighbourhood meeting. In the discussion, the facilitators guide a discussion about the qualities that a leader should have, and asked them to identify people in the neighbourhood that match such qualities. The names are then collected and sent to the *kelurahan* level as the candidates for BKM member. The local residents are then invited again to the *kelurahan*

¹ Kelurahan is the lowest government administrative institution in Indonesia. It consists of rural *kelurahan* (village) and urban *kelurahan*. A *kelurahan* is divided non-administratively into different neighbourhoods (RW) which consists of several wards (RT). Each RT manages certain number of households. UPP2 only targets the urban *kelurahans*.

meeting and submit their votes through a secret ballot. The winners of the election will then serve as an unpaid BKM member.²

Once the BKM institution is active, its elected member will lead a community discussion among *kelurahans*' residents to formulate a community development plan (CDP). During the discussion, the community may choose to allocate part of the resources for revolving fund projects, where the recipients of this project are required to repay with low interest to maintain the project's cash flow. The UPP2 project document mentioned that the revolving fund projects were mainly targeted for the non-poor, but were expected to create multiplier effect to the poor.

In general, it is expected that the CDP includes pre-identified investments that cover a range of poverty alleviation activities: (1) bridge/road construction, school or health facilities improvement, and others; (2) range of anti-poverty activities that community groups can compete for (from physical infrastructure to services); (3) microcredit loans for community groups under revolving fund basis; and (4) the grant assistance to the poorest or most vulnerable individuals (scholarships, home improvements, health care, etc.). The CDP can identify activities from all categories or just one category, depends on the situation and necessities. For some projects that were not listed in the CDP, communities may submit project proposals that would be assessed by the BKM.³

The lists of poverty programs collected from the discussions, as well as from the residents' proposal are then discussed by BKM members, particularly to assess which project is approved to be financed. From the lists of approved projects, then some of the projects would be executed. It is observed from the fieldwork that the decision making process of the BKM members were usually through discussion process, but didn't rule out the possibility to have a voting mechanism.

2 Communities might also have BKM institution by choosing to strengthen the existing local organization, as long as the members were chosen democratically and in a participatory manner.

3 For some projects with extremely high cost, the financing could be combined from UPP2 fund, the local government budget, and/or private donors. Community's self contribution in the form of materials, labour work, or land is also possible.

3. Empirical Strategy

3.1. Model Specification

Our empirical model modify the project choice model in the Araujo, et al. (2008) paper that analyse the projects allocation pattern in the Social Fund investment projects in Ecuador. The model explains a situation where a social program provides two types of projects: a public good project and a private good project. Private good project is a basic necessity project that exclusively provided for the poor and cannot be consumed by the non-poor at the same time. The other type is public good project that share the characteristics of public goods: non-excludable or impossible to restrict access to anyone, hence “non-rival” that it can simultaneously be consumed. Road construction, school repair, or public lighting fit this criterion.

Given the two types of projects, the rational poor would have higher preference towards the private good project rather than public good project, since the former give direct benefit that meet their basic necessities. On the other hand, the non-poor only have the incentives towards public good project as they can’t derive any benefit from private project. Based on this situation, elite capture in poverty program occurred when the community choose more public good project rather than private good project. It is when the non-poor succeeded to influence the local decision making and alter the nature of poverty programs.⁴

In a community where the distribution of bargaining power is unequal, the gap between the poor and non-poor is larger and the mobility across power is rigid. Under this setting, the poor are more difficult to increase their bargaining power, which create a hostile environment for elite capture. The following is the empirical model that explains the elite capture incidence in the UPP2 *kelurahan*, by estimating the share of private projects received and associate it with the *kelurahans*’ inequality level:

$$P_{ij} = \alpha_0 + \beta_0 I_{ij} + \beta_1 Y_{ij} + \beta_2 S_{ij} + \beta_3 X_{ij} + \mu_j + \varepsilon_{ij} \quad (1)$$

⁴ There are three assumptions applied: (1) there is no externality from private projects. For example, the non-poor’s utility will not increase if the poor received private projects; (2) private projects can only be consumed by the poor, and the non-poor have no interest towards it; (3) there is no miss-targeting issue in the program whereas that the non-poor received private projects.

The dependent variable, P_{ij} , stands for the share of private good projects per total projects received by *kelurahan* i in the district j . The main variable of interest is I_{ij} , the *kelurahan* inequality level measured by household consumption.⁵ The elite capture hypothesis is confirmed if the parameter β_0 is negative, which means that higher inequality is associated with fewer share of private projects received by *kelurahan* i , holding other variables constant. Our specification controls for the pre-existing local public goods (S_{ij}) and the mean consumption of the *kelurahan* (Y_{ij}) that presents the *kelurahans'* prosperity level. In addition, the model controls other community level determinants X_{ij} that might affect the project selection. Finally, district fixed effects (μ_j) is included.

To include the analysis of the local decision making process in selecting project's type, we construct an elite status variable for every BKM member. Let S_i denotes the "elite status" for BKM member i , which represents the level of bargaining power. S_i is computed using principle component analysis (PCA), based on the member's level of education, consumption, and social network of every BKM member. The selection of these three variables is based on the fact that these variables are highly correlated each other.

Having the status index for every member, we differentiate the member's status as: having "elite status" and having "no elite status", by using one standard deviation above the mean as the cut off.

$$S_i = \begin{cases} 1 & \text{elite status} \\ 0 & \text{no elite status} \end{cases}$$

We then analyze the BKM decision process by looking into the status composition in the BKM. Out of 9-12 members in the BKM, we are able to compute the status index only for 3 members due to data limitation.⁶ Based on this composition, we then define a dummy variable that corresponds to the bargaining power setting in the BKM meetings (Table 1).

Hm^h_i and Hm^l_i consecutively stand for the community status if all boards' members are homogenously having elite status or no elite status. While heterogeneously high (Hm^h_i)

⁵ We use incorporate the assumption used in Araujo et al (2008), that political power is positively correlated with socio-economic status.

⁶ The three members are randomly selected to be interviewed in the survey.

means that the composition in BKM i is varied, whereas 2 out of 3 members, have a higher elite status compared to the third individual. Likewise, heterogeneously low (Ht_i^l) means that 2 members with high status are the majority against the third member.

Table 1
Elite status composition in the BKM meetings

BKM dummy	S_1	S_2	S_3	Description
Homogeneously high (Hm_i^h)	1	1	1	All have elite status
Heterogeneously high (Ht_i^h)	1	1	0	2 with elite status and 1 with no elite status
Heterogeneously low (Ht_i^l)	1	0	0	1 with elite status and 2 with no elite status
Homogeneously low (Hm_i^l)	0	0	0	All have no elite status

We argue that this status composition is highly relevance for the decision making process as it represents members bargaining power, especially if the voting mechanism is carried out. Including the BKM dummy into Eq. (1), we have:

$$P_{ij} = \alpha_0 + \delta_0 Hm_{ij}^l + \delta_1 Ht_{ij}^h + \delta_2 Ht_{ij}^l + \delta_3 Hm_{ij}^h + \beta_0 I_{ij} + \beta_1 Y_{ij} + \beta_2 S_{ij} + \beta_3 X_{ij} + \mu_j + \varepsilon_{ij} \quad (2)$$

At this type of setting, elite capture exists if there is an elite majority in the BKM, and succeeded to influence the decision outcome which benefits them more. Under this set up, we argue that elite capture exists if the parameter of Hm_i^h and/or Ht_i^h is negative.

The positive relationship between Ht_i^l and Hm_i^l and the dependent variable might indicate the altruistic behaviour among BKM members. When the members share the most similar characteristics with the poor, they might choose the outcome that favouring the poor, that is choosing for more private projects.

Our model is estimated using the fractional logit method as suggested by Papke and Wooldridge, since the dependent variable is in fraction and continues, with values bounded between 0 and 1. Estimating such model with logit or probit method will produce an unnecessarily transformed dependent variable into binary form: zero or one. Moreover, using the OLS estimator would be incorrect and not be constant through the entire range.

The predicted value is more likely to have values outside the range of 0 to 1. Using the fractional logit model extends the generalized linear model (GLM), and shows that the quasi-maximum likelihood estimator (QMLE) is a consistent estimator, as long as the assumption of the conditional mean function is correctly specified.

4. Data and descriptive statistics

This study combines two data sets from the Monitoring Information System (MIS) and the Impact Evaluation Survey (IES), where both data are collected by the World Bank. The MIS is a web based information system which reports the project's deliverability, while the IES contains *kelurahan* level information gathered from several survey modules: *kelurahan* head module, household module, BKM member module, etc. For our analysis, we managed to combine the two data sources resulted in 154 *kelurahans*, using the survey code and the *kelurahans* name.

4.1. Monitoring Information System (MIS)

The MIS data reports information about the UPP2 proposals that has been submitted, approved and funded during the project implementation, from 2004 until 2007. The data contains both the number of projects and the cost of projects for every sub-type of project, which is the main interest of our analysis.

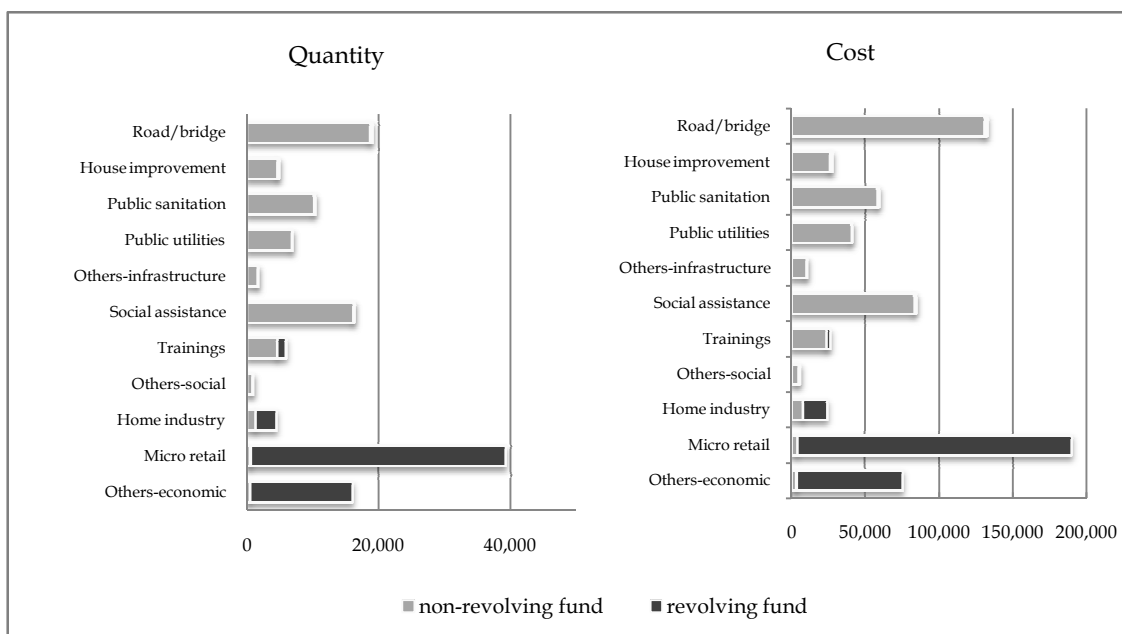
In the data, the MIS begin with classifying projects based on its mechanism: revolving fund projects and revolving fund projects. Then, each classification is broken down into three types based on the sectors: (1) infrastructure projects, (2) social projects, and (3) economic projects. Every sector is further break down into several project sub-types. Table 1 describes the UPP2 project's classification, and figure 1 shows the project's distribution.

In the left pane, around 57 percent of the total non-revolving fund projects or 37,052 projects comprise of construction or rehabilitation of public facilities, such as road/bridge, public sanitation, public utilities, and other infrastructure projects. Out of this number, the highest share involves road/bridge construction (18,626 projects), followed by public sanitation (10,063 projects) and public utilities (6,746 projects).

Table 2
MIS Classification of the UPP2 Projects

Mechanism	Project type	Project sub-type	Description	
Non-revolving fund projects / Revolving fund projects	Infrastructure	Road/bridge	New construction or rehabilitation of road/bridge.	
		House improvement	Construction or rehabilitation of residential house.	
		Public sanitation	Drainage, public toilets, garbage/waste facilities for community level	
		Public utilities	Construction or rehabilitation of community's clean waterways, water tank, public lighting, etc.	
		Others	Infrastructure related projects which doesn't fit the above criteria	
	Social	Trainings	Grants for trainings or informal education to improve the poor's skill.	
		Social assistance	Grant assistance to the specific individuals identified as being most needy or vulnerable, which include the support for orphan, elderly, the poorest, in the form of scholarships, health care, etc.	
		Social others	Social related project which doesn't fit the above criteria	
		Economic	Home industry	Small scale manufacturing of shoes, clothing, handbags, pottery, etc.
			Micro retail	Petty trade, selling cooked/fresh food, services such as electronics repair, tailoring, etc.
Economic others	Economic related projects which doesn't fit the above criteria			

Figure 1
Distribution of the UPP2 projects by project's cost and quantity, 1994-1997



In this study, we define road/bridge projects, public sanitation projects, and public utilities projects as “public projects”, whereas the utility of these projects can be consumed by all community residents, both the poor and the non-poor. For example, the construction of road/bridge that was intended to open an access to the poor households in the remote area, will not only give benefits to the poor, but also to the households located around the constructed road/bridge.

The rest of the non-revolving fund projects (accounts for 43 percent) involves social assistance (16,134 projects), trainings (4,531 projects), house improvement for the poorest (4,555 projects), and grant support for the unemployed to start small economic activities (2,379 projects). The UPP2 project document mentioned that the social assistance projects are given to the specific individuals who identified by the communities as the most needy or vulnerable. Based on the characteristics of these projects, we argue that these projects are the pro-poor projects, which share the characteristics of private goods. It is exclusively consumed by the targeted poor, and the utility can't be consumed at the same time by the non-poor. Hence, we define these projects as “private projects”.⁷

From the left pane in figure 1, it is also shown the distribution of the revolving fund projects (darker bar). Under this mechanism, most of the revolving fund projects are under the economic projects (96 percent), particularly in the form of microcredit loans for community groups. These loans are used to finance income generation activities, such as: petty trade, selling cooked/fresh food, services such as electronics repair, tailoring, small scale manufacturing of shoes, clothing, handbags, pottery, etc). As the UPP2 project document stated that the revolving-fund projects are targeted to the non-poor, our empirical analysis will focus on the non-revolving fund projects. We also will use the revolving fund projects in the analysis, for the robustness check.

The cost of project in every sub-type is shown in the right pane of figure 1. Here, the public projects account for 61 percent of total non-revolving fund projects, while the rest goes to private projects. For the public projects, the highest share goes to road/bridge projects, followed by public sanitation, public utilities, and other infrastructure projects. It can be

⁷ For each type of projects, there are some projects which couldn't be classified into any sub-type classification. For simplification, the “others” projects in infrastructure is classified into public projects, while for economic and social projects are classified into private projects.

seen that even though project's quantity and cost shows similar distribution, but inevitably differences in terms of projects scale/size might affect the project choice analysis.⁸ We argue that the decision of project choice for the community is initially based on the cost of project, since it depends on the amount of the UPP2 allocation given to the specific community-though other source of fund could also possible.

4.2. Impact Evaluation Survey

The second data source of this study is coming from the Impact Evaluation Survey (IES), which was conducted to measure the true impact of UPP2 on poverty reduction. Designed as a quasi-experimental survey, the data collection was fielded in three rounds: baseline (2004), midterm (2005-2006), and final (2007). For the purpose of our analysis, we utilized the baseline and midterm rounds, which include community's information before the program took place, and right after the BKM institution was established.

In the sample design, IES selects both control and treated *kelurahan* using regression discontinuity method.⁹ In every selected *kelurahan*, 32 households are randomly chosen where in each household the enumerator collects information of one adult male and one adult female. The survey instrument enclosed questions related to the socio-demographic information of every households member, as well as household's expenditure, and the social network of the 2 adults. Information on food and non-food expenditure of every household is then used to compute *kelurahans* mean consumption and inequality measurement.

Right after the BKM was established-but before the grants were disbursed-the midterm data was collected. In this survey, an additional module was given to all 1,920 BKM boards to record their socio-demographic background, such as gender, education, employment status, etc. Out of 1,920 BKM members interviewed, the survey randomly select 3 members to collect information regarding their per capita expenditure and social network information. The sample design of UPP2 is presented in Table 3.

8 Araujo et al. (2008) only use project quantity data as the project funding data for Social Fund investment project in Ecuador are unreliable. We use our information benefit for robustness check of our analysis.

9 The treated sample was selected using poverty score computed at sub-district level. The richest 20 percent richest sub-districts were excluded while the remaining was selected. Using RD, *kelurahan* that are located in the sub-districts with a poverty score slightly above the cut-off, were assigned as control, while *kelurahans* located in sub-districts with poverty score slightly below the cut-off were assigned as treated sample.

Table 3
Sampling framework

Module	Respondents	Sample	
		Baseline	Midterm
Community profile	Head of <i>kelurahan</i>	159	154
Ethnicity, language, etc.	Households level	5,046	4,588
Demographic variables	All Household members	23,192	-
Consumption and social network	2 Adults in a household	9,447	8,239
Demographic variables	All BKM members	-	1,920
Consumption and social network	3 selected BKM members	-	420

Using the community profile module, community level information such as population size, number of mosques, access to public services, etc., were collected. The descriptive statistics for the control variables at the community level that will be used in the empirical analysis are presented in Table 4.

Table 4
Community Descriptive Statistics

Variable	Mean	Median	Standard Deviation	N
Mean per capita consumption	219,264	198,121	94.28	154
Population	5,821	4647	3,817	154
Mosque	6	5	5.5	154
Access to public electricity	0.96	1.00	0.12	154
Distance to terminal (minutes)	14.95	10.00	13.33	154
P ₈₀₅₀	2.76	2.51	1.67	154
P ₈₀₂₀	5.62	4.84	3.76	154
Gini index	0.33	0.32	0.09	154
GE index	0.20	1.62	0.16	154
Atkinson index	0.17	0.15	0.17	154

As the BKM members had a key role in the determinants of project choice, we are interested to examine the characteristic's comparison between the BKM members and the non-BKM members (the general sample population), which is shown in Table 5.

From the table, we find that BKM members are overwhelmingly male. Even there's a 30 percent reservation policy for female in the BKM, there's only 19 percent of BKM members are women, compare to general population where 51 percent are women. Moreover, it is found that BKM members are coming from highly educated, wealthier and from a higher

social network level. In education, the boards spent 13 years in schooling, while general population only 9.32 years. Around 46 percent of BKM members are having diploma degree, while only 13 percent of general population got one. Based on its consumption, 83 percent of BKM members are coming from the high consumption group, compared to 26 percent in general population.¹⁰

Table 5
Comparison between Boards Member and Non-Boards Member

Characteristics	Board's member	Non-member
Age *)	42,83	39,02
Female	0,19	0,51
Married	0,91	0,69
Moslem	0,91	0,92
Employed	0,80	0,53
Hours work per week	41,69	44,55
Years of schooling	13,00	9,32
Education category 0 **)	0,00	0,00
Education category 1	0,03	0,34
Education category 2	0,08	0,18
Education category 3	0,08	0,35
Education category 4	0,46	0,13
Per capita consumption ***)	395.460	207.945
n (individuals)	1.920	15.073

Note: *) Age below 18 is dropped, as UPP2 restricts BKM member below 18. b) Category 0 means never been in school, 1 for primary school, 2 for junior high school, 3 for senior high, and 4 for university/diploma) Board's consumption is measured using 462 sample, outlier and zero values were dropped

The social network indicator is measured as the percentage of people in the local government or local institution that an individual personally know. The comparison table shows that BKM members know 93 percent, which is higher than 62 percent reported by general population. For the BKM members, the social network variable is collected at the midterm survey, whilst for the non-member's, it is collected at baseline. We acknowledge

¹⁰ Welfare indicator for both board's member and non-board member is based on per capita consumption at the baseline (pre-program condition). At this phase, the board's member expenditure was not available because they are elected after the program is active. Assuming that assets variable would not vary too much between baseline and midterm, community board per capita consumption is predicted using their assets. First, the household information which was measured at baseline is used, specifically to regress household's consumption on a number of assets variables. Applying the estimated coefficients from this regression to the same asset variables of the board's member obtained from midterm survey, the consumption of the board's member is predicted. This predicted consumption is used as the proxy of their welfare indicator that was not affected by the program.

the potential endogeneity issue for this variable, which is the possibility that the boards met some activists through participation in the UPP2. However, the types of local activist who are listed in the questionnaire were those whom respondents were not likely to meet through the UPP2, as the project was specifically designed to be less connected with governmental structure in order to guarantee its independency.

5. Empirical Results

Table 6 presents the estimation result of specification (1), which examine the relationship between *kelurahans'* inequality with the shares of private projects per total projects. Here, the share of private projects is computed using project's cost data of private good projects under the non-revolving fund mechanism. In the regression result, it is shown that inequality is significant and negatively associated with the share of private projects received by community. The more unequal a community in terms of consumption, the smaller share of private projects is received by the community-controlling for other covariates constant. These results clearly support the elite capture hypothesis under unequal power distribution setting.

In order to ensure our result consistencies, we use several inequality measurements with different sensitivity in different parts of the distribution. The first measurement we use is the deciles dispersion ratio: the ratio of the average consumption of the richest group divided by the average consumption of the bottom poorest. This measurement is quite useful for small sample like our case, where the computation for inequality is based on the consumption of 32 randomly selected households.

In column (1), we use P_{8020} or the ratio of the average richest 20 percent divided by average poorest 20 percent. The econometric result shows that one standard deviation changes in P_{8020} is associated with 0.029 times standard deviation reduction on the probability to receive higher share of private projects. However, P_{8020} might neglect the information of households in the middle of the distribution. In column (2), we use another deciles dispersion ratio P_{8050} , or the ratio of the average 20 percent richest divided by the median. This measurement also gives a negative and significant effect, although its magnitude is higher and more significant. Furthermore, we also consider the problem of vulnerability

towards extreme values and outliers, so we also include inequality measurement with axiomatic basis derived from principles. In column (3) to (5) we use the gini index, general entropy (GE) and Atkinson index. It is shows that the coefficients of these three measurements remain negative and significant.

In order to control for other community level variable that might influence the community's projects decision, our estimation includes sets of control variables: mean consumption, population, number of mosques and access to public services, such as: electricity rate and distance to bus station. To control the targeting effect of the UPP2, we also include the amount of the UPP2 fund received and the interaction between the fund and population.

Access to public services is included to capture the pre-existing supply of public goods where all residents have access to it. These public goods were exogenously provided by the government before the UPP2 had started. The distance to terminal is our proxy for transportation access. More time needed to reach the public terminals represents low access to public transport. The estimation result shows a positive and significant effect, reflecting that the lower access to public goods is associated with higher private projects received. In other words, communities with higher access to transportation will receive lower private projects. One would expect the other way around that community with better infrastructure which represents public goods will demand for more private projects.

The number of mosques is positive and statistically significant. We include this variable to acknowledge the fact that Indonesia is the largest Muslim country in the world. Rao (2005) describes the important role of mosques as a "symbolic public goods" in collective action, via the coordination to generate common knowledge and help people to build a sense of community. In line with this statement, we argue that mosques have often has the role as the site of development activity, such as a venue for the community meeting, discussions about who and where the genuine poor exist in the community, or at least as a site to announce community work. Therefore, our finding confirms that number of mosques increase the chance to receive private projects as it not only serves as the venue to pray but also to communicate and identify the genuine poor.

Table 6
Determinants of share private projects received by community

	<i>Community Inequality</i>					<i>Community organization inequality</i>				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Mean of per capita consumption (in log)	0.454*** (2.816)	0.389*** (2.738)	0.437*** (2.942)	0.406*** (2.692)	0.478*** (3.060)	0.419*** (2.866)	0.497*** (2.989)	0.485*** (3.114)	0.442*** (2.838)	0.526*** (3.248)
Population (in log)	-0.248 (-1.187)	-0.237 (-1.144)	-0.225 (-1.087)	-0.240 (-1.150)	-0.235 (-1.137)	-0.197 (-1.005)	-0.210 (-1.060)	-0.187 (-0.953)	-0.200 (-1.016)	-0.197 (-1.007)
Distance to terminal (minutes)	0.005* (1.886)	0.005* (1.878)	0.005** (2.109)	0.005* (1.839)	0.005** (2.055)	0.005* (1.772)	0.005* (1.755)	0.005* (1.949)	0.005* (1.722)	0.005* (1.890)
Mosque	0.016** (2.138)	0.016** (2.148)	0.016** (2.309)	0.016** (2.169)	0.017** (2.356)	0.015* (1.828)	0.015* (1.795)	0.016** (1.961)	0.015* (1.822)	0.016** (1.994)
P8020	-0.029** (-2.521)					-0.059** (-2.405)				
P8050		-0.059** (-2.334)					-0.030*** (-2.596)			
Gini index			-1.320** (-2.519)					-1.381*** (-2.658)		
GE index				-0.585** (-2.550)					-0.589*** (-2.611)	
Atkinson index					-1.469*** (-2.795)					-1.530*** (-2.954)
Homogenous and high status	-	-	-	-	-	-0.217 (-1.036)	-0.239 (-1.154)	-0.260 (-1.169)	-0.218 (-1.028)	-0.256 (-1.175)
Homogenous and low status	-	-	-	-	-	0.157* (1.913)	0.157* (1.931)	0.151* (1.851)	0.158* (1.932)	0.153* (1.881)
Heterogeneous and high status	-	-	-	-	-	0.025 (0.259)	0.010 (0.104)	-0.006 (-0.066)	0.011 (0.111)	-0.004 (-0.040)
N	153	153	153	153	153	153	153	153	153	153
AIC /BIC	1.25	1.25	1.25	1.25	1.25	1.29	1.29	1.29	1.29	1.29
(1/df) Pearson	0.37	0.37	0.37	0.037	0.37	0.04	0.04	0.04	0.04	0.04

The results are obtained using the fractional logit. *t*-values are in parentheses. *, **, *** denote significance at 10%, 5% and 1% level, respectively. Constants are not reported. The estimation also controls for the amount of the UPP2 fund received by community, interaction variable between population and amount of the UPP2 fund received, and access to public electricity. Districts fixed effect is included.

Among the remaining independent variables, the mean of *kelurahan* consumption is strongly positive and significant. It shows that share of private projects is higher in richer *kelurahan*. One could assume that a good poverty targeting generates more private projects for poorer communities. Yet, our econometric results show a different pattern. Holding other variables constant, poorer communities (lower consumption mean) is associated with a lower share of private projects, which indicates a miss targeting problem of the UPP2.

5.1. BKM setting and project selection

Since the UPP2 using CDD approach, that the decision of project allocation is conducted mostly through internal meeting of the BKM members, one could argue that the influence of power distribution on the project option did not take place at the community level but at the internal meeting of the BKM members. Hence, we include the power distribution among BKM member in the empirical analysis.

Table 7
Determinants of community organization membership

	(1)	(2)
Years of schooling	0.307*** (14.311)	0.311*** (13.961)
Per capita consumption (log)	1.120*** (11.750)	0.990*** (9.375)
Social network	9.017*** (18.497)	8.892*** (17.917)
Age		0.303** (8.787)
Age squared		-0.003** (-7.728)
Female		-0.627*** (4.959)
Moslem		0.604 (1.525)
Sub-district fixed effect	Yes	Yes
N	14,335	14,331
Pseudo R2	0.39	0.44

The dependent variable is the probability that a person is elected as a BKM member. t-value in the parenthesis. ***, **, * indicate significance at 1, 5, and 10 percent level, respectively.

In table 7 we estimate the probability of getting elected as a BKM member by pooling individual data for both BKM and non-BKM member. The estimation includes socio-economic characteristics such as gender, schooling, consumption, social network, age, and religion, and control for the sub-district effect. Confirming the descriptive findings, the results show that being educated, wealthier and in a higher social network increase the probability of being elected as board's member. The results also suggest that being male and Muslim increase the odds. Using age and age squared to explain the determinants of board's membership, has revealed that the effect of age is non-monotonic.

This result shows that the BKM members have specific characteristics which distinguish them from the general population. Some characteristics with the highest magnitude and significances are years of schooling, per capita consumption, and the social network which can be seen as the most deterministic factor to be elected as a BKM member.

We argue that all three factors together determine the bargaining power of an individual in the local decision making process related to project allocation. Further, we construct an elite index based on these three variables and classified each BKM institution into one of four categories: homogeneously high status (Hm^h_i), homogeneously low status (Hm^l_i), heterogeneously high status (Ht^h_i), or heterogeneously low status (Ht^l_i) which then are included in the specification as dummy variables. The PCA output is reported in Table 8.

Table 8
Elite status construction using principle component analysis

Correlations				
	<i>Eigen value</i>	<i>Difference</i>	<i>Proportion</i>	<i>Cumulative</i>
Comp 1	1.28086	0.289166	0.427	0.427
Comp 2	0.991689	0.264234	0.331	0.758
Comp 3	0.727455		0.243	1
Eigenvectors				
<i>Variable (standardized value)</i>	<i>Comp 1</i>			
Per capita consumption	0.699			
Years of schooling	0.694			
Social network	0.174			

Column (6) to (10) in Table 7 show the result by taking into consideration that project decision is not only decided by the overall community, but specifically on the composition of board's bargaining power in the decision making process. Out of all dummies included, only "homogeneously low status" is statistically significant. The positive sign of this dummy strengthens the elite capture hypothesis: only if all members are homogeneously low status, then the probability to receive private projects is higher. The result is plausible. Only if BKM members share similar characteristics with the poor, they will have within-community affinity, and then they might show an altruistic behaviour by giving higher preferences towards poor projects.

Comparing column (1) to (5) with column (6) to (10), we find that the sign and value of all parameters are quite similar. *Kelurahan* inequality remains negative and significant, and for some P8020, gini index, general entropy, and Atkinson index, the effect is slightly stronger. We interpret that *kelurahan* inequality has a separate effect from BKM status in determining project selection.

In table 9 we examine the comparison of the characteristics for each type of BKM, both for the boards' characteristics as well as for the *kelurahan* characteristics. If we focused into "homogeneously low status", the boards have the lowest consumption, years of education and social network. These characteristics are the closest characteristics with the poor who are poor in terms of wealth and education, which limits their social network especially with decision maker in the *kelurahan*.

Looking at the *kelurahan* characteristics, the BKM members who are sitting in Hm^l_i , are living in the poorest *kelurahan* with the worst access to public goods: low access to electricity and transportation. It could also be seen that the amount of the UPP2 fund is the highest in these *kelurahans*. In terms of community inequality, the value is never the highest compare to other *kelurahan* which means that power distribution is quite even, and therefore the elite capture is low. We could argue that in *kelurahan* where BKM members are homogeneously low status, the boards are giving high priority to private projects (intended for the specific poor) even though the pre-existence of public goods is low.

Table 9
BKM comparison based on status composition

Community Organization Status	Hm^h_i	Ht^h_i	Ht^l_i	Hm^l_i
<u>Boards Characteristics</u>				
Consumption per capita	806,559	457,460	412,892	288,238
Years of education	15,6	14,79	13,44	12,5
Social network	0,94	0,93	0,93	0,92
<u>Kelurahan Characteristics</u>				
Mean <i>kelurahan</i> consumption (IDR)	214,990	240,524	219,230	204,581
Population	4,775	6,018	5,709	5,923
Access to public electricity	0.99	0.98	0.98	0.93
Distance to terminal (minutes)	9.00	12.89	15.79	15.96
Number of mosques	6	6	7	6
Total UPP2 fund (millions IDR)	230	256	248	272
Gini index	0.30	0.34	0.34	0.32
GE index	0.19	0.22	0.20	0.18
Atkinson index	0.14	0.17	0.17	0.15
P8020	4.45	6.29	5.68	5.15
P8050	2.54	3.19	2.74	2.49
Number of BKM institution	5	36	63	50

5.2. Endogeneity issues

We acknowledge that these results might have the potential to be biased due to the endogeneity issues. The first is the possibility that there is an unobserved heterogeneity that might affect the election of BKM which also affect the type of project chosen. For instance, a BKM member is elected because they know the people who could help them. In the BKM regression, we cover this issue by controlling for the social network variable to build the elite status variable. Furthermore, this issue can be minimized as the BKM election was under secret ballots scheme. The second threat might arise from the reverse causality from the dependent variable, which is the share of private projects, into our target variable community inequality or community organization status. We acknowledge that this reverse relationship doesn't exist, as both independent variables are predetermined before the project option.

5.3. Robustness tests

For the robustness tests, we consider the possibility that the project choice decision is conducted by the community will consider both the non-revolving and revolving mechanisms. Using the same model specification, the dependent variable is now defined as

Table 10
Robustness tests on the determinants of share private projects received by community

	<i>Community inequality</i>					<i>Community organization inequality</i>				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Mean of per capita consumption (in log)	0.324** (2.539)	0.373*** (2.641)	0.305** (2.286)	0.323** (2.418)	0.342** (2.460)	0.346*** (2.584)	0.404*** (2.756)	0.339** (2.396)	0.350** (2.497)	0.377*** (2.588)
Population (in log)	-0.244 (-1.608)	-0.253* (-1.660)	-0.235 (-1.549)	-0.245 (-1.605)	-0.241 (-1.595)	-0.212 (-1.470)	-0.222 (-1.534)	-0.204 (-1.420)	-0.213 (-1.474)	-0.211 (-1.470)
Distance to terminal (minutes)	0.006*** (2.730)	0.006*** (2.737)	0.006*** (2.705)	0.005*** (2.681)	0.006*** (2.725)	0.006** (2.558)	0.005** (2.532)	0.006** (2.525)	0.005** (2.498)	0.006** (2.523)
Mosque	0.014** (1.996)	0.014** (1.992)	0.013** (2.006)	0.013** (1.988)	0.014** (2.062)	0.013* (1.721)	0.013* (1.699)	0.012* (1.709)	0.013* (1.692)	0.013* (1.759)
P8020	-0.040** (-2.408)					-0.039** (-2.479)				
P8050		-0.020** (-2.389)					-0.020** (-2.504)			
Gini index			-0.605 (-1.360)					-0.628 (-1.432)		
GE index				-0.359** (-2.104)					-0.356** (-2.166)	
Atkinson index					-0.769* (-1.702)					-0.794* (-1.806)
Homogenous and high status	-	-	-	-	-	-0.126 (-0.881)	-0.142 (-0.994)	-0.144 (-0.944)	-0.126 (-0.865)	-0.146 (-0.961)
Homogenous and low status	-	-	-	-	-	0.122* (1.816)	0.122* (1.825)	0.119* (1.774)	0.122* (1.827)	0.119* (1.781)
Heterogeneous and high status	-	-	-	-	-	0.008 (0.100)	-0.002 (-0.029)	-0.013 (-0.156)	-0.002 (-0.029)	-0.012 (-0.147)
N	153	153	153	153	153	153	153	153	153	153
AIC /BIC	1.25	1.25	1.25	1.25	1.25	1.29	1.29	1.29	1.29	1.29
(1/df) Pearson	0.37	0.37	0.37	0.037	0.37	0.04	0.04	0.04	0.04	0.04

The results are obtained using the fractional logit. *t*-values are in parentheses. *, **, *** denote significance at 10%, 5% and 1% level, respectively. Constants are not reported. The estimation also controls for the amount of the UPP2 fund received by community, interaction variable between population and amount of the UPP2 fund received, and access to public electricity. Districts fixed effect is included.

the ratio of house improvement projects, social projects, and economic projects under non-revolving fund mechanism, divided by the rest of the non-revolving fund projects (bridge/road construction, public sanitation and public utilities) and all revolving fund projects. This examination is based in the argument that the non-poor would preferred public goods project in the non-revolving fund scheme, would target the whole non-revolving fund projects. Our results show similar pattern, and confirms the previous analysis (Table 10).

Another robustness tests that we did, is by using but using the number of projects instead the cost of projects to compute the dependent variable to estimate the same specification. Again, our results show a similar pattern, yet with weaker effect.

6. Conclusions

Nowadays, many poverty programs are implemented using CDD approach, which is argued may create a sustained poverty reduction through social inclusion. Yet, recent literatures have shown some evidence that such approach may increase the risk of elite capture at the expense of the poor. Particularly in more unequal communities, the risk is higher as the gap between non-poor and poor, and may reduce the poor's bargaining power to voice their own choice.

The aim of this paper is to investigate the existence of elite capture within the Urban Poverty Project 2, a CDD program in Indonesia. Classifying different types of the alleviation programs into private good project and public good project, in a sense that private good projects directly benefit the poor, while public good projects give benefit to both poor and non-poor, we argue that elite capture exists when communities choose more public projects rather than private projects.

By estimating the share of private projects received by the communities, we find that inequality raises elite capture incidence. Communities prefer more projects which provide public good project rather than private good proeject. These first findings are in line with the previous studies that confirm the negative relationship between inequality and development outcome.

The second finding, we argue that community decision on types of projects does depend on the power distribution within the community level, but even more on the internal decision making process among the BKM boards member. This is based to the fact that UPP2 delegates the final decision of project choice to the elected community boards, and therefore the bargaining power between the boards would then determine the project's outcome on which type of programs that will be funded.

By constructing an elite index using information on education, consumption and social network of the BKM members, we are able identify the BKM member's bargaining power in the local decision making process. We find an interesting result that only if the BKM members share the closest characteristics with the poor, altruism behaviour may exist and the project decision made would be in favour of the poor. These results are robust for different inequality measurement and specifications.

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Appendix: Distribution of UPP2 Projects 2004-2007

Project Type	Non-revolving		Revolving		Total projects	
	Number	Cost*	Number	Cost*	Number	Cost*
<i>Infrastructure</i>						
Road/Bridge	18,626	130.7	388	1.8	19,014	132.5
Housing	4,555	26.1	250	1.6	4,805	27.7
Public sanitation	10,063	57.6	202	1.3	10,265	58.8
Public utilities	6,746	40.2	87	0.4	6,833	40.6
Infrastructure - others	1,617	10.0	27	0.1	1,644	10.0
<i>Social</i>						
Social assistance	16,134	82.8	171	1.1	16,305	83.9
Trainings	4,531	23.1	1,300	2.6	5,831	25.7
Social-others	843	4.8	82	0.5	925	5.3
<i>Economic</i>						
Home industry	1,278	7.6	3131	15.9	4,409	23.6
Micro retail	565	4.0	38,719	185.5	39,284	189.6
Economic-others	536	3.5	15,481	71.5	16,017	75.00
Total	65,494	390.2	59,838	282.4	125,332	673

*) in billion IDR