

Contractual Relationships between Indigenous Community Based Organizations (CBOs) and the Community: Empirical Evidence from Ethiopia

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ABSTRACT This paper relates to a research project in a selected case study area in Ethiopia in which the contractual relationship between indigenous Community Based Organizations (CBOs) and the community in terms of their contribution towards community development was examined empirically. An analytical framework known as principal-agent theory was introduced to examine the problems of delegation. In addition, a fundamental conceptual framework of 'trust' was also used. A qualitative research methodology was employed throughout the research process and in-depth interviews, focus group discussions and observation of participants made. The research results indicate that an informal contractual relationship between indigenous CBOs and the community exists. This relationship is mainly based upon trust, norms and cultural values. These organisations have the characteristics of mutual support, accountable leadership structures, a more or less transparent decision-making process and operational modalities. These rules of function are unwritten. Moreover, very strong sanction mechanisms are in place in order to control inappropriate behaviour among CBO leaders, which could lead to ostracism of such persons from the community. However, empirical evidence demonstrates that existing power structures do not necessarily enable the community members to identify and control hidden information (adverse selection) of the leaders of indigenous CBOs.

INTRODUCTION

Scholars, policy-makers and advocates have, in the last decade (since about 2000), recommended greater involvement by Community Based Organizations (CBOs) in community participation in development planning, implementation and also in benefit sharing. This is a foundation stone for community-driven development management in developing countries (Wolde 2010; Teshome 2009; Shiferaw 2010; Mansuri and Rao 2004). Research in the field indicates the significance of indigenous CBOs and the contribution these organizations to facilitate social and economic development in general and rural communities in particular (Wolde 2010). In this regard, Redie et al. (1997) argue that a renewed interest in indigenous CBOs' participation in development has arisen. This interest is predicated on the premise that indigenous CBOs have the capacity to mobilise local-level financial, material and labour resources to bring about effective and sustainable development at the grassroots level.

Much of what we know about the role of indigenous CBOs engaged in active community

participation on development activities is mainly focused on the perspectives of local contribution. However, less is understood about the contractual relationships between indigenous CBOs and the community in terms of facilitating local-level development. Assessments of the contractual relationships that exist between indigenous CBOs and the community are sparse and inconsistent. Using empirical evidence from Ethiopia, the researcher examines the contractual relationships between indigenous CBOs and the community in this paper, seeking to answer two questions: *first*, whether contractual relationships exist between indigenous CBOs and the community, and *second*, whether these contractual relationships have an impact on community development.

The next section provides a background on the perspectives of indigenous CBOs in Ethiopia and is followed by a description of the methodology used. A literature review and the theoretical framework of the study are also provided. Results and analysis of empirical findings regarding the contractual relationships between indigenous CBOs and the community are then discussed. Finally, suggestions and recommendations are provided.

Literature Review

A great deal of literature is available on CBOs both in developed and developing countries. These include research in the area of development economics (Arcand and Fafchamps 2012); feminist approach (Bracken 2011); migrant workers' rights (Chan 2013); sustainable development (Mansuri and Rao 2004; Datta 2007; Dill 2009); community infrastructure provision (Hiru 2002; Bucher 2013); bottom-up development planning (Andrews 2013; Jeppe 1985; Mansuri and Vijayendra 2004), participatory research (Brown and Kortzen 1998; Israel et al. 2001; Cynthia 2003); community-based participatory development (Stern and Seifert 2000; Kvasny and Lee 2003; Hussain et al. 2008; Dercon et al. 2004; Chan 2013; Aredo 2004). For instance, in the context of the Hispanic community in Brownsville, Texas, Olney undertook a research study on CBOs, using a complexity theory. According to her findings, CBOs could be considered complex adaptive systems, characterised by dynamic relationships among many agents, influences, and forces that make them very unpredictable for those attempting to provide outreach. In her paper, she describes the basic characteristics of complex adaptive systems and argues that most CBOs can be considered to be this type of system (Cynthia 2003).

In the context of Pakistan, Hussain et al. (2008) conducted an empirical study and highlights that CBOs works through people-centered modes of development such as availability of micro-finance, community participation in development ensuring community health education and infrastructure improves over time. Israel et al. (2001) undertook a research study to examine key principles of community-based participatory research (CBPR), using the experience reported by researchers in the United States of America. In their report, they discuss the rationale for the use of their research method and provide a number of policy recommendations, at the organisational, community and national levels, aimed at advancing the application of CBPR. Kvasny and Lee (2003) also examined a partnership action research in the United States of America, in order to design a framework for CBOs in the context of urban community. Their research presents a strategic framework for conducting action research in partnership with community-based organisations. Using empirical data from these

case studies, they presented the research model as well as methodological considerations for conducting research in an urban context. Stern and Seifert (2000) also gave an answer to the question of why CBOs are really social movements. In their study, the focus of the research was a re-conceptualisation of a community-based organisation from a model of a classic non-profit institution to that of a social movement. They argued that these small organisations have been colonised by business school consultants who want them to act and look like more established non-profit organisations. Using a rich dataset from West Africa, Arcand and Fafchamps (2012) examine the household characteristics associated with membership in CBOs. They find that on average it is the more fortunate members of rural society who belong in CBOs. They also identified for evidence of matching along multiple dimensions, using an original methodology based on dyadic regressions

Ethiopian Perspectives

Ethiopia is well endowed with indigenous traditional institutions. These informal and formal traditional associations have been operating in Ethiopia for over a century. In the Ethiopian context, (for example, Wolde 2010; Teshome 2009; Shiferaw 2010; Redie et al. 1997; Dinbabo 2005; Aredo 2004, etc...) have undertaken empirical studies of indigenous CBOs, in some detail, from an economic point of view. Wolde (2010) indicates that indigenous CBOs in Ethiopia have an inclusive decision making process and they are responsive to execute local development roles both as a conduit of service delivery and self-determined change. Aredo's (2004) research approach is purely quantitative and exclusively examines urban-based CBOs. Using evidence from Ethiopia and other developing countries, he identifies the distinct characteristics of *Iqqub*¹ and discusses how it minimises risk arising from problems of adverse selection and of moral hazards. The findings of Aredo's empirical study on indigenous CBOs generate policy implications for the promotion of informal finance in developing countries in general and in Ethiopia in particular. In another study, Dercon et al. (2004) identified the roles of CBOs in the context of Tanzania and Ethiopia. Their assessment shows the existence of CBOs in different forms and indicates their use to the community in terms of funeral insurance.

Despite their enormous contribution (for example, mobilising local resources in terms of finance, material and labour) to development, CBOs in Ethiopia have not been given the support and encouragement they deserve through enabling legislation and administrative support (Aredo 2002). The legal framework for voluntary associations is lacking, government support is limited and development strategies have failed to encompass the voluntary sector. In order to build the capacity of CBOs, there are legal (lack of clear policies) as well as practical (technical assistance by government offices) gaps that need to be resolved in consultation with all stakeholders (Hiru 2002). The overall number of indigenous CBOs in Ethiopia and their share of local-level developmental activities is high. However, their effective contribution to social, economic and political development is rarely assessed in a sober and empirical way.

Theoretical Framework

The so-called 'contract' theories seek to explain the contractual arrangements that can arise in different institutions and systems. The three major economic contract theories include principal-agent theory, implicit theory and relational theory (Laffont and Martimort 2002; Hart 1995; Furubotn and Rudolf 1998). In the context of this research, the principal-agent theory and the conceptual framework of trust are most relevant and acted as the basis of the theoretical framework. The basic notion of the principal-agent theory is that of a situation in which one party (the principal or group of principals) hires or delegates another (the agent or group of agents) to undertake a particular task (Vickers 1985; Sklivas 1987; Hughes 1998; Ceric 2013; Connelly et al. 2011; Bolton and Dewatripont 2005). This is because the principal is not willing or not in a position to undertake the required tasks. According to this theory, in order to avoid problems, principals attempt to find incentive systems for agents so as to act in the interest of principals (Vickers 1985; Sklivas 1987; Martin 1993; Hart 1995; Hughes 1998).

However, the party offering a contract (the principal) knows or observes less than the party accepting or rejecting the offer (the agent). A problem with delegation from principal to agent arises because the agent has full information and may use this informational advantage to his/

her own benefit (Vickers 1985). In principal-agent theory, this situation is termed *asymmetry of information*. In the implementation of the contract, the agent acts on behalf of the principal, but the principal will face difficulties in monitoring the actions and behaviour of the agent (Mackintosh 2001; Ceric 2013). Two major types of information asymmetry exist, that is, adverse selection (hidden information) and moral hazards (hidden action) (Bolton and Dewatripont 2005; Broadbent et al. 2001). *Adverse selection* is a situation in which the principal knows less about the agent than the agent knows about himself or herself (Mackintosh 2001). It deals with the problem of pre-contractual opportunism. The existence of such a type of asymmetrical information provides an opportunity for the agents to engage in their previous opportunistic behaviour. For example, a potential buyer of life insurance (agent), having secret information about his/her health status, will always be in a better position to estimate his/her life expectancy than the seller of the life insurance (principal) (Bolton and Dewatripont 2005; Furubotn and Rudolf 1998). In this case, the agent can gain advantage from his/her self-knowledge. With regard to contractual arrangements between the CBO leaders and the community, hidden information might occur during the election processes of the CBO leaders. *Moral hazard* exists when one party takes advantage of asymmetric information to act in a manner contrary to the interest of the other party (Furubotn and Rudolf 1998).

Dissatisfaction with some of the aspects of principal-agent theory led to a re-examination and extending agency theory outside its current contextual boundaries, that is, a search for alternative conceptual explanations. Numerous development scholars (Wiseman and Gemez-Mejia 1998; Fehr and Falk 2002; Donaldson and Davis 1994; Ceric 2013) have argued that the negative expectations about human behaviour are imperfectly interpreted, mainly when concerned with the exercise of people's power in thinking, acting, and controlling their actions in a collaborative framework. Fehr and Falk (2002) argued that principal-agent theory, which has a pessimistic assumption of human behaviour as opportunistic, would seem to exclude trust and cooperation between the principal and agent. In this regard, Wiseman and Gemez-Mejia (1998) believed that the assumptions about the individual risk preferences do not recognise the gen-

eral social context in which the principal-agent agreement exists and how that context may influence both the interest and mechanisms for aligning interests of principals and agents.

With the objective of overcoming the limitations of agency theory, the researcher incorporated a fundamental conceptual framework of “trust” in this research. A number of conceptual studies on trust have been made. For example, Perrow (1986); Noreen (1988); Ghoshal and Moran (1996); Bower et al. (1997) and Becerra and Gupa (1999) noted that individuals do not always behave in selfish or self-interested ways but may show attitudes of trust and co-operation. Other researchers (Cruz et al. 2010; Davis et al. 2010) have combined agency theory with other theoretical frameworks in their studies.

Hendry (2002) claimed that for an organisation to be effective, important elements such as accountability, honesty, co-operation, mutual benefit and trust must be taken into consideration. It can be argued that trust becomes the most efficient mechanism for maximising the principal’s effectiveness. According to Butler (1991), trust is related to integrity; honesty, consistency, and predictability. McAllister (1995) defined trust as the extent to which a person is confident in, and willing to act on the basis of, the words, actions and decisions of another. Zhu et al. (2005) noted that trust increases reciprocity and thus further increases commitment to the relationship.

From the above theoretical arguments, one can easily understand that the relationship between principal and agent also has a link with the issue of accountability. Mulgan (2002) defined accountability as a system of institutional checks and balances by which democracies seek to control the actions of the government. Hughes (1998) noted that the concept of accountability includes the obligation of the representatives to their constituency. One of the elements of accountability between principal and agent is that of the more implicit contexts which surround the relationship between principals and agents. Accountability can be described as either “communal/informal” or “contractual/formal” (Broadbent et al. 2001: 118). The communal context encompasses a less formal set of accountability relationships. The “contractual/formal” context, on the other hand, encompasses a much more formal set of accountability relationships, where action expectations and information are tightly

defined (Broadbent et al. 2001). In the context of this research, members of the community are the principals and CBOs are the agents. The community, as a principal, expects the respective CBOs to provide them with the desired services.

METHODOLOGICAL APPROACH

This research methodology employed a mix of secondary data analysis and qualitative data collection to help in understanding the issues involved in the contractual relationship between indigenous CBOs and the community, in terms of their contribution towards community development, in the selected case study area in Ethiopia. A purposefully selected 36 people were interviewed using a semi-structured questionnaire. The researcher, conducted focus group interviews with four groups of people in the case study area, that is, CBO leaders, women’s groups, elders, and formal political representatives of the community. Meetings at different levels were also conducted. These meetings enabled me to understand the different views, ideas; experiences, and perspectives of the participants towards the contractual relationship between indigenous CBOs and the community.

RESULTS AND DISCUSSION

The informal contractual relationships between indigenous CBOs and the community differ, depending upon the nature and objectives of the indigenous CBOs. More than 97% of the respondents stated that, in most cases, unwritten rules bridge the relationship between indigenous CBOs and the community. Wolde (2010) and Broadbent et al. (2001) indicate that reliance on unwritten rules is an outcome of mutual trust, understanding, and respect and a high degree of reinforcing social mechanisms within the community. The community has greater respect for, and attaches a higher value to, the unwritten types of rules between the indigenous CBOs and the community. During an interview with the community representatives, about three-quarters of the respondents pointed out that formal institutions, including service co-operatives, who have ‘written’ types of rules, are widely seen as corrupt and self-serving, incapable of fulfilling their obligations to the community and unworthy of popular respect. They added that long travelling distances to reach the courts and

the related expenses of resolving disputes through formal structures are less acceptable than informal structures to the community members.

About 86% of respondents also agreed on two fundamental sets of factors when explaining why informal rules, as they apply to indigenous CBOs, are preferred in the Gubre community. Firstly, they mentioned the nature and flexibility of informal types of rules that contributed to the effective, efficient and rapid implementation of community based socio-economic development projects. Secondly, loopholes such as corruption and fraud, which exist within the formal types of organisations, were identified. From the above responses, it is evident that in the context of Gubre community, informal types of contractual relationship bound indigenous CBOs and the community.

Delegation, Responsibilities, Rights and Obligations

The basic notion of principal-agent theory is that one party can hire or delegate another to undertake a particular task, and the delegation processes include the provision of contractual responsibilities, rights and obligations (Hughes 1998; Ceric 2013; Connelly et al. 2011). Discussions with the leaders of the indigenous CBOs in the Gubre community helped, to a large extent, to clarify delineation of duties, responsibilities, rights and obligations shared between the indigenous CBO leaders and the community. These were examined using indicators such as *delegation, responsibilities, rights and obligations, contractual relationships, rules of function, sanction mechanisms, accountability, information asymmetry, decision-making processes*, and so on.

Delegation of Indigenous CBO Leaders: According to 98% of the respondents, indigenous CBOs in the Gubre community are delegated by a General Assembly (GA) to represent the people. The GA is the supreme organ to oversee/represent community interests and it includes all members of the indigenous CBOs. It has the power to make the nomination and sanction the dismissal of indigenous CBO leaders as well as to approve of plans and budgets. Indigenous CBO leaders are granted appropriate authoritative status through the community. They carry out different kinds of activities on behalf

of the community. These activities include social control mechanisms; spiritual satisfaction; promotion of saving habits and the provision of credits; and the mobilisation of the community for development activities, such as feeder road construction, bridge maintenance, pond clearing, and settlement of certain disputes among CBOs members and others.

Responsibilities: According to the information obtained from different respondents, the community elects leaders of the CBOs and applies pre-determined terms of responsibilities. In most indigenous CBOs, the responsibilities of the leaders are mainly to manage the overall co-ordination and administration of the CBOs' activities. Indigenous CBO leaders are also responsible for fulfilment of the objectives of the CBOs and for exercising their power in the best interests of the community. They also facilitate events that foster community development and a sense of community ownership. The leaders of indigenous CBOs understand their governing objectives and are accountable to the General Assembly. The issue of defining duties and responsibilities of the two functional organs, that is, indigenous CBOs and the community, is dependent on mutual trust, norms and the culture of the community at large.

As much as 78% of the respondents agreed that the community members also have great responsibilities to meet in indigenous CBOs' activities. These include taking responsibility for organising other members to do specific jobs or carry out assignments when ordered to do so by indigenous CBO leaders. Members also participate in the community development programmes from the beginning of project identification 6 prioritising, planning, implementing, monitoring and evaluating. Of course, the scope of members' involvement in most indigenous CBOs is wider in terms of contribution of funds, material and labour for community development activities. As part of their responsibilities, members of the community are also responsible for treating association leaders honestly and with respect, for voting in community elections, and for other issues.

Rights and Obligations: At least 86% of respondents confirmed that the most important rights of members are that they have equal rights in the CBOs' activities. Members of the community have the right to participate in governing the indigenous CBOs by attending meetings,

serving on committees and standing for election. They also have the right to vote, and they can elect and be elected. They are permitted to lodge complaints to the authorities, such as the General Assembly, and they may appeal to appropriate indigenous CBO leaders about those decisions affecting the indigenous CBOs' objectives. Members of the community may also compete with other members to receive benefits offered by the indigenous CBOs and are entitled to honest, fair and respectful treatment by community leaders and managers.

Obligations: Respondents acknowledged that members of the CBOs have obligations to fulfil. These include supporting the indigenous CBOs through contributions in the form of money, material, labour and services as well as initiating project ideas. Members of the indigenous CBOs are also expected to attend General Assembly meetings when, and if, they are invited. For example, attendance at *Iddir* meetings and mourning are mandatory for the members of the community. Failure to meet such obligations could result in reprimands, dismissal from membership and ostracism.

Based upon the above information, the community has adopted an unwritten type of contractual relationship, in terms of delegations, rights, responsibilities and obligations, between indigenous CBOs and the community. In addition, from the responses of different respondents, it is clear that there is an increased level of confidence between indigenous CBOs and the community in terms of their delegations, rights, responsibilities and obligations. In general, the existing informal contractual relationships between the two organs, namely indigenous CBOs and the community have helped to increase positive publicity within the community and reduced the kind of negative publicity often created by conflict. Membership in indigenous CBOs provides many opportunities and incentives. For example, 87% of respondents indicated that members of *Iddir* have the right to obtain certain benefits, such as local-level insurance, when their family members die. *Iddirs* in Gubre also promote saving of funds habits and provide credit to their members, while *Mahiber* provides spiritual satisfaction to its respective members.

Rules of Function and Sanction Mechanisms: Written commands are clearly significant controlling instruments, but analyses of the feedback of several respondents indicated that the

unwritten laws of behaviour in an informal accountability relationship often can be just as powerful in terms of control. In order to assess informal contractual relationships versus rules of function, respondents were asked to explain the existence of the rules of function of indigenous CBOs and how the communities counteract poor performance and inappropriate behaviour of indigenous CBO leaders. According to information obtained from various focus group discussions, indigenous CBOs constitute one of the main forms of social organisation within the Gubre community. Each of the indigenous CBOs has its own rules of function. However, most of the rules of function are informal and not written. They are based upon trust, norms, culture and values of the community. In order to implement the different types of sanction mechanisms, the community has informal and tribal leadership structures in place. This type of leadership structure is composed of elders, who play the most influential roles in the decision-making process in almost all affairs of the society. These types of leadership structures have existed for many decades in the community. Participants at the community meeting clearly explained that the *Serra*² traditionally counteract poor performance and inappropriate behaviour of CBO leaders, which mostly occur in terms of money or material goods. Sometimes, depending upon the type of offence, it could reach the extent of leaders being banned from the community's social activities, such as *Iddir*. In so doing, the *Serra* serves to enforce social control mechanisms in relation to CBO leaders. In this regard one of the traditional leaders indicated that

there are various ways of sanction mechanisms in different indigenous CBOs. For example, in the context of Iddir, negligence of indigenous CBO responsibilities could lead to obstruction, which extends to refusal of burial services and boycotting compensation payments, which are often individually unaffordable since fines are in terms of money.

During the focus group discussion with the women's group, respondents also noted that the role played by the traditional council of elders is very influential and their orders have to be obeyed by the community. In this connection, one of the respondents pointed out that

the indigenous CBO leaders, strictly followed orders passed by the Serra prohibiting long term of existence in the leadership. As a

result, a two years term of existence has been fixed for most indigenous CBO leaders regardless of age, sex and ethnic composition. This helped the community to avoid monopoly of power and dictatorship.... In a situation where in the indigenous CBOs leaders do not discharge their responsibilities to the satisfaction of their respective community, the issue is going to be discussed and resolved at the Serra level. Serra members are very influential whose orders have to be obeyed by the indigenous CBO leaders and the community.

All these responses show that the sanction mechanisms within indigenous CBOs are weak. However, the Serra is effective and helps to control inappropriate behaviour of the CBO leaders by executing different kinds of 'sanction' mechanisms. This proves that CBO leaders are effectively under control by the community through the Serra.

Accountability: In order to assess the level of accountability and to examine the informal contractual relationships between indigenous CBOs and the community, two groups of respondents were asked about the representation and accountability of indigenous CBO leaders. The two groups of respondents were the indigenous CBO leaders and the community representatives. According to the information obtained, most of the indigenous CBO leaders consider that they are acting on behalf of the communities and therefore are accountable to them with regard to all their activities. The respondents further added that reports about executed projects are presented at community meetings and new projects must also gain the approval of the community before they are executed. In this regard, respondents pointed out that there is a mechanism to ensure the accountability of the indigenous CBO leaders to a community. According to them, beyond the project level, an accountability mechanism is also provided to the GA. However, the effectiveness of the General Assembly differs in various indigenous CBOs, depending on the membership size, leadership structure and purpose of origin.

Information Asymmetry: Principal-agent theory holds that there is always a problem with the delegation of tasks and responsibilities. This problem arises because the agent has full information and may use this advantage to act in pursuit of his/her own benefit (Meier and Waterman 2002). This situation is termed *asymme-*

try of information. Two major types of information asymmetry exist, that is, adverse selection (hidden information) and moral hazards (hidden action). With the objective of measuring the level of information asymmetry within indigenous CBOs and the community, respondents were asked how the elections of indigenous CBO leaders and the monitoring of their performance are carried out. According to focus group discussions with the community representatives and group of elders, the election process of indigenous CBOs, in most cases, is based upon the previous social behaviour, character and track records of the candidates. Discussion with the women's group revealed that the former leaders of Yegubre Zerro Annd Iddir³ refused to leave their leadership positions at the end of the first term. They added that few former leaders of Mahiber also displayed similar behaviour by refusing to leave their leadership positions at the end of their term. According to the view of respondents, such behaviour might be an indication of hidden information (moral hazard) held by the former leaders of the abovementioned two indigenous CBOs. These examples of hidden action could have been the result of principals (the community) not being fully knowledgeable about the preferences or interests of their agents (indigenous CBO leaders) before the contracts were made.

Only 2.2% of respondents from the community pointed out that they did not know the detailed cost breakdown and the real value of a small bridge constructed in the Buchicha community. According to them, this is because they do not understand the costs of the project due to their inappropriate financial skills. On the other hand, the leaders of the indigenous CBOs have more information on the type and costs of the project. Respondents also pointed out that those indigenous CBO leaders might have used this hidden information for their personal benefit. However, during the discussion, no evidence was reported that might indicate that the agents (indigenous CBO leaders) did not faithfully pursue the responsibilities entrusted to them by the community. The above empirical evidence demonstrates that the community exercises significant control over the indigenous CBO leaders. This shows that the level of information asymmetry has been very limited, or has not been exploited by the leaders yet for other reasons, such as respect for the community norms,

culture and values of the community, as well as accountability. According to principal-agent theory, delegation of authority includes the risk that the agents (indigenous CBO leaders) may not faithfully pursue the principal's (community) interests. Despite the theory, it is clear that there is currently no empirically proved evidence of agency problems between indigenous CBOs and the community in Gubre. Rather, the level of trust, co-operation, reciprocity, mutual understanding and high level of acceptance is common in the case study area.

Decision-making Processes: In order to understand and analyse the level of informal contractual relationships versus decision-making processes within indigenous CBOs and the community, respondents were asked how involved the community had been in discussing and deciding major directions and activities. The analysis of informal contractual relationships versus decision-making processes was undertaken by using indicators such as *election processes*, *regular meetings* and *community participation in project identification*.

Election Processes and Regular Meetings: Based on the information obtained from the community meeting, decision-making processes within most indigenous CBOs are carried out with genuine and active participation of the community in all affairs. In most cases, members of the indigenous CBOs have the right to elect and to be elected every three years. During the election processes of indigenous CBO leaders, the following major points are usually considered. Representatives may not have financial interests or business dealings with the indigenous CBO on which they serve. Representatives may not accept any valuable gift, whether in the form of service, loan, object, promise, or in any other form, from any other person. A representative may not use, or attempt to use, his/her position in the CBO to obtain financial gain, contract, privilege or other private or personal advantage, directly or indirectly, for himself/herself. For example, in the organisational structure of most indigenous CBOs, the supreme organ is the General Assembly. The General Assembly is responsible for the approval of plans and budgets, whereas the Executive Committee members are responsible for the management of the indigenous CBOs' routine activities. A decision to remove an indigenous CBO leader from the leadership position is based upon the decision of

the General Assembly. In most indigenous CBOs, in every six months, the executive committees of the indigenous CBOs present an activity and financial report to the General Assembly. Usually, the report is presented orally.

Experiences of most indigenous CBOs in the community also indicate that any type of decision is made through discussion among the members. More than 96.5% of the respondents agreed that there is active involvement of the community in the problem identification and planning processes of any development activities initiated by the respective indigenous CBOs. However, some members had varying ideas about how to best expand upon current levels of participation, especially with regard to the involvement of women in the decision-making process of indigenous CBOs. The analyses of decision-making processes, using indicators such as *elections* and *regular meetings*, clearly show that there is a close link between indigenous CBOs and the General Assembly. In general, it seems that the level of accountability and transparency between the two interrelated organs, namely indigenous CBOs and the community, are strong, as demonstrated by the frequent interaction between them.

CONCLUSION

The main purpose of the project on which this paper is based was to investigate the informal contractual relationships between indigenous CBOs and the community in terms of delegation, responsibilities, rights, rules of function, sanction mechanisms, information asymmetry, leadership structure, accountability, transparency as well as decision-making processes. Analysis of the findings from this research showed that indigenous CBOs have informal types of rules of function, which are based upon trust, norms and cultural values. These rules of function are unwritten. Moreover, the sanction mechanisms for controlling inappropriate behaviour among CBO leaders are very strong and could lead to ostracism from the community. In the institutional structure of most indigenous CBOs, the most influential and supreme organ is the General Assembly. The results of the study also indicate that indigenous CBOs have accountable and transparent leadership structures. Furthermore, bottom-up planning procedures are in

place within indigenous CBOs in the Gubre community. However, empirical evidence demonstrates that existing power structures do not necessarily enable the community members to identify and control hidden information (adverse selection) of the leaders of indigenous CBOs. In addition, in the context of the case study community, evidence of agency problems has thus far not been recorded.

RECOMMENDATIONS

Based upon the above findings of the research, the following recommendations are provided to inform and inspire policy makers, regional governments, the Gubre community and other development actors in Ethiopia to further refine roles and responsibilities between principals and agents, as defined through principal-agent theory.

Firstly, it is recommended that all development actors (NGOs, GOs and DAs) in the area should be able to take the advantages of working together with indigenous CBOs and should endeavour to establish a positive working relationship with indigenous CBOs.

Secondly, it is recommended that the existing rules of function and sanction mechanisms between indigenous CBOs and the community should be encouraged and further strengthened, perhaps, through frequent discussions on issues and ideas at the community meetings. Further attempts should also be made by the CBO leaders to work together with the traditional leadership structures, such as Serra.

The *final* recommendation, based on the findings of this study, is that the both regional and local government actors should issue a conducive policy framework and operational modalities by stating the clear role of indigenous CBOs and all stakeholders in the development endeavours at the community level.

NOTES

1. Iqqub is a rotating saving and credit association. It functions as a local lottery system where people contribute a fixed sum of money and lots are drawn periodically.
2. Serra is a council that consists of a group of traditional elders. Its members are very influential and their orders have to be obeyed by the community.
3. One of the indigenous CBOs in the Gubre community.

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