

**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.