

Corruption and decentralization: Strengthening Capacity for Local Governance

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Abstract

Papers have appeared in the literature which state, variously, that decentralization is linked to preventing or reducing corruption; that decentralization increases corruption and several points of view in between. This paper is a review of the literature, concluding that capacity development and follow-up support for management are variables that help determine what the actual relation will be between corruption and decentralization. Three relevant examples are provided.

Keywords

Capacity, corruption, decentralization, sanitation, water

Introduction

Decentralization can refer to transferring responsibility for planning, management, and resource-raising and allocation from the central government to lower levels. It has many different dimensions: political, administrative and financial. (Bardhan, 2005; Kolstad, 2006). The impulse behind decentralization was the vision that decision making could be pushed to the lowest possible level where peer monitoring could take place and where people could more directly control agents (Dethier, 2004; Stiglitz 1999). One example of this is provided by Foster et al (2001) who analyzed data sets for approximately 250 villages across India over the past 18 years. Investment patterns changed in villages that had a higher proportion of poor who began participating in local elections. In these areas, local public spending increased for roads—which provide employment to the poor-- while public allocations to irrigation, which largely benefits land-owning farmers, decreased.



Another example of the effect is of decentralization comes from Bolivia. Between 1991 and 93, about 73% of all public investment in Bolivia was for transport, hydrocarbons, energy. After the decentralization in 1994-5, about 79% of all municipal investment was for education, urban development and water and sanitation. These shifts appear to be related to local needs and were driven by the actions of Bolivia's 250 smallest, poorest municipalities investing newly devolved public funds in their highest-priority projects (Faguet, 2002). However, the change in investment patterns caused by decentralization did not seem to be accompanied by a reduction in corruption. Bolivia ranks 117 on the Transparency International Corruption Perception

Index and the World Bank website reports that there remains widespread public disenchantment with corruption in the country (www.worldbank.org/bo).

Corruption is usually defined as the abuse of entrusted power for private gain. It is not only the giving and taking bribes or the use low quality materials in construction. It may include problems such as political corruption, where special groups capture preferential treatment such as for water services or connections at expense of intended, more deserving people.

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What are the links between decentralization and corruption?

The classical argument in favour of decentralization (Tiebout, 1956; Wolman 1990; Fisman and Gatti, 2002; World Bank²) is that local governments are more accountable for their decisions and actions. This happens, the thinking is, in two ways. Decentralization reduces corruption because of political accountability where citizens in a local area can decide whether to re-elect a government. The other way in which decentralization reduces corruption is through so-called 'competitive jurisdictions' where one local government will not be extortionate in order to prevent people and businesses from moving to other, better governed areas.

These classical arguments, which were not always evidence-based, have come under attack (Nupia, 2005). For example, Ivar Kolstad et al. (2006) say that being close to or part of the community is not sufficient for local governments to be held accountable. Decentralisation by itself is not a sufficient condition to reduce corruption or poverty. Some researchers such as Jean-Paul Faguet (1997) argue that decentralization can open the door for local elites to play a disproportionate role in the planning and management of projects.

The debate about decentralization continues, in part because the linkages of decentralization to accountability and corruption are complex and context-specific. Thus, part of the ambiguity came from fact that much of the early literature on decentralization combined data from very different settings. Much of the research did not distinguish between industrialized and low-income country settings. In low-income countries the literature related to large regions or state governments while much of the decentralization has occurred at the lower level of government, the municipality, small town and village (Bardhan, 2005). Although decentralization, transparency and corruption are contextual, the research has been aggregated and rather general.

Decentralization and equality

However, the literature and research on the effects of decentralization are becoming more subtle with realization of the importance of the specific context. For example, how does one explain that decentralization led to rapid economic growth in China in the 1980s, but seemed to retard it in Russia in the 1990s? One author hypothesizes (Barhan, 2002) that the difference is in part due to the lower levels of inequality in China at the start of the transition in the early 1980s, compared to the higher levels of inequality in Russia in the early 1990s.

Also investigating context and inequalities, research by Oscar Nupia (2005) concluded that it tends to reduce corruption in industrialized countries but increases corruption in low income countries. Why is this? The conditions needed for transparency and preventing corruption, he states, are weak: weak flow of easily understood information, local elite control of politics, lack of open and broad-based participation as candidates or voters in elections, lack of competition and mobility. Thus, it is said that the elite *captures* local government or water services... as they have more power and more finance (Nupia, 2005). Without safeguards, potential benefits of decentralization evaporate, especially for the poor.

The importance of intra-community equality or inequality on the distribution of benefits from decentralized programmes was noted in research from other sectors many years ago. For example, the careful research in 1981 into the dissemination of benefits from the green revolution in Asian villages by Yujiro Hayami and Masao Kikuchi showed that benefits of green revolution did not reach the poor where land ownership was very skewed and power structures more unequal. The importance of socio-economic equality has also been reflected by other writers such as Bardhan (2003), Galasso (2005), Nupia (2005). Some of their discussions are reminiscent of traditional Marxist analysis.

Inequalities in social and economic relations make it more difficult for the powerless to hold the powerful accountable. Those of us interested in capacity building for effective community management need to

² For example, see among others on the World Bank websites:

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPUBLICSECTORANDGOVERNANCE/EXTDSE/E/0,,menuPK:390249~pagePK:149018~piPK:149093~theSitePK:390243,00.html>

deal with this issue. Capacity, tools and mandate to apply new skills need to be in the hands of the less powerful, for example, the poor and the women who fetch water in the community.



India Daily, 2006

<http://www.indiadaily.org/entry/what-is-right-to-information-rti-act/>

Water and sanitation sector

Type of decentralization

The type of decentralization and the way decentralized programmes/projects are organized can avoid or create problems. It can accentuate or reduce inequalities. The way decentralization occurs can increase or reduce opportunities for corruption. The rules and methods are important. Here are three examples:

Matching funds/contributions: In many water and water programmes, local government or user are required to contribute matching funds or make payments as a pre-condition to accessing funds from central government or donors. An example from research in Tanzania showed that this requirement for matching funds led local government to increase its effort to tax through oppressive collection methods, often with violence or extortion enforcement (Kolstad, 2006). Observations in India showed examples of where the local elite captured water points, or extorted money, by advancing matching funds on behalf of poorer people who were required to make advanced payments/ contributions in order to be eligible for government subsidies. In these cases fiscal decentralization created situations that were less accountable and less pro-poor.

Decentralizing expenditure only: the converse of the preceding case appears where revenue collection is not decentralized but expenditure is. In this case district or local government receives transfers from central government but is not publicly (transparently) accountable for the use of these. Funds can sit unused in bank accounts or are deployed in ways not intended by these centrally designed schemes. (Kolstad, 2006). A related problem can occur when there are too many strings attached so that the decentralization is more in name than in reality. For example, some central governments or donors 'dump' money, insisting that it be spent in intervals that are too short for under-capacitated local institutions.

User charges at point of use: A third example illustrating the importance of decentralizing in the right way is revenue collection, specifically, user fees at public water points. Standard user fees (example: 20 cents per container or jerrican) may be inappropriate for financing anti-poverty programmes as some groups either do not have the ability to pay or will restrict their use of safe water below the quantities that are usually considered the minimum requirement for health and hygiene. There has been far too little capacity building of local government focusing on how to set water rates as well as too little research about consumer behaviour to different charges at the water point in different contexts.

Water: measuring decentralization and corruption

The full extent of corruption in the water sector is not known, although the small amount of information available indicates corruption is very prevalent in both centralized and decentralized situations. For example, in their study of water utility companies in Africa, Estache and Kouassi compared productivity among 21 water companies in Africa and found that nearly two-thirds of their operating costs were due to corruption (Estache, 2002). In an Indian case studies of centralized serviced providers (public health engineering departments and water authorities), Davis (2004), in case studies, showed that these institutions regularly spend 20% to 35% more on construction contracts than the value of the services

rendered; have a substantial proportion of their resources diverted by staff for other staff, contractors and politicians; and provide services free of charge to hundreds or thousands of illegally connected households.

Asthana (2004) in an interesting study found that centralized service providers appeared to be less corrupt than decentralized (local government) water services in India surveyed 30 households in each of 200 water schemes using semi-structured interviews. Rather large proportions-- 51% in decentralized and 41% in centralized – stated that they had paid a bribe to an employee of the water utility during the past one year for in relation to the water bill, or concealment of connection or other purposes. The decentralized service appeared to be more subject to corruption (significant difference at 99% level).

Capacity, decentralization and corruption

One key lesson in the decentralization debate is the importance of local level capacity (leadership, transparent management and staff competencies) which if lacking will invite inefficiency and corruption (Bailey, 2003). Decentralization has to be accompanied by strong measures to promote transparency. One of the main measures is capacity development. In general the different stakeholder groups-- rich and poor, governmental and non-governmental-- need the capacity and must be positioned to use that administrative and technical capacity to prevent corruption (IMF study by Dabla-Norris and Wade, 2002). Thus, existing systems (and in a few cases totally new systems) need to be improved so that it becomes far less appealing/more dangerous to be corrupt and far easier/more appealing to be honest. To example, to limit the opportunities for “cream skimming” and collusion, the procurement, tendering and construction processes need to be opened up. This will require capacity development. Even though the relations between decentralization and corruption and accountability are difficult to map out scientifically or in great detail, there is considerable agreement about the approaches and tools that can increase accountability and transparency while preventing and reducing corruption. Broad categories of approaches and tools such as those shown in this box are usually named (Bardhan and Mookherjee, 2005; Kolstad, 2006; Plummer, 2006; Shordt, 2005); and capacities need to be built to activate each of these:

Tools and approaches to prevent and fight corruption in the water and sanitation sectors

Information and transparency:

- Local government provide simple information about finance, allocations, planning to the public, dialogue and listen to the responses of the public, regular meetings to account for project funds;
- Publicize or display/distribute information anti-corruption activities and financial transactions posted in public places in village;
- simplify financial formats so that they can be understood easily;
- Publish fund transfers;
- Programme rules should be available and known for dates/criteria for transfer of funds, for construction, also for collection and spending of local revenue.

Range of products/services:

- Learn how to provide a more competitive and broader service delivery framework through multiple providers, technologies, etc. Limit monopolies.

Accountability and monitoring

- Social/economic *mapping* showing who is served/not served;
- open *complaints systems* with capacity to react quickly to complaints;
- *extra checks*: all financial transactions at least 3 signatures; at least 3 quotations for a tender;
- upward accountability such as *supervisory visits and social, physical, financial audits*
- *monitoring and audits*: quality of construction, financial, physical and social audit

Participatory planning, budgeting and monitoring including involvement of institutions that have good

track-records in programming, even if their work is outside the sector. Monitoring by community, civil society organization and professional auditors.

Capacity to *take disciplinary action* or stop programme/service when there are problems of honesty/corruption. Immediate suspension of personnel or project when problem occurs.

BOTH monitoring by citizens and civil society should go with, not only replace, formal auditing mechanisms. However, care is needed because the same tools and approaches may have somewhat different results in different contexts. Kolstad (2006), for example, contrasts results of public information campaigns and local monitoring in Uganda and Indonesia. In the well-known case in Uganda, only 13% of the educational grants from the central government to the district government actually reached the schools in the mid-1990s and corruption was one of the reasons for this. An information campaign in which grants awarded to schools were published in newspapers substantially reduced the leakage, particularly where schools were closer to the newspaper outlets. On the other hand, increasing the community monitoring of 600 village road projects in Indonesia improved labour expenditures but did not reduce corrupt practices in procurement or improve the quality of materials used. Trials, experiments, action research—each a form of capacity development-- are needed as we can not always predict the results of similar interventions in different situations.

Capacity to prevent corruption

Every one of the actions noted in the preceding section – and testing their impact in specific situations -- requires an investment, in time, personnel and/or finance. Each requires support for capacity to develop the needed skills and mandates for action. Too often capacity, management, monitoring, setting up systems are non-funded mandates. Each needs to be funded and, in itself, have the needed capacity support in the form of training, regulations, personnel to stimulate or led action and so on. Capacity building is central to applying these approaches and tools. People do not just ‘know’ how to check and ensure transparency and good governance. They need the skills and positioning to use those skills. For this, local government, line agencies, civil society institutions and the public need enormous support to improve levels of transparency and accountability, listing these types of inputs.

Often small but targeted inputs to capacity are helpful. For example, to establish complaints systems, users need to know where and how to complain, how to describe the

problem in a clear, unambiguous way and where to refer complaints if there is no reaction from the first line recourse. Those receiving the complaints need to be able to act rapidly (skills, mandate, and transportation) and/or refer the complaints to those who are in a position to take immediate action. These bottom-up and top-down lines need to be planned and capacitated to act.

Capacity development for good governance goes far beyond training. It includes a regulatory framework. Davis (2004) notes that managers, institutions and the public must also be capacitated to punish or seek punishment for corrupt behaviour. She notes, in her study that personnel management tools such as merit-based promotions and raises, as well as demotions and dismissals, were not essentially available to supervisors. Fewer than 2% of management staff interviewed could describe a single instance of suspension, dismissal or withholding of salary for an employee in his/her institution in the year prior to his/her interview.



Legal framework supporting action and use of capacity

The Parliament of India gives Indians the power to ask officials about almost anything through legislation called the **Right to information act**. The questions of national security, cabinet papers and information protected by the courts are exceptions. You can avail information from the officials about the progress of applications for a passport, driving license, voter's ID card, water and electricity connections for a fee of 10 rupees (about US\$0.15). The law has the provision that if you do not get a reply to an RTI application within one month, you may file an appeal in the court. If another thirty days are gone with no information, the concerned official might be fined 250 rupees per day. The fine may go up to a maximum of 25,000 rupees. That money would be deducted from the concerning official's salary. A penalty of up to 25,000 rupees might be imposed in case of providing the false or incomplete information

(excerpted from India Daily) <http://www.indiadaily.org/entry/what-is-right-to-information-rti-act/>

In conclusion, we have examined evidence about some linkages among some large issues: decentralization, corruption and capacity development. The table in Appendix 1 provides an example of a successful sanitation programme that linked all three imperatives. This was a community-NGO-managed sanitation programme in the state of Kerala, southern India which succeeded in preventing corruption and ensuring honesty in a programme which eventually served about 200,000 families. The tools and approaches were: open access to information and knowledge; monitoring or extra checks by different groups in community, agency and local government; enabling action to be taken at the lowest level possible, with provision for upward referral of complaints when there are problems. One major element of this was putting time and resources into participation and capacity building for all these groups of people involved. This was the major element in software expenditure, far greater than mass activities, publications and standard IEC. Thus preventing corruption and ensuring good governance in this project had costs in terms of training, time and additional effort to ensure real participation. Interestingly the result of this overall approach was to ensure credibility of the programme and reduced construction costs by 50% to 75% below other funded programmes. Note, however, that the program described in this case study was first developed before 1995, a long time before corruption was officially recognized as a problem on international agendas. This illustrates the important point that many tools and approaches are known. This challenge does not appear to be how to invent new approaches. The challenge – which is being put before you, the reader-- may be to examine the political and institutional road-blocks that seem to be stopping our sector from applying its own known best practice for community management and capacity development on a much wider scale.

APPENDIX 1: Kerala sanitation programme

This table shows the tools that were used to ensure transparency and prevent corruption in the community-managed sanitation programme in the state of Kerala, southern India³. On the left are indicators. The right-hand column describes the tools that were used and action taken to resolve problems. Many groups were involved: local government, the NGO, voluntary water and sanitation committee, householders, suppliers and masons. Up to 1995, about 60,000 toilets were completed and about 200,000 to present. The program was largely pro-poor in focus and included promotion of hygiene behaviours.

Indicators	Tools and activities
<p>Communication and mobilisation At least one person in each household knows the main rules of the program.</p>	<p>Rules are known Committees and NGO staff make transect walks through the community. They ask at some houses what is known about the programme and its rules. Action if there is a problem: More mobilisation activities.</p>
<p>Coverage, access All beneficiary households are poor. They fit within agreed poverty criteria such as: own less than 1/2 acre land, handicapped person in household, etc.</p>	<p>Socio-economic mapping Committee members and field workers make a map showing all houses (richer, middle, and poorer) in the neighbourhood. Action: Programme can not start until map is made. Committee members and field workers identify poor beneficiary families and sign an agreement with each. Action: Programme can not start until agreements are signed. Problems are referred to senior NGO staff Public posting of those eligible for subsidies: The list of families eligible for subsidies is posted for two weeks in public places to allow for public complaints. Action: Complaints are referred to committee, NGO and local government. Local government must approve list.</p>
<p>Government contribution Local government pays 15% to 25% before programme begins</p>	<p>Contract agreed to and signed between local government and NGO. Local government must deposit its contribution before programme begins. Check is made of bankbook. Action: programme cannot start until local government contributes. Joint signatories on bank accounts: One NGO staff member and local government administrator are <u>joint</u> signatories on bank account.</p>
<p>Costs and payment Construction cost is lowest possible for that area</p>	<p>Public estimation of costs and construction time Two to three demonstration latrines are constructed with careful costing to show all materials, labour, time needed for construction and overheads. Local masons are trained during the construction of the demonstration latrines. Action: No latrine subsequently built can cost more than planned. Staff refers problems to NGO leaders.</p>
<p>Finance + construction rules Local government, masons, suppliers, storekeepers, families follow rules for</p>	<p>Local tendering controls: The least expensive materials of good quality are purchased. At least three tender bids are sought for materials such as sand, cement, bricks. Tenders are selected and signed</p>

³ Shordt, Kathleen. (2000) "Action monitoring for effectiveness: improving water, hygiene and environmental sanitation programmes", Delft. IRC: The Netherlands.
<http://www.irc.nl/content/download/23445/267725/file/Part%20II.pdf>. Kurup, B.K. et al. (1996) "The community-managed sanitation programme in Kerala: learning from experience", Delft, IRC: Netherlands, Project and programme papers no. 4E.

<p>payment, purchase and transport rules honestly</p>	<p>by three people from the committee or local government and NGO staff. Spot checks: Senior staff and committee members spot check the prices of vendors in that area. Action if something wrong: Materials are returned, money refunded, supplier is not used again or programme is stopped.</p> <p>Spot checks: Spot checks by staff (at least once every two months) to check receipts, storehouse, tenders, household receipts, government records. Action: Problems are referred to NGO + local government leaders. Programme is stopped if there is dishonesty.</p> <p>Independent audits: Surprise independent audit is done at least once in each area. Action: Bad audit results are referred to local government staff, NGO, to public. Programme stops. No money released until situation improves.</p>
<p>Families pay At least one-half of the poor households apply and pay 25% contribution before construction</p>	<p>Poor families: Committees and staff count low-income households from map. Local government records family payments + give lots of time for poor families to pay by instalments. Action: No payment, no construction. The families who are too poor (fewer than 5%) are served at end of programme.</p> <p>Signed receipts Mason can not construct until he has seen initialed family receipt showing payment.</p>
<p>Construction Construction quality is good. It follows agreed specifications</p>	<p>Checklists held by stakeholders Construction checklist used by all groups (masons, supervisors, committees, families). Checklist has simple drawings. People are trained in how to use it. Action: If complaint is valid, repair is made at no cost. Sometimes the mason is not paid or is blacklisted.</p>
	<p>Signatories on receipts: Mason and supervisor can not begin construction without first seeing attendance card for education meetings. Also spot checks by supervisor. Action: They must sign attendance card to get payment.</p>

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