

Decentralisation and corruption

A review of the literature

Odd-Helge Fjeldstad

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Preface

The objectives of this literature review are to organise current knowledge of decentralisation and corruption, to discuss the major controversies within and across disciplines, and to identify some areas in most need of further research, with an emphasis on questions relevant to development policy. It has been compiled from a number of sources: from books and articles, library searches, internet sources (such as *Transparency International* and the *World Bank* bibliographies), and from conferences and colleagues. Special thanks to the CMI librarians for their assistance, and to the *Utstein Anti-Corruption Resource Centre* (www.U4.no), which commissioned the study.

The study, which was conducted in July 2003, focuses on academic research. While a survey of the output from public service reform secretariats and consultancy reports would be useful, they are not covered here. Moreover, to make the survey accessible to a multidisciplinary readership, efforts have been made to present the more abstract and technical research in a non-technical way. In spite of its limitations, we hope the review will be considered useful by researchers, development practitioners and aid officials.

1 Introduction

Decentralisation has become an important theme of governance in many developing countries in recent years (Fukasaku & de Mello, 1999; Manor, 1999; World Bank, 1999; Shah, 1998; Crook and Manor, 1998). As a consequence of much dissatisfaction with the results of centralised economic planning, reformers have turned to decentralisation to break the grip of central government and induce broader participation in democratic governance (Olowu, 2000; Smoke, 1994; Wunsch & Olowu, 1990). Being closer to the people, it is assumed, local authorities can more easily identify people's needs, and thus supply the appropriate form and level of public services (Enemuo, 2000; Rondinelli *et al.*, 1989; Oates, 1972). In turn, it is argued, communities are likely to be willing to pay local taxes when the amounts they contribute can be related more directly to the services received (Livingstone & Charlton, 1998; Westergaard & Alam, 1995). A commitment to decentralisation has also become an important element of donor supported anti-corruption strategies, due to expected improvements in the accountability of the state and reduced discretion available to bureaucrats (World Bank 2000).

Decentralisation refers to administrative changes which give lower levels of government greater administrative authority in delivering services (Khan, 2002). Devolution involves, in addition, changes in political institutions, so that electors vote for representatives at lower levels of government who in turn have effective control over lower level bureaucrats involved in service delivery. The electorate are the consumers of government services, and are supposed to elect and put pressure on politicians to translate their demands and requirements for services into policy. Politicians, in turn, are supposed to monitor and control the bureaucrats to ensure service delivery. The role of government in this perspective is to deliver the services that the public, collectively and democratically, want.

If the state is primarily there to deliver services for people, decentralisation, and in particular devolution, will, arguably, improve accountability and governance by bringing government closer to the people. This will make it easier for the latter to monitor and discipline the state. Hence, it is assumed that service delivery will improve and corruption will decline. Nevertheless, both the approach and the results of decentralisation have varied widely between countries (Smoke & Lewis, 1996). Thus, Oates (1998) argues that the case for decentralisation has often been made in a very general and uncritical way with little systematic empirical support. In recent years, these observations have led reformers and researchers to question how sensible decentralisation strategies are for the real situations in which they are applied in developing countries. For instance, to what extent – and under what conditions – can we expect that increased local autonomy will improve the efficiency and responsiveness of the public sector? How effective are the processes of decentralisation and devolution in communicating the real interests of the citizens? To what extent are these processes controlled by privileged groups within local communities? Under what conditions is it expected that local politicians will be more likely to be able to control local government bureaucrats in the public interest, and less likely to direct them or collude with them to benefit sectional interests, compared to national politicians and higher level bureaucrats? Are local officials, through sheer proximity, more accountable for their performance? Is corruption lower and welfare (i.e., service delivery) higher in poor countries that have devolved and decentralised their political and administrative systems?

The purpose of this study is to assess the 'state-of-the-art' in the international literature on decentralisation and corruption. The main objectives of the study are to organise current

knowledge on decentralisation and corruption, discuss the major controversies within and across disciplines and to identify some areas in most need of further research, with an emphasis on questions relevant to development policy. Thus, the study is organised as a literature review, extracting and commenting on the core elements of and major areas covered by these studies in anthropology, economics, law, and political science.

The report is organised as follows: A quantitative assessment of the literature on decentralisation and corruption is given in section 2. Section 3 provides a qualitative assessment, which distinguishes between the findings of the theoretical and empirical literature, respectively. Finally, section 4 concludes by identifying some immediate needs for policy relevant research. Appendix 1 provides an annotated bibliography of the core literature reviewed, including the findings of the individual studies and the theory/methodology applied.

2 Quantitative assessment of the literature

Ten years ago research on corruption was a small field. Currently, however, a large number of articles and reports are published every month. This development partly reflects an increased public concern with the problem. Furthermore, at least in the case of economics and political science, it reflects internal changes in the analytical approaches and tools of the disciplines, combined with access to new data that has made corruption a researchable topic. As a result, it has also made it easier to carry out a 'survey on corruption research'. On the other hand, it has become a more demanding task because of the sheer bulk of readings proliferating in all kinds of thematic and intellectual directions.

However, while the literature on corruption has boomed, relatively few studies have been carried out that explicitly focus on the linkages between decentralisation and corruption. For instance, a search in *Econlit*, one of the most comprehensive databases of indexed publications, came up with only 20 references to decentralisation and corruption for the period 1991 - June 2003. *ISI Web of Knowledge*, which is the major multidisciplinary database of bibliographic information gathered from thousands of scholarly journals, came up with 10 hits on 'decentralization and corruption' and 6 hits on 'decentralisation and corruption' for the period 1955 - 2003. However, few of these references dealt with linkages between decentralisation and corruption in developing countries (2 and 1 reference, respectively). A search in the *JOLIS Library Catalogue* of the World Bank and the IMF identified 16 publications under the keywords 'decentralization and corruption', of which several hits did not deal explicitly with corruption. Moreover, *ELDIS*, a base specialising in development information, came up with only 10 hits on 'decentralization and corruption' and 7 hits on 'decentralisation and corruption'. Several of these studies focused only on decentralisation and others only on corruption, not on the combined issue.

The picture above, with relatively few scholarly publications having explicitly studied linkages between decentralisation and corruption, is reflected in the widely used volume *Political Corruption. A handbook* edited by Heidenheimer *et al.* (1997). None of the articles included in the book deals explicitly with decentralisation (one article focuses on village friendship and patronage in rural Greece in the early 1960s). The comprehensive four-edition volume on *The politics of corruption* edited by Williams *et al.* (2000) contains only two articles on corruption directly linked to local authorities: (1) The 'Oslo' scandal in the late 1980s; and (2) corruption in canal irrigation in South India in the early 1980s.

An extensive search in various databases, libraries, the internet etc., carried out as part of this study in July 2003, identified 41 publications analysing decentralisation and corruption (see table 1 and appendix 1). This also includes some studies of corruption where decentralisation is not the focus, but which includes it as an explanatory factor on the extent of corruption perceived in various countries (e.g., Treisman, 2000b). It should, however, be underlined that this review does not include consultancy reports and ‘grey publications’ in which decentralisation and corruption might be an issue discussed, but where policy recommendations are often not founded on empirically robust and knowledge-based insights.

Table 1 Categorisation of publications on decentralisation and corruption

Discipline	Theoretical studies	Reviews	EMPIRICAL STUDIES				Sum
			Cross-country regressions	Econometric studies in individual countries	Case studies	Assessment of what work or not	
Economics	9		6	3	2	4	24
Political science		1	3		1	2	7
Social anthropology					3		3
Law					2	1	3
Management/multidiscp.		1			2	1	4
Total	9	2	9	3	10	8	41

Source: Compiled by the author based on appendix 1

Table 1 shows that economists have produced the largest number of publications on decentralisation and corruption. This applies to both theoretical and empirical research. A major share of the empirical research on the issue in both economics and political science is cross-country regression analysis. These aggregate studies naturally lend themselves to the study of macro-determinants and the effects of corruption (and vice versa), and exploit data on corruption derived from perception indices (most commonly Transparency International’s CPI). A few detailed case studies have been carried out in various disciplines, including (institutional) economics, social anthropology and law. The most influential of these are Robert Wade’s research on corruption in canal irrigation in South India, carried out in the early 1980s (Wade, 1982). These case studies contributed to the rejection of the broad generalisations and assumptions made in the then current literature. Moreover, Wade’s and other case studies listed in appendix 1 have proved to be of great merit for policy makers. Finally, 20% (8) of the publications listed are assessments of what does or does not work. Some of these studies are highly relevant and well written (e.g., Prud’homme, 1995; Tanzi, 2000b), but to some extent they also present personal perspectives on the issue.

3 Qualitative assessment of the literature

This section provides a brief review of published research on decentralisation and corruption. The assessment of the literature starts out with a review of the theoretical literature, followed by a discussion of empirical research and findings. Reflections on the policy relevance of the reviewed literature conclude the section.

3.1 Theoretical studies and reviews

3.1.1 Impacts of decentralisation on corruption

In recent years, several theoretical models have been developed to explore the question of whether decentralisation will lead to more or less corruption. Although this literature has contributed to highlighting some of the important variables, the theoretical studies point in different directions and provide no clear-cut conclusions on the linkages between decentralisation and corruption. For instance, according to Breton (1996), competition between levels of government will lead to less corruption related to the provision of public services for which officials can demand kickbacks. This view is supported by Weingast (1995), who argues that a federal state structure contributes to more honest and efficient government by providing for competition between sub-jurisdictions. In an influential theoretical paper, Shleifer & Vishny (1993) suggest that states with a very centralised institutional structure and those with a very decentralised one may suffer less from the damaging effects of corruption than states with an intermediate level of institutional centralisation.

By contrast, some researchers argue that 'decentralised political systems are more corruptible, because the potential corrupter needs to influence only a segment of the government, and because in a fragmented system there are fewer centralised forces and agencies to enforce honesty' (Banfield, 1979: 98). James Manor (1999:101), in his book *The political economy of democratic decentralization*, argues that decentralisation 'is always attended by an increase in the number of persons who are involved in corrupt acts', although this need not imply that the overall amount of money diverted by corrupt means increases. Some economists have also suggested that corruption may be greater at the local level. Prud'homme (1995: 211), for instance, argues that there are probably more opportunities for corruption at the local level. Firstly, local officials usually have more discretionary powers than national decision-makers. Secondly, local bureaucrats and politicians are likely to be more subject to pressing demands from local interest groups in matters such as taxation. Tanzi (2000a) supports these views.

This view is also supported by recent theoretical work, founded in incentive (principal-agent) theory, which explores the impacts of decentralisation on corruption levels. Carbonera (2000) argues, for instance, that more decentralisation has a 'positive' impact on corruption, raising the individual's propensity to accept bribes. It has also, according to her model, a twofold effect on incentives to monitor corrupt activities by higher levels. Firstly, it causes a loss in control, reducing the higher levels' willingness to monitor. Secondly, it also increases the bribe paid to lower levels, enhancing their propensity to corruption and raising higher levels' monitoring.

3.1.2 Capture of local governments

Mismanagement of resources and corruption are two acute and well-documented problems facing the delivery of public services in developing countries. Many studies have attributed this to an important incentive problem within the centralised bureaucracies that have traditionally been entrusted with delivery: namely, the limited ability of governments to monitor local cost, needs or delivery levels, and the resulting lack of accountability of bureaucrats. In a series of theoretical papers Bardhan & Mookherjee (1998, 1999, 2000, 2002) argue that decentralisation is also prone to a number of potential pitfalls.

The presence of corruption leads to at least three important problems: targeting within and between communities (or local jurisdictions) and cost effectiveness. Bardhan & Mookherjee focus on two different kinds of public programme designed to highlight the nature of the issues involved. First, they consider a purely redistributive poverty alleviation programme. Here, the decentralised mechanism achieves better cost effectiveness. But it may be prone to greater targeting weaknesses, owing to the possibility of capture of local administrative machinery by the elite. However, in the presence of capture of local governments, there is a tendency for services to be overprovided to local elites at the expense of non-elites. The extent of such inefficient and inequitable cross-subsidisation depends on the extent of local capture and on the degree of fiscal autonomy of local governments.

Another kind of programme is the delivery of a private service whose production is subject to large fixed costs, such as irrigation services in rural areas. Here, the problem with central bureaucrats is that they charge bribes for delivering the service, and end up behaving like unregulated private monopolists. Expenditure decentralisation, on the other hand, is subject to a variety of alternative problems: (i) local capture by elites; (ii) local financing constraints; (iii) inter-jurisdictional conflict; and (iv) lack of adequate cost information or bargaining power of local government officials *vis-à-vis* service suppliers. Bardhan & Mookherjee show that any one of these problems can be severe enough to render the decentralised system inferior to the centralised. Hence, successful decentralisation initiatives need to be accompanied by appropriate institutions of local democracy and fiscal authority, and the allocation of authority to local government officials *vis-à-vis* other governments and service suppliers.

The comparison between centralisation and decentralisation is shown to depend on the relative vulnerability of national and local governments to capture by special interest groups, in addition to the characteristics of the service in question. Bardhan's & Mookherjee's major conclusion is that there is no *a priori*, unqualified verdict in favour of the decentralised system. Its success depends crucially upon the existence of an appropriate set of political and economic institutions. Moreover, they argue, decentralisation initiatives are more likely to succeed when accompanied by reforms that increase the scope of local democracy and reduce asset inequality.

3.1.3 Fiscal decentralisation and corruption

Fiscal decentralisation is partly justified by appeal to the classic argument of Tiebout (1956), who claimed that decentralised provision of public goods allows better fulfilment of diverse individual demands. Many observers, however, have expressed concern that the conditions justifying Tiebout's argument are not present in many developing countries. Brueckner (2000) analyses the consequences of altering Tiebout's model to include local corruption and tax evasion, which may exist in many developing countries. The theoretical model shows that these forces limit the benefits of fiscal decentralisation. By raising public-good costs, corruption cancels out some of the gains from better demand fulfilment, which arise as Tiebout sorting generates homogeneous local jurisdictions. By creating incentives for mixing and thereby preventing the formation of homogeneous communities, tax evasion may block the operation of the Tiebout mechanism. Hence, the gains from fiscal decentralisation are eliminated.

Bardhan & Mookherjee (2002) consider three different financing mechanisms for local authorities: (1) local taxes; (2) user fees; and (3) central government grants. With local tax

financing, they argue, there is a risk that the captured local government may resort to a regressive financing pattern, whereby the non-elite bear the tax burden of providing services to the elite (see section 3.1.2). Hence, restrictions on the ability of local governments to levy taxes may be desirable, even at the expense of reducing the flexibility of service provision for local needs. User charges, they argue, may be a useful compromise between the need for matching provision to local needs and avoiding an unduly heavy burden on the local poor. But user charges are, in general, inappropriate for financing anti-poverty programmes such as the targeted public distribution of food, education or health services. Such programmes are, by their very nature, targeted at groups that do not have the ability to pay for the service – or to pay the bribes to the bureaucrats. As far as central government grants are concerned, these may encourage local governments to claim higher local need or cost, leading to a restriction of the level of service delivery.

3.2 Empirical studies

3.2.1 *Impacts of decentralisation on corruption*

Empirical studies of the linkages between corruption and decentralisation in developing countries are relatively few. The existing literature can be categorised into (i) cross-country regression analyses, and (ii) case studies founded in economics, law, political science and social anthropology.

(i) *Cross-country regression analyses*

This literature has two features in common: (a) it exploits data on corruption derived from perception indices; and (b) it explains corruption as a function of countries' policy-institutional environment. These features are interlinked (see Reinikka & Svensson, 2002a: 2). Moreover, the use of cross-country data lends itself to the study of macro-determinants and the effects of corruption. Given the problems of collecting quantitative data on corruption, the use of perception data makes it feasible to study a large cross-section of countries. Some major contributions to this literature are reviewed below.

Treisman (2000b), using Transparency International's *Corruption Perception Index* (CPI) as the main dependent variable in the regressions, finds that federal states are more corrupt than unitary ones. In a follow-up study, Treisman (2000a) finds that states which have more tiers of government tend to have higher perceived corruption, and may also do a worse job of providing public services. He attributes this to the collective action problem for semi-autonomous central and sub-national officials in deciding how much to extract in bribes from businesses that both levels have the power to regulate (ibid. 440): 'Restrains by one [state] level merely increase the pickings of the other'. According to Treisman (p. 441), the likely result is sub-optimally high demands for bribes, which end up driving many private actors out of the market. In other words, competition between autonomous levels of government to extract bribes leads to 'overgrazing' of the commons. In contrast, in unitary states more effective hierarchies of control enable central officials to limit the extraction of sub-national officials to more 'reasonable' levels.

These results are supported by Goldsmith (1999). In a regression analysis which is also based on corruption perception indices, he suggests that federal or decentralised systems are not favourable settings because they make it easier to hide corrupt practices (or intimidate whistleblowers). Hence, the Tieboutian idea that decreasing the size of government units will

strengthen competition between governments for capital, and thus stimulating greater efficiency and honesty, is not supported. Countries with smaller first-tier jurisdictions tend to be perceived as more corrupt. If these interpretations are correct, caution must be raised in decentralising political power in poor countries that are susceptible to corruption.

By contrast, other studies provide quite the opposite conclusions. For instance, Estache & Sinha (1995), in cross-country regressions covering 20 countries with data for the period 1970-92, find a significantly positive effect of expenditure decentralisation on per capita infrastructure deliveries. The effect is stronger in developing countries compared to developed countries, and weaker when local governments rely more on central funds than on their own revenues. Gurgur & Shah (2000) find that decentralisation supports greater accountability in the public sector and reduced corruption. They also find that decentralisation has a greater negative impact on corruption in unitary countries than in federal states. For a non-industrial sample, they argue that drivers of corruption are a lack of service orientation in the public sector, weak democratic institutions and a closed economy.

(ii) Case studies

Several case studies discuss corruption at the local government level in various countries. Due to the limited number of studies which deal explicitly with this issue, this review also includes some cases from Western countries. Not surprisingly, this literature deals with many issues and points in many directions.

A 'classical' reference in the literature on corruption is James Wilson's (1966) article 'Corruption: the shame of the states', which refers to the United States. Wilson argues that one cause of the corruption in the US system is the need to exchange favours to overcome decentralised authority. In a more recent study, Mana (1999) examines the causes and characteristics of corruption at the provincial level in Papua New Guinea. It is argued that the 1995 decentralisation reforms only resulted in increased discretion among provincial governors ('grand corruption') as well as increased competition among NGOs, leading to enhanced pressure for corrupt practices ('petty corruption'). In response, the author pleads for an integrated approach, including an independent anti-corruption commission at the provincial level, combined with education and training of local officers. Contrary to the studies referred to above, Robert Wade (1997) finds that the over-centralised top-down structure of the system in India is largely responsible for corruption in the irrigation bureaucracy. In contrast, stronger communication and monitoring mechanisms in Korea may explain the better delivery performance relative to India.

Several case studies focus on the impacts of decentralisation reforms on corruption. Lydia Segal's detailed studies of the public schooling system in New York provide useful insights on how politically decentralised programmes are vulnerable to corruption. Segal (1997) identifies and analyses the structural features of decentralisation that invite, facilitate, and even 'necessitate' wrongdoing through a case study of the New York City public school system, where programme vulnerabilities have led to widespread, systemic corruption. She also makes detailed recommendations for ways to lessen these problems through institutional changes designed to curb corruption opportunities and reforms to strengthen deterrence without increasing burdensome rules and regulations. In a follow-up study, Segal (1999) discusses the recent trend of re-centralisation in the New York City public school system. She first analyses the justifications given for decentralisation and examines the corruption and poor school performance that resulted from the new system. She argues that while re-

centralisation efforts have attempted to combat these problems, the revamped system has also introduced the potential for new forms of corruption.

Some social anthropologists have explored why decentralisation reforms may not achieve the expected results of improved transparency and accountability. These studies focus often on social obligations and patronage as the dominant variables in the individual's 'survival' strategies and decision making. In a case study in a Greek community from the early 1960s, Campbell (1997) finds that a dominant feature of the social system is the isolation of the family and its struggle against other families, whether in terms of the possibility of bare subsistence or of social prestige. Social obligations are particular to the individual's family, and these stand in direct conflict to the weaker and more general responsibilities of good neighbourliness. The notion of service to the community exists and is honoured. But the service takes a form which honours the individual, his family and the community in equal degree as, for instance, in the foundation of a church or a school. Without family and friends a man loses all power, influence and social prestige.

More recently, Ruud (2000) has explored similar issues in an Indian community. He argues that the networking that people indulge in as part of their survival strategies is not only culturally acceptable and saturated with cultural meaning as well as good common sense, it is also a social practice with its own particular rules, winners and losers. To be able to 'play the game', to 'make a deal', and to 'manage', involves having many and important contacts. The more dexterous are the more successful. But people generally dedicate much time and effort into maintaining vast networks as part of their coping strategies. Such networks of contacts and friendships are based on reciprocity – immediate or delayed, of the same kind or entirely different. These networks can be mobilised when need arises. At the outer ends, however, the 'contact' bond is thin, and reciprocity becomes more immediate and more material. According to Ruud, the state in India cannot be insulated from 'corruption' partly because of its limited resources and personnel. However, more important is the state's insufficient command over bureaucrats, politicians and voters due to practices that are culturally significant and embedded in the conduct of daily life.

Bierschenk & Olivier de Sardan (1997) demonstrate the extreme complexity and fluidity of local politics in Africa, characterised by a large number of institutions of decision making (traditional, non-traditional, formal and informal). In a case study of five villages in the Central African Republic, they show that local arenas of power are relatively independent of the state. However, due to decentralised development co-operation, they have direct connections with the international system. They argue that a change of regime at the national level creates additional instances at the local level and opens the political arenas to new actors who take up positions beside those already in place without displacing the former. Decentralisation reforms involve not only a redefinition of the relations between central and local powers, but also raises the question of the local presence of a state which in many African countries is currently remarkable in its absence (*ibid.* 468). However, the absence of the state does not mean that a void exists in its place. Local life may suffer from under-administration, but still be characterised by latent and disguised greed, conflict and negotiation between various authorities, clans and factions. Thus, 'the current processes of decentralisation in Africa, far from being the radical rift opening the way to good governance, are just another one in a long series of regime changes decided upon at the top of the State, experienced in Africa since the end of the second World War' (*ibid.*). The authors expect that, in conformity to the dominant modes of functioning of local political arenas, decentralisation

reforms will be subjected to the same ‘grinding down’ in local arenas as other forms of state intervention before.

3.2.2 Capture of local governments

Based on analytical models, Bardhan & Mookherjee (1999, 2000, 2002) argue that political accountability in poor countries is particularly affected by the likelihood of corruption or capture by interest groups (see section 3.1.2). While local governments may have better local information and accountability pressure, they may be more vulnerable to capture by local elites, who will then receive a disproportionate share of spending on public goods (Bardhan, 2002:192). The problem for the central government is that it has very little information on local needs, delivery costs and the amount actually delivered. Hence, in theory we may expect that many developing countries experience large gaps between a commitment of resources at the central level and the delivery of services at the local level.

Reinikka & Svensson (2002b) provide one of the few detailed empirical studies on this issue. They study the leakage of educational funds from the central government to schools in Uganda. The survey data reveal that during the period 1991-95, the primary schools on average received only 13% of the grants from the central government. Most schools received nothing. The bulk of the school grant was captured by local officials and politicians, either for private gain or for use for purposes other than education. The data also reveals considerable variations in grants received across schools, suggesting that rather than being passive recipients of flows from the government, schools may use their bargaining power to secure greater shares of funding. Three variables were found to be important in explaining the variation in capture across schools: (a) school size; (b) income; and (c) the extent to which teachers are qualified. Moreover, well-performing schools seem to attract visitors from the centre, and were, accordingly, ‘rewarded’ by local officials by receiving more capitation grants.

3.2.3 Fiscal decentralisation and corruption

Research on fiscal decentralisation includes both cross-country regressions and case-studies of local authorities in both developed (e.g., the USA) and developing countries (e.g., Tanzania).

de Mello & Barenstein (2001), based on cross-country data for up to 78 countries, show that fiscal decentralisation - the assignment of expenditure and revenue mobilisation functions to sub-national levels of government - is associated with various indicators of governance, such as corruption, rule of law, and government effectiveness. Unlike previous studies in the decentralisation/governance literature, which focus primarily on expenditure-based measures of decentralisation, the results reported in this paper show that the relationship between decentralisation and governance depends on how sub-national expenditures are financed. The higher the share in total sub-national revenues of non-tax revenues and grants and transfers from higher levels of government, the stronger the association between decentralisation and governance. These findings are supported by de Mello (2000) who suggests that fiscal decentralisation can boost social capital and, hence, bring the government closer to the people.

The theoretical literature has emphasized that expenditure decentralisation will only be effective if accompanied by the devolution of revenue generation to local governments.

Fisman & Gatti (2000b) examine this hypothesis empirically by studying the mismatch between revenue generation and expenditure in U.S. states. They find that larger federal transfers are associated with higher rates of conviction for abuse of public office, which supports the theory that soft-budget constraints created by federal transfers are potentially problematic. In cross-country regressions covering 57 countries with data referring to the period 1980-95, Fisman & Gatti (2002a) suggest that fiscal decentralisation in government expenditure is strongly and significantly associated with lower corruption. This result is supported by Gulsun Arikan (2000), who examines the effect of fiscal decentralisation on the level of corruption. It is theoretically shown that increased decentralisation causes more competition for capital among jurisdictions, resulting in a lower level of corruption. This result is tested using cross-country data. The regressions confirm the hypothesised relationship, but are sensitive to the choice of the explanatory variables.

Fjeldstad (2001) studies the relations between local bureaucrats, politicians and donors in local government revenue enhancement in Tanzania. Fiscal administrations in many local authorities are found to be highly corrupt, partly due to the extreme degree of discretionary fiscal power held by local officials, and poor (or non-existent) monitoring from above. The article also shows that coercion is likely to be an integral part of the effort to raise local government taxes. Furthermore, the study demonstrates that the involvement of donors through arrangements which supply development aid on the basis of matching funds from the local government may induce increased tax effort, but at the expense of accountability, responsibility and democratic development. Increased tax effort is achieved through coercive methods, often characterised by violent and extortive forms of enforcement. It is argued that coercive tax collection has important consequences for citizens' rights and for the democratisation process. If taxpayers' rights are unclear for both taxpayers and tax authorities, tax compliance and accountability will be affected. Moreover, as long as coercion is accepted as an integral part of tax collection it is unlikely that state-society relations can become more accountable and democratic.

3.2.4 What works and what does not

The recommendations in the literature on 'best practice' point in different directions. Moreover, some of the authors simply present personal perspectives on what works, or the perspectives of the institutions they represent, and not recommendations that are knowledge based and empirically tested.

Gonzales de Asis (2000) suggests a conceptual framework to resolve corruption incentives, drawing on the 'governance' vision of the World Bank. Three main causes of corruption in the public sphere are addressed: (1) institutional incentives (e.g., discretion, complex procedures, patronage, low public wages); (2) lack of public information and transparency; and (3) a lack of accountability of public officials. The separation between these categories remains, however, unclear in the paper. Local level strategies to address these 'pervasive institutional incentives' should include: (a) raising political will (presented as a necessary condition for the other elements to work); (b) diagnostic tools and training workshops; and (c) participatory diagnostics to arrive at broadly supported solutions. Although municipal policy-makers might find such best-practice examples useful, a critical evaluation of the local conditions under which the recommended tools actually work is lacking. The impacts of local power relations, elite capturing, social obligations etc. are ignored.

Such issues are to some extent dealt by Jenkins & Goetz (1999), who describe the work of a small activist group in the north Indian state of Rajasthan. The group has waged a campaign to secure the right of ordinary people to gain access to information held by government officials. In the process of experimenting with methods of compiling, sharing and verifying expenditure data at very local levels, and in the absence of a statutory entitlement to such information, the right-to-information movement in India has developed a radical interpretation of the notion that citizens have a right both to know how they are governed and to participate actively in the process of auditing their representatives. The article examines the process by which this campaign emerged and the means by which it pursues its goals. It then analyses the implications of this experience, and the larger movement it has spawned, for debates in three areas: human rights, participatory development and anti-corruption action.

Tanzi (2000b) reviews the experiences with fiscal decentralisation of the IMF's Fiscal Affairs Department. The paper discusses some issues of relevance to the decision to decentralise or not or to the likelihood that decentralisation will produce useful results. Tanzi suggests that decentralisation is more likely to be successful if some conditions are met before the process of decentralisation starts. In particular, he argues that decentralisation can be a good policy if institutions related to tax policy, tax administration, and expenditure management systems and budgets work. Especially important are institutions that allow the central government to transfer resources to local governments with some assurance that the resources will be issued effectively and for the purpose for which they are passed on. These conditions for successful decentralisation are, however, often not in place. Thus, he argues, casual observations indicate that corruption is more widespread at the local than at the national level.

Although Tanzi's lines of argument are intuitively appealing, one problem with his approach is that it generalises from observations from countries and institutions that are very different with respect to history, level of economic development, economic structure, political traditions etc. Langseth (1995), in contrast, provides a country-specific study of the Civil Service Reform Programme (CSRP) in Uganda. It outlines the context in which the CSRP is being implemented and establishes the link between the CSRP and other reform programmes, particularly constitutional decentralisation, liberalisation/privatisation and army demobilisation. It also analyses the progress made so far, given certain obstacles, and attempts to assess and make suggestions for the road ahead.

In recent years, several 'toolkits' for anti-corruption efforts have been developed. Some of these are very general and only applicable under very specific conditions. Others, however, provide useful case-based suggestions. For instance, Klitgaard *et al.* (2000) demonstrate ways of eliminating the problem of urban corruption. Based on case studies from New York, Hong Kong and La Paz, the authors set forth strategies for (1) diagnosing municipal corruption; (2) involving citizens and government employees in discovering and implementing solutions that the authors contend have proven workable and effective; (3) attacking corruption from an economic approach, regarding it as a crime of calculation and as a function of corrupt systems rather than merely corrupt individuals; (4) eliminating and preventing corruption by adapting specified methods; and (5) avoiding pitfalls common to many reform efforts.

3.3 The policy relevance of the reviewed literature

With respect to decentralisation reforms, we know at present more about what has not worked in the past than what is likely to work in the future. There are many cases of obvious failure,

but few cases of obvious success. However, mistakes of the past provide indications of promising paths for future efforts.

The theoretical literature on decentralisation and corruption points in different directions and provides no clear-cut conclusions. Among the most promising theoretical contributions is the work of Bardhan & Mookherjee (1999, 2000, 2002) on capture and governance at local and national levels (see section 3.1.2). This research has contributed to shedding light on the potential danger of decentralisation reforms being captured by local elites. However, the question of whether or not decentralising public bureaucracies will reduce corruption remains open. At best, the research says that the impacts of decentralisation on corruption are multi-dimensional and depend on the interactions between a variety of actors.

Although the theoretical literature reviewed specifies a large number of conditions when decentralisation will limit and when it will further corruption, it tends to be too abstract to help in understanding how such complex relationships emerge and, thus, can be addressed. Moreover, the literature often tends to assume the existence of such direct linkages rather than investigating their extent and limits in practice. For the question of these linkages is basically an empirical one.

The policy relevance of some of the existing empirical literature on decentralisation and corruption is also questionable. As discussed above (section 3.2.1), the policy implications of the cross-country regression studies are somewhat discouraging. Decentralisation policies may – at least in the short run – lead to increased corruption. For policy lessons, however, caution must be exercised when referring to these studies. This is partly due to data inadequacies and how to deal with the problem of endogeneity of some of the explanatory variables. Moreover, the use of corruption perception indices in the cross-country regressions raises concern about perception biases. Furthermore, due to the aggregate nature of the data these studies tell us little about the relationship between corruption and individual agents (Reinikka & Svensson, 2002a). Finally, the macro determinants cannot satisfactorily explain the within-country variations in corruption.

It might also be argued that case studies have limited merit. However, in the empirical literature on corruption among the most important contributions are Robert Wade's case studies of corruption in canal irrigation in South India (see Wade, 1982, 1997). Moreover, case studies may contribute to a rejection of broad generalisations and assumptions made in the literature. Detailed case studies can also be of great merit for policy makers. In particular, it might be illuminating to carry out case-based comparative studies across countries.

4 Issues for further research

As reflected in this review, research that explicitly focuses on the linkages between decentralisation and corruption is limited. In particular, there is lack of empirical studies on ongoing reform processes that may contribute to informing reformers on the strengths and weaknesses of the chosen approaches.

Anecdotal evidence indicates that *corruption in local authorities is particularly prevalent in procurement of goods and services, in revenue collection and financial management, in human resources management, and in land allocation and control* (e.g., ESRF & FACEIT, 2002; RoU, 2002). Hence, these areas should be given particular attention. Moreover, *little is known about* the impacts on new public management inspired reforms which may include

privatisation of public services provision and outsourcing of revenue collection. What kind of activities lend themselves to privatisation and what kind lend themselves to local authorities?

Finding appropriate *revenue sources and enforcement methods* for local governments are among the most urgent and challenging tasks for decentralisation processes in many poor countries (Brosio, 2000: 29). But while there is some clarity regarding what type of improvements are desired, there is considerably less understanding on how to make this happen. For instance, while the system of grants from the central government has been improved in recent years in several countries, fiscal responsibility is still weak. Why? The risks of *local misuse of funds or corruption* are evident as more funds and more powers are devolved to a new, untrained local leadership and a local administration with limited capacity for financial management. If more funds are channelled to local governments through sector support programmes, the risks of ‘decentralising corruption’ are of course latent. Even though funds misappropriated could be insignificant compared with the far larger misuse at the central government level, examples of an account overdraft or an outright theft from the coffers of a local government are often much more visible to the general public than a complicated kick-back or fraud at the ministerial level, and may thus contribute to undermining the trustworthiness and legitimacy of local authorities. It can also easily be utilised in public debate to erode the decentralisation reforms.

Another area which has received little attention is the possible relationship between the degree of *decentralisation and the number of regulations in a country*. Such research would indicate what happens when a country multiplies additional governmental levels. What happens if each level pursues its own objectives, not just through taxes and public spending, but also through regulations? Direct observations indicate that the more constrained are the authorities in raising revenue and in spending, the more likely is it that they will try to rely on regulations to pursue their objective (see Tanzi, 2000b). Accordingly, what is the link between the level and arbitrariness of local taxes and regulations, the resulting corruption and bribery, and the evolution of the shadow economy?

The extent of relative ‘*capture*’ of governments at different levels by elites is crucial in understanding the likely impact of decentralisation reforms (Bardhan, 2002:194). However, very little theoretical and empirical research has been done on this subject. Among the theoretical work is the research by Bardhan & Mookherjee (1999, 2000, 2002), while Reinikka & Svensson (2002b), focusing on grants to primary schools in Uganda, provide one of the few detailed and well-researched empirical studies.

The extent of capture of local governments by local elites depends on factors such as the level of social and economic inequality within communities, political participation and voter awareness, fairness and regularity of elections, transparency in local decision making processes and local government accounts, and media attention (Bardhan, 2002:194). These factors vary widely across communities and countries (see Crook & Manor, 1998; Conning & Kevane, 2001). Certainly, central governments are also subject to capture and sometimes even to a greater extent than the local government level. But at the local level in situations with high inequality, collusion may be easier to organise and enforce in small proximate groups involving officials, contractors and interest groups. Moreover, the risk of being detected and reported can be assumed to be easier to manage due to the intermingled social and economic relationships among local influential people. Hence, when the potential for capture of local governments is serious, decentralisation programmes ought to focus a great deal of attention on strengthening local accountability mechanisms. A key question for research is therefore:

What are the necessary conditions for reducing/minimising local government capture by local elites? Relevant factors to explore might be the level of citizens' political awareness (e.g., organised by CBOs, regular local elections, institutionalised public hearings on items of public expenditure, literacy level etc.).

Recent research on decentralisation and corruption often underscores the importance of formal institutions in consolidating democracy and good governance. It is argued that well-functioning legal, administrative and political institutions are necessary requirements for successful local government reforms. However, research on corruption in poor countries should also *look beyond the formal structures of the local government to the informal networks of patronage and social domination* that often determine how political power is actually wielded in the communities. The concrete interlinkages between state institutions and society ought to be probed to explore the multiple ways in which they influence and shape each other through detailed case studies. Weight should also be given to the legacy of historical antecedents, including the legacy of colonialism. Moreover, in many aid-dependent African countries donors often exert strong influence on the behaviour, decisions and actions of local authority administrators and politicians. Generally, donors co-operate with council administrators and staff to implement their activities, often through the creation of parallel structures. Relevant questions for research are: *To what extent do such donor interventions change the relative bargaining power between the local bureaucracy and the elected councillors? And what are the impacts on accountability and democratic consolidation in local authorities?*

Although institutions may have traditional and patrimonial functions in addition to their formal roles, citizens do relate to and are dependent on the formal institutions (electoral arrangements, party systems, legal orders, revenue administrations and other administrative procedures) for gaining their full and basic political and civil rights. In particular, when it comes to democratic consolidation, there is a question of the spread of democratic norms, of political crafting, and the design of political institutions. Thus, *research on decentralisation and corruption should focus on both informal and formal institutions.*

Country-specific knowledge and thematic knowledge on corruption ought to be combined. For instance, studies of particular countries that have managed to contain problems of systemic corruption in local authorities, or specific institutions designed to fight corruption directly, may offer insights that are potentially replicable in other situations, and also clarify the extent to which the experiences of one country or institution are transferable to others. For instance, political decentralisation is seen as a source of corruption in Russia but not in China (Blanchard & Shleifer, 2000). Why? Such research may also produce evidence on the limitations of 'universal' approaches to local government reforms and general anti-corruption prescriptions.

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Appendix 1 Annotated bibliography on decentralisation and corruption

Author(s)	Year	Title	Discipline	Theory/methodology	Findings
Banfield. E.C.	1979	'Corruption as a feature of governmental organization' in M. Ekpo, (ed.) <i>Bureaucratic Corruption in Sub-Saharan Africa: Towards a Search for Causes and Consequences</i> . Washington D.C.: University Press of America	Political science/Public administration		Banfield argues that 'decentralised political systems are more corruptible, because the potential corrupter needs to influence only a segment of the government, and because in a fragmented system there are fewer centralised forces and agencies to enforce honesty'
Bardhan, P. & Mookherjee, D.	1998	'Expenditure decentralization and the delivery of public services in developing countries.' Department of Economics, University of Berkeley (mimeo).	Economics	Theoretical model	The comparison between centralisation and decentralisation is shown to depend on the relative vulnerability of national and local governments to capture by special interest groups, in addition to the characteristics of the service in question. Their major conclusion is that there exists no <i>a priori</i> , unqualified verdict in favour of the decentralised system, and, in particular, its success depends crucially upon the existence of an appropriate set of political and economic institutions. In particular, they argue, decentralisation initiatives are more likely to succeed when accompanied by reforms that increase the scope of local democracy and reduce asset inequality.
Bardhan, P. & Mookherjee, D.	1999	'Relative capture of local and central governments: An essay in the political economy of decentralization.' University of California, Berkeley, and Boston University (mimeo).	Economics	Theoretical model	The relationship between decentralisation and the extent of rent extraction by private parties is ambiguous. A number of factors provide support to the presumption that decentralisation is prone to a potential pitfall owing to the greater vulnerability of local governments to capture by local elites. A number of other factors, however, create an opposite tendency for lower capture at the

Author(s)	Year	Title	Discipline	Theory/methodology	Findings
					local level. The paper concludes that empirical research is required to investigate the extent and determinants of relative capture at different levels of government.
Bardhan, P. & Mookherjee, D.	2000	'Capture and governance at local and national levels.' <i>American Economic Review</i> , Vol. 90 (2), pp. 135-139.	Economics	Theoretical	Interest groups may be more cohesive at the local level, leading to greater state capture and the substitution of private transfers for public services. If this theoretical argument is correct, countries in which a greater share of public business is conducted at sub-national levels would be more corrupt and less effective at providing public goods than those in which public services are more centralised.
Bardhan, P. & Mookherjee, D.	2002	'Corruption and decentralization of infrastructure in developing countries.' Univ. of California, Berkeley and Boston University (mimeo).	Economics	Theoretical model	Decentralisation tends to expand service delivery as control rights shift to those more responsive to user needs. However, in the presence of capture of local governments, there is a tendency for services to be overprovided to local elites, at the expense of non-elites. The extent of such inefficient and inequitable cross-subsidisation depends on the extent of local capture and on the degree of fiscal autonomy of local governments.
Bierschenk, T. & Olivier de Sardan, J.-P.	1997	'Local powers and a distant state in rural Central African Republic.' <i>The Journal of Modern African Studies</i> , Vol. 35 (3), pp. 441-468.	Social anthropology	Case study, five villages in CAR, 1995.	Decentralisation involves not only a redefinition of the relations between central and local powers, but also raises the question of the local presence of a state which in many African countries is currently remarkably absent. The absence of the state does not mean that a void exists in its place. Local life may suffer from under-administration, but still be characterised by latent and disguised greed, conflict and negotiation between various authorities, clans and factions.

Author(s)	Year	Title	Discipline	Theory/methodology	Findings
Breton, A.	1996	<i>Competitive governments: An economic theory of politics and public finance.</i> Cambridge: Cambridge University Press.	Economics	Theoretical	The authors argues that competition between levels of government will lead to less corruption related to the provision of public services for which officials can demand kickbacks.
Brueckner, J.K.	2000	'Fiscal decentralization in developing countries: The effects of local corruption and tax evasion.' <i>Annals of Economics and Finance</i> , Vol. 1 (1), pp. 1-18.	Economics	Theoretical	Fiscal decentralization is partly justified by appeal to the classic argument of Tiebout (1956), who claimed that decentralised provision of public goods allows better fulfilment of diverse individual demands. Many observers, however, have expressed concern that the conditions justifying Tiebout's argument are not present in many developing countries. This paper analyses the consequences of altering Tiebout's model to include local corruption and tax evasion, which may exist in many developing countries. The analysis shows that these forces limit the benefits from fiscal decentralisation.
Campbell, J.K.	1997	'Village friendship and patronage.' Chapter 20 (pp. 327-337) in A.J. Heidenheimer, M. Johnston & V.T. LeVine (eds.) <i>Political corruption. A handbook.</i> New Brunswick/London: Transaction Publishers.	Social anthropology	Case study in a Greek community, early 1960s.	A dominant feature of the social system is the isolation of the family and its struggle against other families, whether in terms of the possibility of bare subsistence or of social prestige. The more important social obligations are particular to the individual's family, and these stand in direct conflict with the weaker and more general responsibilities of good neighbourliness. The notion of service to the community exists and is honoured. But the service takes a form which honours the individual, his family and the community in equal degree as, for instance, in the foundation of a church or a school. Such services are never anonymous. Without friends a man loses all power, influence and social prestige.
Carbonera, E.	2000	'Corruption and decentralisation.' <i>Working</i>	Economics	Theoretical (PA theory)	More decentralisation has a positive impact on

Author(s)	Year	Title	Discipline	Theory/methodology	Findings
		<i>Paper</i> 342/83. Dipartimento di Scienze Economiche, Università di Bologna.			corruption, raising individual propensity to accept bribes. It has also, according to the model, a twofold effect on incentives to monitor corrupt activities by higher levels. Firstly, it causes a loss in control, reducing their willingness to monitor. Secondly, it also increases the bribe paid to lower levels, enhancing their propensity to corruption and raising higher levels' monitoring.
de Mello, L.	2000	'Can fiscal decentralization strengthen social capital?' <i>IMF Working Paper</i> WP 2000/129. Washington DC: International Monetary Fund.	Economics	Cross country regressions; theories of fiscal federalism and social capital	The paper does not explicitly focus on corruption. The regression analysis suggests that fiscal decentralisation can boost social capital and, hence, bring the government closer to the people. For policy lessons, however, caution must be exercised. This is partly due to data inadequacies and the relatively small sample of countries.
de Mello, L. & Barenstein, M.	2001	'Fiscal decentralization and governance: A cross-country analysis.' <i>International Monetary Fund Working Paper</i> WP/01/171	Economics	Cross-country regressions, up to 78 countries	This paper shows that fiscal decentralization is associated with various indicators of governance, such as corruption, rule of law, and governmental effectiveness. Unlike previous studies in the decentralisation/governance literature, which focus primarily on expenditure-based measures of decentralisation, the results reported in this paper show that the relationship between decentralization and governance depends on how sub-national expenditures are financed. The higher the share in total sub-national revenues of non-tax revenues and grants and transfers from higher levels of government, the stronger the association between decentralisation and governance.

Author(s)	Year	Title	Discipline	Theory/methodology	Findings
Estache, A. & Sinha, S.	1995	'Does decentralization increase public infrastructure expenditure?' In A. Estache (ed.) <i>Decentralizing infrastructure: Advantages and limitations</i> . World Bank Discussion Papers 290. Washington DC.		Cross-country regressions (20 countries, period 1970-92)	The study finds a significant positive effect of expenditure decentralisation on per capita infrastructure deliveries. The effect is stronger in developing countries compared to developed countries, and weaker when local governments rely more on central funds than on their own revenues.
Fisman, R. & Gatti, R.	2002a	'Decentralization and corruption: Evidence across countries.' <i>Journal of Public Economics</i> , Vol. 83 (3), pp. 325-345 (an earlier version published as <i>World Bank Policy Research Working Papers</i> 2290).	Economics	Cross-country regressions (57 countries, period 1980-95)	The study suggests that fiscal decentralisation in government expenditure is strongly and significantly associated with lower corruption.
Fisman, R. & Gatti, R.	2002b	'Decentralization and corruption: Evidence from U.S. federal transfer programs.' <i>Public Choice</i> , Vol. 113 (1-2), pp. 25-35.	Economics	Econometric analysis	The theoretical literature has emphasized that expenditure decentralisation will only be effective if accompanied by the devolution of revenue generation to local governments. This paper examines this hypothesis empirically, by studying the mismatch between revenue generation and expenditure in U.S. states. Larger federal transfers are associated with higher rates of conviction for abuse of public office, supporting the theory that soft-budget constraints created by federal transfers are potentially problematic.
Fjeldstad, O-H	2001	'Taxation, coercion and donors. Local government tax enforcement in Tanzania.' <i>The Journal of Modern African Studies</i> , Vol. 39 (2), pp. 289-306.	Economics (NIE)	Case study	Fiscal administrations in many local authorities in Tanzania are found to be highly corrupt, partly due to the extreme degree of discretionary fiscal powers of local officials, and poor (or non-existent) monitoring from above.
Gainsborough M.	2003	'Corruption and the politics of economic decentralisation in Vietnam' <i>Journal of Contemporary Asian Studies</i> , Vol. 33 (1), pp. 69-84.	Political science	Case study	The article offers an alternative interpretation to what is usually reflected in the literature on how to understand the phenomenon of big corruption cases. Based on a detailed account of one big corruption case in Vietnam, i.e., the Tan Binh Production Service and Export

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					Company (Tamexco), the author argues that such cases are best viewed as an attempt by the political centre to discipline lower levels of the party-state against a backdrop of increased decentralisation. This interpretation, it is argued, makes sense both of the increased frequency with which big corruption cases occurred in the 1990s, and of the ferocity with which they have been executed. This interpretation also makes a more authentically political account insofar as the centre is no longer seen as simply clamping down on corruption 'in the public interest', but rather as representing one side in a struggle for influence between different levels of the state, where the prize is control over economic resources. In the Tamexco case, businesspeople and bankers were taken to court and either sentenced to death or given prison terms. Moreover, city and district level politicians were censured but not imprisoned, while no central-level politician was ever publicly implicated in the case.
Goldsmith, A.A.	1999	'Slapping the grasping hand: Correlates of political corruption in emerging markets.' <i>American Journal of Economics and Sociology</i> , pp. 866-883.	Political science	Cross-country regressions (using Transparency International's index of perceived corruption as the independent variable).	Economic liberalisation, political democratisation and administrative centralisation are associated with lower degrees of political corruption. The author suggests that federal or decentralised systems are not favourable settings because they make it easier to hide corrupt practices (or intimidate whistleblowers).
Gonzales de Asis, M.	2000	'Reducing corruption at the local level.' <i>World Bank Institute</i> . Washington DC (mimeo).	Law	Conceptual framework to resolve corruption incentives, drawing on the 'governance' vision of the World Bank.	Three main causes of corruption in the public sphere are addressed: (1) institutional incentives (e.g., discretion, complex procedures, patronage, low public wages); (2) lack of public information and transparency;

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					and (3) a lack of accountability of public officials. The separation between these categories remains, however, unclear in the paper. But, although municipal policy-makers might find such best-practice examples useful, a critical evaluation of the local conditions under which the recommended tools actually work is lacking in the paper.
Gulsun Arikan, G.	2000	'Fiscal decentralization: A remedy for corruption?' Department of Economics, University of Illinois at Urbana-Champaign (mimeo)	Economics	Cross-country regressions (85 countries, based on TI's CPI 1998)	The paper examines the effect of fiscal decentralisation on the level of corruption. It is theoretically shown that increased decentralisation causes more competition for capital among jurisdictions, resulting in a lower level of corruption. This result is tested using cross-country data. The regressions confirm the hypothesised relationship, but are sensitive to the choice of the explanatory variables.
Gurgur, T. & A. Shah	2000	'Localization and corruption: Panacea or Pandora's box?' OED, World Bank (mimeo, 14 October)	Economics	Brief review of the literature followed by a cross-country regression analysis with the CPI as independent variable.	For a non-industrial sample, drivers of corruption are lack of service orientation in the public sector, weak democratic institutions and a closed economy. Decentralisation has a greater negative impact on corruption in unitary countries than in federal states. The study suggests that decentralisation supports greater accountability in the public sector and reduced corruption.
Jenkins, R. & Goetz, A.M.	1999	'Accounts and accountability: theoretical implications of the right-to-information movement in India.' <i>Third World Quarterly</i> , Vol. 20 (3), pp. 603-622.	Political science	Descriptive with policy advice	A small activist group in the north Indian state of Rajasthan has waged a campaign to secure the right of ordinary people to gain access to information held by government officials. The group has developed a radical interpretation of the notion that citizens have a right both to know how they are governed and to participate actively in the process of auditing their representatives. The article examines the

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					process by which this campaign emerged and the means by which it pursues its goals. It then analyses the implications of this experience, and the larger movement it has spawned, for contemporary debates in three areas: human rights, participatory development and anti-corruption action.
Klitgaard, R., MacLean-Abaroa, R. & Lindsey Parris, H.	2000	<i>Corrupt cities. A practical guide to cure and prevention.</i> ICS Press and World Bank	Multidiscp. (institutional economics/ development management)	Case studies from New York, Hong Kong and La Paz. A toolkit for anti-corruption efforts	The authors demonstrate ways of eliminating the problem with urban corruption. Based on case studies from various cities, the authors set forth strategies for (1) diagnosing municipal corruption; (2) involving citizens and government employees in discovering and implementing solutions; (3) attacking corruption from an economic angle, regarding it as a crime of calculation and as a function of corrupt systems rather than merely corrupt individuals; (4) eliminating and preventing corruption by adapting specified methods; and (5) avoiding pitfalls common to many reform efforts.
Kuncoro, A.	2000	'The impact of licensing decentralization on firm location choice: the case of Indonesia.' Faculty of Economics, University of Indonesia (mimeo).	Economics	Econometric model	The study finds that with decentralisation of the administrative licensing system to provincial and district planning agencies, firms showed preferences for areas with lower bribes. More and more firms clustered in the old business centres, and led to a more centralised location pattern.
Langseth, P.	1995	'Civil service reform in Uganda – lessons learned.' <i>Public Administration and Development</i> Vol. 15 (4), pp. 365-390.	Economics (institutional)	Assessment of a reform programme.	This article presents the Civil Service Reform Programme (CSRP) in Uganda. It outlines the context in which the CSRP is being implemented and establishes the link between the CSRP and other reform programmes, particularly constitutional decentralisation, liberalisation/privatisation and army

Author(s)	Year	Title	Discipline	Theory/methodology	Findings
					demobilisation. It also analyses the progress made so far, given certain obstacles, and makes some suggestions for the road ahead.
Mana, B.	1999	'An anti-corruption strategy for provincial government in Papua New Guinea.' <i>Asia Pacific School of Economics and Management Working Papers</i> Gov 99-5. Australian National University: Asia Pacific Press.	Management	A practical educational and training approach for anti-corruption measures.	The paper examines the causes and characteristics of corruption at the provincial level in Papua New Guinea. It is argued that the 1995 decentralisation reforms only resulted in increased discretion among provincial governors (grand corruption) as well as increased competition among NGOs, leading to enhanced pressure for corrupt practices (petty corruption). In response, the author pleads for an integrated approach, including an independent anti-corruption commission at the provincial level, combined with education and training of local officers.
Manor, J.	1999	<i>The political economy of democratic decentralization.</i> Washington D.C.: World Bank.	Political science	Book on decentralisation. Covering different issues.	Manor argues that decentralisation 'is always attended by an increase in the number of persons who are involved in corrupt acts', although this need not imply that the overall amount of money diverted by corrupt means increases.
Prud'homme, R.	1995	'The dangers of decentralization.' <i>The World Bank Research Observer</i> , Vol. 10 (2), pp. 201-220.	Economics	A controversial and widely cited critical assessment of economic impacts of decentralisation. Theoretical, with examples.	Claims that there are probably more opportunities for corruption at the local level: Firstly, local officials usually have more discretionary powers than national decision-makers. Secondly, local bureaucrats and politicians are likely to be more subject to pressing demands from local interest groups in matters such as taxation.
Reinikka, R. & Svensson, J.	2002b	'Local capture and the political economy of school financing.' DRC, The World Bank (mimeo, April).	Economics	Economic model analysed by panel data from a public expenditure tracking survey (PETS) of primary schools in	The survey data reveal that during the period 1991-95, the primary schools on average received only 13% of the grants from the central government. Most schools received nothing. The bulk of the school grant was captured by local officials and politicians.

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				Uganda	either for private gain or for use for purposes other than education. The data also reveal considerable variations in grants received across schools, suggesting that rather than being passive recipients of flows from the government, schools may use their bargaining power to secure greater shares of funding. Three variables were found to be important in explaining the variation in capture across schools: (a) school size; (b) income; and (c) the extent to which teachers are qualified. Moreover, well-performing schools seem to attract visitors from the centre, and were, accordingly, 'rewarded' by local officials by receiving more capitation grants.
Ruud, A. Engelsen	2000	'Corruption as everyday practice: The public-private divide in local Indian society.' <i>Forum for Development Studies</i> , Vol. 27 (2), pp. 271-294.	Social anthropology/ history	Case study drawing on ethnographic material from West Bengal.	The author argues that the networking that people indulge in as part of their survival strategies is not only culturally acceptable and saturated with cultural meaning as well as good common sense, it is also a social practice with its own particular rules, winners and losers. To be able to 'play the game', to 'make a deal', and to 'manage' involves having many and important contacts. The more dexterous are the more successful. People generally dedicate much time and effort to maintaining vast networks as part of their coping strategies. Such networks are based on reciprocity – immediate or delayed, of the same kind or entirely different. These networks can be mobilised when need arises. At the outer ends, however, the 'contact' bond is wearing thin, and reciprocity becomes more immediate and more material. The state in India cannot be insulated from 'corruption', partly because of its limited resources and personnel, but more pointedly because its

Author(s)	Year	Title	Discipline	Theory/methodology	Findings
					command over bureaucrats, politicians and voters is insufficient to negate the spill-over to the realm of the state of practices that are culturally significant and embedded in everyday practices.
Segal, L.	1999	'Corruption moves to the center: An analysis of New York's 1996 school governance law.' <i>Harvard Journal on Legislation</i> , Vol. 36 (2), pp. 323-367.	Law	Case study	The author discusses the recent trend of recentralisation in the New York City public school system. She first analyses the justifications given for decentralisation and examines the corruption and poor school performance that resulted from the new system. The author argues that while recentralisation efforts have attempted to combat these problems, the revamped system has also introduced the potential for new forms of corruption.
Segal, L.	1997	'The pitfalls of political decentralization and proposals for reform: The case of New York City public schools.' <i>Public Administration Review</i> , Vol. 57 (2), pp. 141-149.	Law	Case study	How are politically decentralised programmes vulnerable to corruption and what can be done about it? This article identifies and analyses the structural features of decentralisation that invite,

Author(s)	Year	Title	Discipline	Theory/methodology	Findings
					facilitate, and even necessitate wrongdoing through a case study of the New York City public school system, where programme vulnerabilities have led to widespread, systemic corruption. The article makes detailed recommendations for ways to lessen these problems through institutional changes designed to curb corruption opportunities and reforms to strengthen deterrence without increasing burdensome rules and regulations.
Shleifer, A. & Vishny, R.W.	1993	'Corruption.' <i>The Quarterly Journal of Economics</i> , pp. 599–617.	Economics	Theoretical	This seminal paper on corruption suggests that states with a very centralised institutional structure and those with a very decentralised one may suffer less from the damaging effects of corruption than states with an intermediate level of institutional centralisation.
Tanzi, V.	2000a	'Fiscal federalism and decentralization: A review of some efficiency and macroeconomic aspects.' In <i>Proceedings of the Annual World Bank Conference on Development Economics</i> , Washington D.C.: The World Bank, chapter 14, pp. 231-263.	Economics	Review article	Very much in line with Prud'homme (1995) – see above.
Tanzi, V.	2000b	'Some politically incorrect remarks on decentralization and public finance.' In J.J. Dethier (ed.) <i>Governance, decentralization and reform in China, India and Russia</i> . Dordrecht: Kluwer Academic Publishers.	Economics	Review of the experiences with fiscal decentralisation of the IMF's Fiscal Affairs Department.	The paper discusses some issues of relevance to the decision whether to decentralise or not, and to the likelihood that decentralisation will produce useful results. Tanzi argues that decentralisation is more likely to be successful if some conditions are met before the process of decentralisation starts. Decentralisation can be a good policy if institutions related to tax policy, tax administration, and expenditure management systems and budgets work. Especially important are institutions that allow the central government to transfer resources to

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					local governments with some assurance that the resources will be used effectively and for the purpose for which they are passed on. These conditions for successful decentralisation are, however, often not in place. Thus, according to Tanzi, casual observations indicate that corruption is more widespread at the local than at the national level.
Treisman, D.	2000a	'Decentralization and the quality of government.' Department of Political science, University of California, Los Angeles (mimeo).	Political science	Cross country regressions, using TI's and the World Bank's corruption indices, data on up to 154 countries	States which have more tiers of government tend to have higher perceived corruption, and may also do a worse job of providing public services. The Tieboutian idea that decreasing the size of government units will strengthen competition between governments for capital, and thus stimulating greater efficiency and honesty, is not supported. Countries with smaller first-tier jurisdictions tend to be perceived as more corrupt.
Treisman, D.	2000b	'The causes of corruption: a cross national study.' <i>Journal of Public Economics</i> , pp. 399-457	Political science	Cross-country regressions, using TI's CPI as the main dependent variable in the regressions.	Treisman finds that federal states are more corrupt than unitary ones. He attributes this to the collective action problem for semi-autonomous central and sub-national officials in deciding how much to extract in bribes from businesses that both levels have the power to regulate. According to Treisman, competition between autonomous levels of government to extract bribes leads to 'overgrazing' of the commons. In contrast, in unitary states more effective hierarchies of control enable central officials to limit the extraction of sub-national officials to more 'reasonable' levels. If these interpretations are correct, caution must be raised in decentralising political power in poor countries that are susceptible to corruption.

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USAID and World Bank	2000	<i>Corruption in Slovakia. Results of diagnostic surveys.</i> Report prepared by James Andersson. http://www.government.gov.sk/english/dokumentary-en.html	Economics	Survey	The survey of public officials finds that local governments are perceived to be less corrupt than central and regional governments.
Wade, R.	1997	'How infrastructure agencies motivate staff: canal irrigation in India and the Republic of Korea.' In A. Mody (ed.) <i>Infrastructure strategies in East Asia</i> . Washington DC: World Bank.	Political economics/development	Case studies	The author suggests that the overcentralised top-down structure of the system in India is largely responsible for corruption in the irrigation bureaucracy. In contrast, stronger communication and monitoring mechanisms in Korea may explain the better delivery performance relative to India.
Weingast, B.R.	1995	'The economic role of political institutions: market-preserving federalism and economic development.' <i>Journal of Law, Economics and Organization</i> , pp. 1-31.	Economics		The author argues that a federal state structure contributes to more honest and efficient government by providing for competition between sub-jurisdictions.
Wilson, J.	1966	'Corruption: The shame of the states.' <i>The Public Interest</i> , Vol. 2, pp. 28-38. Reprinted as chapter 35 in A. Heidenheimer, M. Johnston & V.T. Le Vine (eds.) 1997 <i>Political Corruption. A Handbook</i> . New Brunswick/London: Transaction Publishers	Political science	A broad and engaged feature article on corruption, with reference to the United States.	Wilson argues that one cause of the corruption in the US system is the need to exchange favours to overcome decentralised authority.

Summary

The main objective of this study is to assess existing knowledge on decentralisation and corruption. Major controversies within and across disciplines are discussed. The review concludes by identifying some areas in most need for further research with an emphasis on questions relevant for development policy.

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