

# Decentralization of Corruption and Local Public Service Delivery in Nepal

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## Abstract

*Lack of transparency, accountability, and existence of elite capture, ambiguity etc. will lead to misallocation and misappropriation of available resources. These phenomena contribute directly or indirectly to corruption resulting to poor efficiency and effectiveness of service delivery. These cases exist at the local level as well during the practice of decentralized service provision, leading to degrade the quality of and people's trust on local public services. As represented by petty corruption at local level it seems to be decentralization of corruption as well in the same direction of decentralization of authorities and funds from centre to local governments. This paper tries to examine the effect of these factors on the local public service delivery in developing countries like Nepal. The study finds the existence of elite capture and corruption leading to the dissatisfaction of local people due to inferior quality of local public goods and services. Using survey data, mixed method of analysis and descriptive tools, the study examines how these maladies are affecting the local service provision through the impact on the corruption equation by the increased monopoly power of local officials along with discretion in decision making and reduced accountability. It observes the various practice of corruption existing in the local bodies and people's perception on the corruption and local public services in the sample villages. The paper concludes that- unless and until the proper policies and actions to tackle these maladies are adopted, no one can expect for the effective and efficient decentralized service provision in order to improve the quality of life of general people.*

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**Key Words:** Decentralization, Corruption, Public Service Delivery, Poverty

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## I. INTRODUCTION

Corruption became a big problem in most of the countries in the world. However, most of the developing countries are more suffering from corruption as it has obstructed their developmental process by hindering the proper utilization of available resources. People of Nepal also have to bear the cost of the corruption, increasing day by day, though the anti-corruption bodies are working against it. The corruption is prevailing not only at national level, but at the local level as well. The network of corrupt practices can be observed at the corresponding level of governance.

According to the theories, the benefits of decentralization are proper targeting of public expenditure and greater accountability of the government to the locals. It is assumed that public service delivery provided through decentralized government be efficient as it has better knowledge about the tastes and preferences of the people of its jurisdiction due to its proximity to them (Oates 2005). This means there would exist both “allocative and production efficiency” in decentralized service provision. On the contrary, if the local governance is accompanied by corruption, then due to the additional cost (in terms of kickbacks), the decentralized goods and services becomes costly in terms of allocative and production efficiency, both (Prud’Homme 1995). Since corruption is distributed largely at local level that obviously increases the overall level of corruption in the country (Prud’Homme 1995). Along with the decentralization of authority and resources to the local government, there seems to be decentralization of corruption as well. In other way, “benefits of decentralized corruption” can be observed as better distributed than the “benefits of centralized corruption”. This way, the linkage of decentralized provision and pro-poor service delivery will be weakened, leading to the less efficiency of decentralization in poverty reduction (Keefer and Khemani 2005; Boex et al. 2006).

In addition to the advocacy of efficient service delivery through decentralization in traditional literature, modern literature has tried to link the decentralization with the political issues that may reduce the expected welfare maximization, emphasizing more on the problems in accountability. According to them, elite capture of local public resources and corruption during the service provision are two major demerits of decentralization that degrade the efficiency of local public services, both in quantity and quality, leading to the trust deficit on them to which mostly the poor have to depend (Prud’Homme, 1995; Tanzi, 1996; Bardhan & Mookherjee, 2011). This will, thus, prevents the benefits of decentralized service provision reaching to the poor. Presence of elite capture and ambiguity and absence of transparency and accountability in local governance and local public service provision contributes to the corruption (directly or indirectly) that allows the wastage of technology and resources resulting the less efficient local service provision.

This paper intends to uncover the cases of corruption and elite capture appearing in local governance. Also tries to analyse the effect of the corruption (along with elite capture) on local public service delivery and thus on poverty by using simple descriptive approaches and the data from village survey collected as the perception of the sample population of six sample villages of Nepal.

## **II. DATA AND METHODOLOGY**

It is difficult to quantify the corruption prevailing at local level and hence less effective will be the use of quantitative method only (which is used in most of the economic research) in this research. Therefore, according to the nature of the study, mixed method of analysis is adopted using both quantitative and qualitative information following the concurrent embedded strategy of research where the quantitative and qualitative data are collected and used simultaneously as per the need in the analytical process.

Primary data were generated through a survey of 301 households of six different villages of Nepal (namely, Pakali, Laukahi, Chilime, Balambu, Mijng and Thabang) of four different districts (Sunasari, Rasuwa, Kathmandu and Rolpa), which was carried out in 2012. Interview of the household heads was taken by using both the open ended and structured questionnaires. The sample Village Development Committees (VDCs) were selected so as to cover the different geographic, demographic and socio-economic characteristics.<sup>1</sup> The sample households were selected using the purposive random sampling method after allocating the quota of sample households for the VDCs according to their population size. Along with quantitative information, qualitative data on the performance of rural local bodies (LBs), presence of elite capture and corruption at the local level, etc., based on the perception of local people of the sample VDCs were collected. The secondary information were collected from different government and non-government sources like, Central Bureau of Statistics of Nepal (CBS), Local Body Fiscal Commission (LBFC) Nepal, The Carter Centre, Association of District Development Committees of Nepal (ADDCN)/Municipal Association of Nepal (MuAN)/National Association of VDCs in Nepal (NAVIN).

This paper consists of more descriptive discussion than analytical statistical inference. Mostly, descriptive statistics are used to discuss the aforesaid issues. Somewhere, the secondary information are also linked. In addition, narratives from the qualitative data generated from primary survey are also used to explain those issues that could not be explained by statistical presentation.

## **III. CORRUPTION AND LOCAL PUBLIC SERVICE DELIVERY: CONCEPT AND THEORETICAL LINKAGE**

Commonly, corruption can be defined as the abuse of public office or entrusted power for private gain (World Bank 1998; Transparency International 2006). This is the result of the governance problem (González de Asís et al. 2009) or reflection of the legal, economic, political, social and cultural system or institution of a country (Svensson 2005). In magnitude, there are three types of corruption: Grand, petty and political. The grand corruption mostly occurs in the central government level where the officials possess a huge amount of money by abusing their power for personal use, e.g., through the large tender and procurement. However, petty corruption occurs in lower or middle level where the officers have interaction with citizens for basic public goods and services appearing comparatively in small magnitude, i.e., small contribution from the people to

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<sup>1</sup> For detail, see CBS (2011).

achieve their basic need or from misappropriation of funds of the smaller projects. Hence, along with the dispersion of projects and funds to the local level, we can observe the transformation of corruption from grand to petty corruption, giving the glance of decentralization of corruption. Political corruption is committed by political leaders through manipulating policies, rules of procedure and institutions for both power and monetary greed.

Klitgaard (1998) proposed a formula for corruption called Klitgaard's Corruption formula (Klitgaard, Maclean-Abaroa, and Lindsey Parris 2000), i.e.,

$$C = M + D - A$$

Where,

C = Corruption

M = Monopoly power

D = Discretion in decision making

A = Accountability

This means, if a person holds the monopoly power and has discretion in decision making about the provisions of goods and services but do not possess the accountability (accompanied by transparency) that leads to the corruption. The corrupt practices occur where there is low risk, mild penalties and higher rewards. However, the rewards from corruption increases as the monopoly power of the official increases. Similar will be in the case of discretion in decision making. But, the increase in accountability will lead to the decrease in the chances and magnitude of corruption.

One of the major sources of corruption at local level is the elite capture. Elite capture is the procedure of manipulation of the decision-making process and order of business to acquire most of the benefit. In other way, it contributes to the corruption through the increased monopoly power in the corruption formula. According to Bardhan and Mookherjee (2000), the capture at local level would be more possible if there is greater interconnection of interest groups and "higher levels of voter unawareness". Likewise, lack of electoral competition, electoral uncertainty, etc. also contribute to the elite capture and corruption through it.

Local governments of poor and developing countries are suffering from the lack of transparency and accountability and presence of elite capture and corruption resulting the country to a "high cost and low quality economy" (Kumar 2013). There is the probable appropriation of resources by more aware non-poor, in place of less aware poor at local level, for their monetary or non-monetary benefit that is considered as a source of corruption. Political elites and government officials by the use of their monopolistic behaviour and power commit the corruption through the capture of resources.

Poor has to depend more on public services as they are unable to compete the market for their necessities. Hence, at local level as well, the pure market mechanism is not sufficient for achieving pro-poor growth and distribution, and local public service delivery is more important as it corrects this market failure (Panta 2015). Local public service delivery is linked with the decentralization of public services through the transfer

of authorities and resources to the local level. However, the nature of accountability mechanism of service providing government determines the efficiency of public services. The lack of which results to the “sub-optimal utility” of public goods and services (Kumar 2002), affecting its cost, quality and quantity. Some studies observed that corruption has the negative impact on growth (Bardhan 1997; Li, Xu, and Zou 2000) and investment (Bardhan 1997) as well and it has inverted U shaped effect on income inequality ( Li, Xu, and Zou 2000).

The followers of decentralization reason for the more accountability in the decentralized public service provision than the centralized one. It is because, local people can observe well the functioning and activities of the local officials nearby them whether they are indulging in corruption (such as, bribery, over-costing or black marketing etc.) or not (Bardhan & Mookherjee, 2011), and check it by an electoral pressure (Tiebout 1956) and other social penalties. However, it is possible in proper democracy and aware communities which is rarely observed in poor and developing countries. In these countries, voting will depend more on the external factors, instead of functioning and behaviour of the candidates during local service provision (Prud’Homme 1995). In addition, corruption at local level deteriorates the “allocative and production efficiency” of local government through the cross-subsidization of local public goods and services towards bribe supplier, in the cost of destitute poor, and by the practice of ineffective technology resulting into the loss of resources and time (Prud’Homme 1995).

Elite capture and corruption lowers the efficiency of local public services by the extraction of project cost and through the inferior service provision, in other way, by impeding the “cost effectiveness, inter-community targeting and intra-community targeting” of local public expenditure (Bardhan and Mookherjee, 1998), i.e. “through inadequate allocation and ineffective expenditure” (Kumar 2002) . Corruption leads to the allocative efficiency through benefitting the powerful individuals in the cost of society as whole and through underutilization of productive resource (Seyf 2001). That not only leads to inferior quality and quantity of local public goods and services, but also produces dissatisfaction of the local people. Hence, survey of people’s perception can be a measure of these problems, i.e., extent of elite capture, corruption, quality of services etc.

Applying the Klitgaard’s Corruption formula, the magnitude and nature of corruption at local level as well depend on the extent of the monopoly (both in action and behaviour) of the local officials (government officials and the other representatives) and discretion of decision making resulted from or due to the ambiguity of the laws and by-laws. Similarly, depend on the accountability of the local officials (both accountability system and behaviour). Hence, the behaviour, action and attitude of the local officials play a crucial role, in the case of local level corruption. For corruption, mostly, there is need of cooperation of politicians and bureaucrats. Sometimes, cooperation between politicians, bureaucrats and businessman. As like as in the central level, various triads are found indulging in the process of corruption directly, and through the elite capture.

#### **IV. CORRUPTION AND LOCAL PUBLIC SERVICE DELIVERY: EXPERIENCES FROM SAMPLE VILLAGES**

As discussed in theoretical section, corruption hinders the efficiency of local public services and corruption is the result of situation of higher monopoly and discretionary power and lower accountability of officials, at local level. In practice, the monopoly and discretionary power of officials are reflected as elite capture in project selection, project implementation, monitoring and evaluation etc. of the local projects. At the same time, inferior accountability is observed through the lower level of responsiveness of the officials, their opaqueness in the financial activities etc. To complete the process of corruption, nexus of politicians, officials and even users can be observed to form different layers of the triad at local level. In this section, along with the supportive information from the field survey, we are discussing about the issues (alignment of corruption with decentralized service provision) which are responsible for corruption and effect on service delivery observed in the sample villages as perceived by the local people.

##### ***Problem of Transparency and Accountability: Factor Inducing Corruption***

Low level of transparency and accountability becomes a favourable environment to hold and cover the corrupt practices. According to the Minimum Condition and Performance Measurement (MCPM)<sup>2</sup> analysis-2011/12, the marks secured by a number of local bodies in the area of transparency and accountability are not satisfactory. In case of sample DDCs and VDCs, we can observe 2-5 VDCs (of Rasuwa and Rolpa districts), 6-10 VDCs (of Kathmandu) and 16-20 VDCs (of Sunasari) are failing in MCs and lost LGCDP grant. The most of the VDCs failed in MCs were weak in timely completion of final audit of the previous fiscal year and publicizing the audit report and failed to publicize last year's income and expenditure statements.

The PM score of the sample DDCs maximum 65 is not more encouraging and these DDCs have lost 10% of additional grant. The score obtained by sample DDCs in MCPM functional are- Communication and Transparency minimum 7 (Sunasari and Rolpa) to maximum 11 (Kathmandu), i.e. 9 on average implies that the activities of these DDCs are not satisfactorily transparent and accountable accompanied with poor performance in social auditing. More or less the sample VDCs are also suffering from those problems. The situation indicates the low performance in transparency and accountability that facilitates the environment for corruption at local level and inferior provision of decentralized service delivery. A woman volunteer from Chilime VDC, elucidates the problems of transparency and accountability in her VDC. She says:

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<sup>2</sup> Each year Local Body Fiscal Commission (LBFC) Nepal analyses minimum condition (MC) and performance measurement (PM) to rate the performance of LBs which also serves a criterion of resource allocation to LBs.

“No budget for this road for three years. The budgetary process is not transparent. I heard the VDC budget has been allocated to invest in the share in Sanjen Hydro project.... They (local elites and local official) do not call us in the meeting. They meet in secret.... We don’t know about budgeting...during the past, I was invited into the meeting, this year they have not called me.” (Interview, 01/06/2012).

Similarly, a person, who is the chief of a major political party of Laukahi VDC indicates the lack of transparency and accountability as there is an absence of citizen charter in VDC office and no public notice about the budget (based on interview taken on 6/10/2012).

### ***Elite Capture and Corruption: Two Obstacles in Local Public Service Delivery***

As discussed earlier, corruption and elite capture are found more problematic in local governance in the case of sample VDCs as well. The elite capture reflects mostly in project selection. However, corruption exists mostly during the project implementation. Both of these impede the effectiveness of local public service delivery, i.e., pro-poor result of local public projects by obstructing the benefit reaching to the poor and marginalized.

#### **Elite Capture: A Major Source of Corruption**

More frequent problem in local governance of developing countries is the capture by political elites. In Nepal, it is rampant due to the absence of elected representatives in LBs since 2002. All party mechanism (APM), under the chairmanship of the chief official is found to be more corrupt and problematic in some of the local jurisdictions in Nepal. Members of the APM, used to consensually engage in the misappropriation of local budget and holding monopolistic decision making power colluding with the officials. They try to select the projects of their interest and easier to misuse and for corruption or easier to get political incentives. Not only the general development expenditure, but the targeted expenditure was also observed to be captured by the elites of the respective target groups.

We can observe the extent proper and inclusive participation in decision making of elite capture by analysing the basis of project selection in their VDC. Among the respondents, about 45 percent said that there is a dominance of local elites (mostly through political parties) in the decisions regarding project selection and they try to divert resources towards the project of their interests ignoring the need of the general people and the poor (Table 1). However, only 32 percent observe the procedure of project selection as selecting the projects among those collected from lower units of VDCs and prioritizing according to the general needs. More than 23 percent of the respondents have no knowledge on this issue.

**Table 1: Local Observations on Basis of Project Selection (percent)**

VDC	Basis of Project Selection			Total
	Interest of Elites	General Needs	Can't Say	
Balambu	18.75	51.56	29.69	100.00
Mijhing	61.22	26.53	12.24	100.00
Thabang	12.24	61.22	26.53	100.00
Chilime	61.54	20.51	17.95	100.00
Laukahi	80.00	7.50	12.50	100.00
Pakali	51.67	15.00	33.33	100.00
<b>Total</b>	<b>44.85</b>	<b>31.89</b>	<b>23.26</b>	<b>100.00</b>

Pearson chi2 (10) = 83.1660 Pr = 0.000

VDC secretary, who is also the chair of VDC now, informally consults the party representatives during the project selection for the year. Most of the people who are aware about the project selection perceive that there is less participation of people in project selection. Only the VDC secretary and some party representatives have a role in this process representing elite capture. However, sometimes the local official ignores even the representative of the major political party during project selection. A person who is the chief of a major political party from Laukahi VDC tries to clarify the lack of transparency and elite capture in his VDC, denying his role and objecting for not consulting fairly during planning and budgeting. He says:

“VDC secretary and staffs, and representatives of some parties only, are involved in project selection. We are requested only for the approval of their decision. There is no citizen charter in VDC office and no public notice about the budget. No proper schedule and participatory style of project selection is adopted.” (Interview, 6/10/2012).

The problem of capture is perceived in Pakali VDC as well. People accuse to party representatives to influence more on decision making and VDC secretary jointly with political representatives complete the planning and budgeting process. These two collude resulting in corruption and misuse of funds too. However, leaders of major political parties also have complaint to the VDC secretary for favouring only some smaller parties. Additionally, there is case of capture of fund allocated for target group or disadvantaged group (DAG). In a question, a Maoist leader of Pakali VDC tries to explain the case of elite capture in his VDC. He says:

“VDC secretary is decisive in project selection. Sometimes, he does not provide full information to party representatives too. Political leaders, being less aware, cannot enquire more on the issue....there is elite capture and misuse of fund for target groups in co-ordination with VDC secretaries. VDC officials misuse the social security fund as well” (Interview, 07/07/2012).

The priority reflection of the people on the local project selection also illustrates the extent of elite capture at local level. During the survey, it was observed that about 73

percent of the respondents of sample VDCs from the richest quintile perceive the reflection of their priority in the selected projects (Panta 2015). However, only 42 percent of poorest respondents thought to have addressed their interest in selected projects. About 36 percent of the respondents were found unaware of it. This scenario confirms us the case of elite capture of the project is more in the local projects and thus local service provision.

From the above information, we can conclude that, during the process of local planning, budgeting and implementation, the voice of marginalised and minorities are rarely addressed because of the presence of local capture (Koirala 2011; Kelly, Koirala, and Ghimire 2011). All the practices of elite capture are oriented towards corruption, i.e., diversion of project funds towards the benefit of the elites themselves (through leading to the more weightage of monopolistic power in corruption formula), also in the sample VDCs. As discussed in theoretical section, elite capture impedes the cost effectiveness, inter-community targeting and intra-community targeting of local public expenditure and lowers the effectiveness and efficiency of local public goods and services, also in these sample VDCs.

### **Corruption: A Major Obstacle to Local Development**

The researcher asked the respondents to identify the main obstacles they have felt during the local development process in their VDCs. The nature of response was found different in various VDCs. About 33 percent of sample households think corruption as the main hindrance, and for about 11 percent, elite capture is the major hurdle for development of their VDC (Table 2).

**Table 2: Local Views on Obstacles in Local Development (percent)**

VDC	Major Obstacle in Development					Total
	Lack of Resources	Lack of Skill Staffs	Elite Capture	Corruption	Other	
Balambu	80.95	3.17	1.59	14.29	0.00	100.00
Mijhing	51.02	14.29	14.29	14.29	6.12	100.00
Thabang	67.35	14.29	2.04	14.29	2.04	100.00
Chilime	43.59	2.56	15.38	33.33	5.13	100.00
Laukahi	5.00	0.00	22.50	72.50	0.00	100.00
Pakali	16.67	10.00	13.33	56.67	3.33	100.00
<b>Total</b>	<b>46.00</b>	<b>7.67</b>	<b>10.67</b>	<b>33.00</b>	<b>2.67</b>	<b>100.00</b>

Pearson chi2 (20) = 127.3562 Pr = 0.000

These results indicate the significant presence of the problem of corruption in local development activities that prevent the resources from reaching the targeted segment of people and also obstruct to achieve the goal of efficient public services by local governments. Contrary to the view Bardhan & Mookherjee (2011), corruption is more rampant in the comparatively low poverty zone, e.g. Laukahi and Pakali, Illustrating the case of corruption, chief of a major political party from Laukahi VDC says:

“There is leakage of fund of about 40 percent, overall in DDC, VDC and users’ level. If at least 80 percent of the budget is properly used, there will be no need for further budget after five years. It would be enough for this small VDC” (Interview, 6/10/2012)

There is an exchange of blame between political leaders and the local people on the issue of misuse and corruption. Local people consider the local leaders and local officials responsible for corruption. However, political leaders and local officials blame the local users. The officials and political representatives feel the problem of pressure from users for forceful approval of local projects. A person who is the representative of a political party from Chilime VDC, observes the leakage of funds at the users’ level. He interprets the existence of corruption in his VDC:

“Development budget is not properly used. There are leakage and misuse of funds. No work is done according to estimate and budget. Only 50 percent fund is used in the project and the remaining is misused. Who will monitor? Nobody could control. People and administration blame each other. But there is no command of either leader or administrator over local people.....there is need of a permanent rule to control” (Interview, 04/06/2012)

Contrary to this, local people perceive that the local political leaders and local officials make decisions on resource allocation and indulge in corrupt practices which could not be controlled even after the protest by the local people. In their view, mostly all party mechanism (APM) and VDC secretary are problematic. They are more corrupt and take decisions themselves on project selection and implementation without taking the local people into confidence. There is no quantitative increment of services as much as the magnitude of the increment in the budget. Moreover, the quality of services is poor. The researcher observed that sand was bedded in a rural road in Laukahi VDC instead of gravel as in the budget estimate, manipulating to extract the cost difference. To illustrate the corruption in VDC, a wage labour (65) from dalit community of Pakali VDC details about the functioning of and corruption in his VDC as follows:

“They manipulate not only the price, but also the quality and the quantity of materials...In the case of gravelling, if there is a purchase of 2 tractor trips of gravel @ Rs.1000 they submit the bill of 3 trips@ Rs. 1500..There is corruption at three levels: DDC, VDC and users’ level...Nobody hears our voice...once, we informed the correspondent of a national daily newspaper, he came and noted all the complaints but did not publish that” (Interview, 09/07/2012).

During corruption, parties involving in the corruption manipulate, price, quantity and quality of construction materials. The interviewee pointed out the absence of “voice” mechanism as there is a firm relationship between political leaders, officials and media leading to corrupt practices as in the Indian case (Kumar 2013). Another resident of the same VDC also has the similar views, he adds, “party representatives and VDC secretary approved 3 lakh (0.3 million) rupees for a culvert where the actual cost could not be more than 2 lakh (0.2 million).....they paid one lakh (0.1 million) for 140 trips of gravel.” They

siphoned off the residual amount to their pockets. In another case, the officials misled even the users' committee of the project. According to a person from Tharu community of Pakali, he was nominated as the chair of the users' committee for a small culvert construction project in his VDC. He says, "Rs. one lakh (0.1 million) was allocated for the bridge project in my ward (area). The budget was kept in a bank account. After sometime (before the end of the year) when I queried with VDC secretary, the fund was not in the account. Ultimately, "no bridge-no money situation" (Interview, 09/07/2012).

The survey result indicates that elite capture and corruption exist as the major hurdles of local development and local service delivery undermining the pro-poorness of the services. Corruption becomes the major obstacle in the development for most of the respondents of two Terai VDCs (Laukahi and Pakali) and a mountainous VDC (Chilime). However, not the corruption and elite capture, residents of urban oriented VDC-Balambu, consider mainly the lack of resources as the major hurdle in local development. Hence, the presence and effect of elite capture and corruption is locality specific.

### Existence of Corruption: Low Performance of VDC and Local Service Delivery

Performance of LBs is a determinant of the nature and magnitude of local service delivery. Resources only are not enough for production of local services, but it should be facilitated by LBs through efficient resource allocation and project implementation. Then, efficient service production depends on the effective functioning of LBs. To have empirical knowledge, the interviewees were asked about their perception on the service provided by their VDC authorities during last three years. Only 64 percent of the respondent households were found to be satisfied with the services provided by their respective VDCs (Table 3). Our result more or less corroborates with a study performed by Lamichhane et al. (2013) that observed overall 35 percent of sample respondents dissatisfied with the service provided by their LBs. The survey result signifies- the higher the perception of corruption in VDC, the lower the satisfaction on the performance of VDC.

**Table 3: Satisfaction from Local Public Services Provided by VDCs (percent)**

VDC	Satisfaction from VDC Services					Total
	Highly Satisfied	Satisfied	Unsatisfied	Highly Unsatisfied	Don't Know	
Balambu	10.94	79.69	9.38	0.00	0.00	100.00
Mijhing	2.04	73.47	24.49	0.00	0.00	100.00
Thabang	0.00	77.55	22.45	0.00	0.00	100.00
Chilime	0.00	79.49	15.38	2.56	2.56	100.00
Laukahi	0.00	40.00	57.50	2.50	0.00	100.00
Pakali	0.00	33.33	61.67	0.00	5.00	100.00
<b>Total</b>	<b>2.66</b>	<b>63.79</b>	<b>31.56</b>	<b>0.66</b>	<b>1.33</b>	<b>100.00</b>

Pearson chi2 (20) = 95.9414 Pr = 0.000

Dissatisfaction is, according to field observation, due to ambiguity, misuse of resources and corruption and thus the low quality of services in some VDCs. Contrary to this,

because of honesty presented by officials and leaders of some VDCs, most of the people were found to be satisfied with the service provided by their VDC authorities.

The empirical findings support the idea that the satisfaction from the performance of LBs varies with the regional variation and the level of awareness of the locals. Most importantly, the performance and accountability of local politicians and VDC officials have a significant role in determining the performance of their LBs. During the talk, a local woman leader of Balambu VDC (the people of which are more satisfied than other five sample VDCs), appreciate the existing VDC secretary for his great devotion and better performance (based on interview taken on 01/09/2012).

### *Unresponsive Functionaries: A Kind of Corrupt Practice*

The role of officials and the political agents are more important for an efficient local governance and local public service delivery. Along with day to day services, it has an impact on resource mobilization, allocation, project implementation and all other for the completion of the local projects. Hence, responsiveness of the officials is an indicator of their accountability to local people that affects the performance of the LBs in service delivery. Next, absenteeism of local officials is the major problem in case of functioning of VDCs and a serious corrupt practice. According to Amartya Sen, collecting salary and being absent in a job is also a kind of corruption (Varadarajan 2005; Widmalm 2008).

From the survey result, it is observed that officials of VDCs having better performance are found more responsive and not being absent in their duties, for example- Balambu VDC (Table 4). In contrast, less responsiveness of officials have been observed in the VDCs with lower performance, as illustrated by mountainous Chilime VDC, where the staffs become mostly absent. However, not only on the nature of officials, the responsiveness depends also on the locality of the VDC and so on. Moreover, officials of some VDCs deal with the problems of the villagers, even being partly absent in their office. Thus, in some sample VDCs, due to less responsiveness and absenteeism of officials, people are facing difficulties in access of local service provision and as defined above, it is also a form of corruption.

**Table 4: Perceptions on Responsiveness of Functionaries by VDC (percent)**

Village	Responsiveness of VDC Staffs					Total
	Yes	No	Mostly Unresponsive	Mostly Absent	Can't Say	
Balambu	100.00	0.00	0.00	0.00	0.00	100.00
Mijhing	83.67	4.08	6.12	4.08	2.04	100.00
Thabang	16.33	2.04	22.45	38.78	20.41	100.00
Chilime	0.00	10.26	0.00	84.62	5.13	100.00
Laukahi	45.00	0.00	12.50	42.50	0.00	100.00
Pakali	88.33	0.00	6.67	0.00	5.00	100.00
<b>Total</b>	<b>61.13</b>	<b>2.33</b>	<b>7.64</b>	<b>23.59</b>	<b>5.32</b>	<b>100.00</b>

Pearson chi2 (20) = 244.3233 Pr = 0.000

The performance and accountability of local politicians and VDC officials also determine the performance of their LBs. Moreover, a local woman leader of Balambu village, clarifies the role of VDC secretary and local leaders in village development in these days, as:

“The former VDC secretary was not active and had no interest in VDC works. There was budget but no idea and eagerness to use for development. Existing secretary is more active and developmental. He felt more need of development of this VDC..... We are very happy to work with the existing VDC secretary and more development works are running highly satisfactorily. ....the deadlock of land registration of the villagers since long is now initiated under his leadership” (Interview, 01/09/2012).

In the Terai region, some of the VDC secretaries to avoid the unnecessary threats from different criminal or interest groups for monetary donation or project funding, they absent in their local offices and serve from the district headquarters. However, some of the local people of Terai think that their VDC secretary becomes absent and needs to be transferred frequently to cover the corruption and to escape from the protest against his irregularities (information based on the interview with some people of sample VDCs). Anyway, we can conclude that both absenteeism and unresponsiveness of the officials are impeding the access of local people to the daily public services and the proper implementation of local public projects. This type of problem is not only being a form of corruption itself, but it also lets the room for the corrupt practices in local development activities.

### ***Absence of Elected Representatives: Favourable Condition for Corruption***

LBs of Nepal are facing the vacant of elected representatives for about 15 years as there is no election in LBs since 2002. In this period, LBs were led by All Party Mechanism (APM) and local officials. In the accusing its controversial role in decision making, involvement in corrupt practices and more partisan activities, APM was dissolved in 2012 by MoFALD, following the official directives of the Commission for Investigation of Abuse of Authority (CIAA) (The Carter Center 2014). Even after the dissolving of APM and succession by the leadership of local officials, corruption, irregularities and inefficacy in local service provision were observed to be prevailing followed by the practice of upward accountability by the local officials. Most of the respondents from sample VDCs were found to consider this as a major problem in local governance and decentralized service delivery. Sharing the experience on the difference in service delivery of VDC during the elected phase and phase of nominated local body, former Chairman and Vice-chairman of Balambu VDC expressed similar views. They said:

“During this no election phase, there is discomfort for the people in VDC services. Facilities are more, but less monitoring than in elected phase. VDC secretary is not familiar with local problems, so there is problem in day to day business in these days... Less people’s participation in local projects than in the elected phase” (Interview, 31/08/2012, 03/09/2012).

Likewise, in a question, a Maoist leader of Pakali VDC explains about the effect absence of elected representatives on public service delivery in his VDC. He says:

“Due to lack of elected representatives, VDC is not functioning properly. VDC is suffering from low quality of service produced, late execution of projects and freezing of budget due to problems in project implementation (Interview, 6/10/2012).

Here, people take the elected local government as the “benevolent” government, which works for the welfare of the people as a comparatively unselfish and neutral agent (as assumed by the demand side theory of social expenditure). However, the nominated local government is considered as “malevolent” which possesses more “discretion power” using it in the formulation of the social policy for self- interest first (as assumed by the supply side theory of social expenditure) (Buracom 2011). Moreover, absence of election has effect on some other relevant theoretical issues in local governance as well.

As stated above, we can observe more capture of local projects during the absence of elected representatives in LBs. There exists the practice of interest group theory where the interest groups acting through political parties influence the local public expenditure by influencing the local officials<sup>3</sup> and force the officials to minimize the local tax base and to lower the local tax rate. Also force the local officials for hiking the expenditure caps causing the excessive expenditure.

According to Tiebout’s model of “voting with their feet”, the election mechanism lets the chances for “voice” mechanism that checks the accountability of local officials. However, the study observes the failure of exercise of Tiebout’s model and median voter theory<sup>4</sup> of public choice (i.e. trying to address voter’s demand in order to win the election) due to the absence of elections in LBs for a long. In this situation, no practice of “competition for votes” and the “income distribution” (Buracom 2011) by the local political parties targeting local expenditure for the success of an election can be observed. Similarly, the activities of political parties targeting local expenditure more for monetary benefit rather than for manipulating more voters have adversely affected the political business cycle theory<sup>5</sup> (i.e. increasing government budget expenditure just before the election to influence the voters) in sample VDCs as well. Along with these cases, the upward accountability of the APM representatives and local officials has facilitated the environment for corruption at local level, in the absence of elected representatives.

### ***Irregularities in Local Governance: Problems in Quality Services***

One of the indicators of performance of local government is the quality of service provided. In this case, the respondents were asked whether there is change in quality of

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<sup>3</sup> For example, See, Buracom (2011).

<sup>4</sup> For example, See, Buracom (2011).

<sup>5</sup> For example, See, Buracom (2011). .

services provided by VDC during last three years. Here, the quality of the services includes the administrative service of VDC; upgrading of the roads, drinking water; facilities for agricultural promotion; improvement of school service, health service; etc. Here, no index of quality was produced, but the observed perceptions were clubbed and described. About 70 percent of respondents of sample VDCs perceived the changes in the quality of local public services, among which more than 9 percent observed great changes (Table 5). According to survey results, the more the corruption in VDC, the less the improvement in quality services (as in the case of Pakali, Laukahi and Chilime).

**Table 5: Perception on Changes in Quality of Services by VDCs (percent)**

VDC	Change in Quality					Total
	Great	Moderate	No Change	Getting Worst	Don't Know	
Balambu	34.38	59.38	4.69	1.56	0.00	100.00
Mijhing	8.16	83.67	8.16	0.00	0.00	100.00
Thabang	4.08	93.88	2.04	0.00	0.00	100.00
Chilime	0.00	41.03	53.85	0.00	5.13	100.00
Laukahi	0.00	60.00	40.00	0.00	0.00	100.00
Pakali	0.00	28.33	68.33	0.00	3.33	100.00
<b>Total</b>	<b>9.30</b>	<b>60.47</b>	<b>28.57</b>	<b>0.33</b>	<b>1.33</b>	<b>100.00</b>

Pearson chi2 (20) = 171.9726 Pr = 0.000

Sixty percent of the sample population of small Terai VDC, Laukahi, observed changes in quality of services after the provision of Nagarik Wada Manch (Ward Citizen Forum-WCF) active in the project selection and implementation of the projects and to some extent, public monitoring of the functioning of the VDC.

Besides the issues discussed above, late release of budget from centre to DDCs and then from DDCs to VDCs is also provide the space for corruption through the inclusion of fake documents and also manipulating the price and quantity of inputs. The project completed at the last moment (in a hurry) would undermine the quality of the services by the extraction of some project fund, in the cost of the quality products. Likewise, though there are layers of monitoring mechanism from the DDC level to user's level, because of the greed (or sometimes because of local political pressure), the monitoring and evaluation of the implemented projects become a ritual and less effective. Thus, an ineffective monitoring mechanism in sample VDCs is also observed to be inefficient for curbing corruption at local projects.

We can observe basically two types of triad involving in corrupt practices. In case of local procurement, the triad among local officials, political elites and the contractor can be observed. However, in user's committee level, there exists triad among the chief of the local users committee, local officials and the technicians. Sometimes, the media also cooperates the local triad denying to uncover the cases of corruption. Among the parties of triad, local officials being more informed about the ways of and benefit from corruption (also being more authorized, these days) establish form attachment with contractor ignoring the political elites to increase his share on corrupt benefit. The sample

VDCs are also possessing this type of problem as perceived by the local people of those jurisdictions.

## V. CONCLUSION

Corruption and elite capture are two prominent problems in the decentralized service delivery system which impede the effectiveness and efficiency of local public service delivery both in quantity and quality. Among these, elite capture is supposed as a source of corruption that acts during the project selection. However, corruption exists during the project implementation. According to the survey results, mostly, representatives of local political parties (APM) and local officials are observed as the actors for corruption by extracting some project costs for their own monetary benefit. Sometimes, by serving more the non-poor in the cost of poor through the diversion of public resources. Generally, corruption at the local level is petty corruption as it is distributed along with the fringe local projects. In this way, along with the decentralization of authorities and funds to local level, it seems as the decentralization of corruption as well.

Theoretically, elite capture contributes to the corruption through the increased monopoly power of agents and sometimes through the discretion in its decision making. From the observation of survey information, we can conclude that there is a presence of elite capture and corruption in some of the sample villages and they are supposed as the major obstacles to the local development and local public service delivery. However, the nature and magnitude of them differ with the context of geographical, socio-economic and political variation of the local government. In addition, poor accountability and transparency, absence of elected representatives, the unresponsiveness of officials, etc. also contribute to the corruption at local level, in the process of local governance,.

Mostly, two types of triads- 1) local officials, political elites and contractor and 2) chairman of user committee, local officials and technicians, are found working for corrupt practices at the local level. Irregularities of local government and ineffective monitoring mechanisms also add to the chances for corruption that lowers the quality of and level of trust on the local public services and produces dissatisfaction in the local people as perceived by the people of sample villages. Hence, the effect of increased local public expenditure on improvement of quality of life of the poor depends on the level of improvement in the quality and quantity of local public services, the level of which is determined by the extent of elite capture of resources and corruption at the local level. Therefore, unless and until the proper policies and actions to tackle these maladies are adopted, no one can expect for the effective and efficient decentralized service provision to improve the quality of life of general people.

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