Local governance, decentralisation and corruption in Bangladesh and Nigeria

Hamish A. D. Nixon and Alina Rocha Menocal, Nieves Zúñiga, Debapriya Bhattacharya, Syed Muhtasim Fuad, Idayat Hassan, Kelechi C. Iwuamadi, Umme Shefa Rezbana, and Shamsudeen Yusuf

Cover photo: Selling freshly caught fish in Orimedu, Lagos State, Nigeria © Arne Hoel/World Bank, 2010

Executive summary

Corruption is high on the agenda of national governments, international organisations, aid providers and civil society. At the same time, decentralisation has become a dominant policy reform across the developing world, within a context of democratisation and expectations that 'democratic decentralisation' would bring government closer to the people, increase accountability, and help to combat corruption. However, research on decentralisation shows it has a mixed record in the real world, and corruption research and policy-making increasingly recognises the need to disaggregate corruption – corruption takes many different forms and has different causes and effects in different settings, and strategies to combat corruption are also likely vary across these types and settings. As a result, the links between decentralisation and corruption are complex, and the role of decentralised governance in combatting corruption remains unclear.

Focusing on Bangladesh and Nigeria, the research presented in this report aims to **deepen understandings of the links between decentralised governance and corruption, and the implications of such linkages and dynamics for the effectiveness of anti-corruption measures at the local level**.

Understanding the relationship between decentralisation and corruption

Theoretical and empirical studies have produced diverse and mixed evidence and interpretations of the effects of decentralisation on corruption. One reason for this variation is that **different theoretical perspectives adopted by researchers and policy-makers help shape expectations and evidence on the relationship between these two concepts, and there are gaps in these perspectives**. Three broad approaches – informed respectively by principal–agent, political economy and implementation approaches – have been used to understand decentralisation. Corruption, for its part, is also viewed through lenses that include principal–agent approaches, as well as applying collective action problems and social norms.

Yet most studies that look at the linkages *between* decentralisation and corruption have focused on only some of these approaches: those most connected to principal–agent and incentive-based analyses. Newer approaches that focus on the implementation of decentralisation, collective action and political economy barriers to changing corrupt behaviour, and the emergence of practical or social norms, have been

relatively neglected in efforts to connect decentralisation with corruption. The empirical research in this study helps to fill this gap in understanding the links and dynamics between corruption and decentralisation in local settings.

The project sought to address the following main research questions:

- What is the nature of the governance relationships in each decentralised context? How does the multi-level governance system perform and why?
- How does corruption manifest itself and vary across different contexts, and how does corruption affect the sectors and functions identified and why?
- What approaches are being taken to anti-corruption in Bangladesh and Nigeria, how effective are they at local levels, and why?

The research findings (based on a review of the literature on corruption and decentralisation as well as two field-based country studies on Bangladesh and Nigeria) suggest a strong two-way relationship between how decentralised governance functions and the forms of corruption observed in local settings. The findings also suggest that, to be more effective, local anti-corruption initiatives need to address the weaknesses in the system of decentralised governance as it is implemented.

Local corruption has broad impacts that directly affect ordinary citizens, and, as our study reinforces, these are likely to be particularly negative for poor or marginalised people. The forms of corruption analysed as part of this project affect access, quality and targeting of services through distortions in infrastructure, staffing and selection of beneficiaries. They also directly impact poorer groups through the need to pay bribes to access services.

Key findings

While the findings from the two country studies are diverse, several common themes emerge. The analysis from our research reinforces findings from literature on corruption and decentralisation and governance more broadly, while it also helps to fill gaps in knowledge and understanding.

First, **the performance of decentralised governance in controlling corruption is related less to the formal features of decentralisation than to its 'real world' implementation, which itself is shaped by both formal and informal institutional relationships**. Decentralisation takes different forms across administrative, political and

fiscal dimensions. In both Bangladesh and Nigeria, we found that corruption is not driven so much by one or another type, or degree, of decentralisation as by the failure to implement a coherent structure for the form of decentralisation intended in the constitutional and legal framework of each country. This failure in coherent implementation is particularly important in three ways:

- Decentralisation as implemented may not support the financial autonomy of local governments, generating inter-governmental and/or multi-level incentives for corruption.
- Clarity of political autonomy and decision-making power, and associated accountabilities, is often weak, creating ambiguities and openings for corrupt behaviours.
- Decentralisation as implemented often generates weaknesses in financial, organisational and individual capacities to implement existing rules and systems that are intended to safeguard against corruption.

Secondly, **elections and formal measures for participation are not sufficient to promote effective accountability.** Both study countries, though different in their devolved and deconcentrated models of governance, provide for electoral accountability over local government decision-making. However, in practice elections either do not take place, or, where they do, they do not have much of an effect in reducing corruption. On the contrary, our research suggests that electoral politics has deepened some drivers of corrupt behaviour. The findings highlight the need for caution in considering the impact of local elections without also considering the strength of the linkages between political or electoral decentralisation and its fiscal and administrative dimensions.

Thirdly, the research shows that both **formal top-down mechanisms – such as financial management and civil service controls – and bottom-up approaches around citizen participation have limited effectiveness in combatting corruption at the local level.** This finding helps address an important gap in understanding what works and does not work in tackling corruption and why by bringing a local focus to the question. Opportunities for corruption easily influence and capture bureaucratic as well as social means for control and prevention. This problem seems to be present across different forms of decentralisation (whether it is more deconcentrated or devolved), and may be more acute at greater 'principal to agent distances'.

Fourth, the research **did not reveal evidence of 'normalisation' of corruption** – that is, its widespread normative acceptance – **but did show that perceptions of collective behaviour are important in shaping individual attitudes and propensities to engage in corrupt behaviour.** The country studies suggest that there is understanding among both government officials and citizens of the challenges that corruption presents, but also an awareness that the costs of individual

non-participation in systemic corruption are a significant barrier to changes in behaviour.

These findings support an approach to corruption at the local level that considers the political economy of actors in a decentralised system, the coherence of that system, and gaps in its implementation. In an important contribution to a nascent area of research on corruption and implications for how to tackle it, our findings also emphasise why it is important to understand corruption from both principal–agent as well as collective and/or norms perspectives, and to have a better appreciation of the linkages between these different conceptions.

Such perspectives should steer work on decentralisation and corruption away from descriptions of the accountability relationships inherent in principal–agent analyses toward factors such as:

- the nature and quality of political leadership across different levels of governance
- the functioning of intergovernmental relationships across tiers of government
- the autonomy enjoyed by local governments and whether they have resources and/or capacity to match
- the coherence of reforms across political, administrative and fiscal dimensions
- the nature of political parties and how committed they are to decentralisation and participation at the local level
- pressures for increased accountability at different levels of governance.

As research from this project suggests, a more fruitful approach to understanding the role of decentralisation in corruption is therefore likely to begin with a practical, implementation-focused lens on decentralisation, rather than with incentive-based approaches that focus on the formal rules making up the constitutional structure. **This implementation-oriented approach allows for an understanding of corruption as not only a consequence, but also a cause of poorly implemented decentralised governance.**

Implications for anti-corruption initiatives

This project explored both direct and indirect measures to combat corruption at the local level in Bangladesh and Nigeria. These measures include the work of anti-corruption agencies, laws and regulation against corruption, control mechanisms such as audit, accountability measures including school based management committees, and the role of civil society.

While the problem of corruption is strongly recognised in law and policy in both Bangladesh and Nigeria, there is a significant mismatch between the approaches taken to address it and what this research has revealed about the incentives and dynamics that drive local corruption in decentralised governance settings. As our findings show, this has important

implications for the effectiveness of anti-corruption efforts in both settings.

Anti-corruption agencies are in place in both Bangladesh and Nigeria, but their presence has been little-felt at the local level. Even where it was, the agencies were **under-funded and lacked the capacity or independence needed for direct local intervention, or were focused primarily on awareness-raising activities.** Laws and regulations – such as those on audit and civil service conduct – do exist but are weakly implemented, even when local actors know about them. In some cases, these measures are undermined by the structural weaknesses in fiscal and political autonomy leading to their capture; in others, the preponderance of laws and regulations can itself be a barrier to their implementation.

Indirect approaches to controlling corruption are limited by structural weaknesses of the system, and new laws and regulations are unlikely to overcome this problem. Our research highlights that in the absence of coherent underlying decentralisation, control and compliance measures will be less effective. Similarly, while local engagement through civil society and media is certainly helpful, their contribution is best realised where it can contribute to a more coherent overall system of local governance.

Drawing on the experiences to tackle corruption at the local level in Bangladesh and Nigeria, this report suggests a number of recommendations to support more effective anti-corruption efforts:

- Anti-corruption efforts need to be grounded in an approach that **combines principal-agent, collective action, and social norm-based understandings** of corruption.
- Structural reforms and anti-corruption efforts should pay closer attention to the need to **build the coherence of government arrangements across different levels and political, administrative and fiscal dimensions of governance.** Among other things, this entails supporting reforms that:
  - **Improve the clarity of fiscal powers and the alignment of fiscal decentralisation with functions and accountabilities.** Concrete steps include ensuring grant mechanisms are implemented as intended and are free from procedural interference, revenue powers are well regulated, and participatory budgeting is reflected in budget outcomes.
  - **Clarify the degree and form of political autonomy to create clear local accountabilities.** Devolution with authority, or clearer accountabilities in deconcentrated models, can support more autonomous local politics, and enablers such as more independent electoral administrations and autonomous local participatory bodies can provide a supportive environment.
- Direct approaches to corruption – such as anti-corruption agencies – need to **fund and empower local offices of those agencies to perform appropriate actions locally with the independence required.** As a default or residual approach, awareness raising will have limited impact.
- Indirect, legal or regulatory approaches **may not require additional formal law, policy or regulation.** In fact, simplification and clarification of these measures may be more appropriate.

ODI

ODI is the UK's leading independent think tank on international development and humanitarian issues.

Cover photo: Selling freshly caught fish in Orimedu, Lagos State, Nigeria © Arne Hoel/World Bank, 2010

Overseas Development Institute
203 Blackfriars Road
London SE1 8NJ

Tel: +44 (0) 20 7922 0300
Fax: +44 (0) 20 7922 0399
Email: info@odi.org.uk

Shaping policy for development