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**CORRUPTION AND LOCAL GOVERNANCE: EVIDENCE FROM
KARNATAKA¹**

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Abstract

The paper examines corruption in the institutions of local government in Karnataka, using a Logit model. One of the arguments in favour of decentralisation in developing countries is that it provides a favourable environment to responsive planning, and promotes greater accountability in the provision of public services. An assumption is also that people's participation in development activities increases transparency of the activities of the government, and thereby also reduces corruption in the utilization of public funds. Evidence from Karnataka shows that while institutions of local governance provide a structure for public service delivery, there are several factors that influenced governance. These include measures of accountability and transparency and their effectiveness, the perceived risks of indulging in corrupt practices, abuse of patronage relations, and lack of any significant political opposition. The rough estimates indicated by representatives, officials, and contractors suggest that between 55 to 65 per cent of the funds meant for development are shared by various agents of corruption networks and coalitions.

The possible impact of decentralisation of governance on corruption has generated considerable interest and debate. Local governance is considered more responsive and accountable to citizens. The assumption is that localisation of authority, and decision-making being closer to the people would contribute to an increase in citizens' involvement in planning and budgeting. Further, electoral accountability would be higher at the level of local government, as citizens are better informed about the performance of representatives and will decide on their continuance in the next term. All these are means by which the performance of elected representatives can be made accountable, and in ensuring transparency in public expenditure. While acknowledging the merits of decentralisation in enhancing accountability and responsiveness in governance, it needs to be emphasised that the one does not lead to the other unless certain conditions are met. These include adequate checks and balances, specific measures to effect accountability and transparency, and the active role of opposition parties.

In India, institutions of rural local government or Panchayati Raj Institutions (district and below) have been revived through the efforts of both the central and state governments. Local governance was conceived not only as a means for people's participation, but also to enhance the quality of governance and development outcomes.³ The 73rd Constitutional Amendment (1992) provided certain guidelines in the basic structure of the institutions of local government, though the actual devolution of powers to these institutions is left to state governments. In the manner that decentralisation is actually implemented in different states, there is an asymmetry in various areas of decentralisation, (i.e. fiscal, political and administrative decentralisation). The states are not uniform in devolving powers to these institutions, or of incorporating mechanisms of transparency and accountability in institutions of local governance.

³ From the development perspective, decentralisation can be an effective means through which programmes related to poverty reduction are better implemented (Bardhan and Mookherjee, 2000). Also see Seabright, 1996 .

Corruption is one of the most important problems facing the panchayats. The length of time that local governance has been in existence has had little impact on reducing corruption as was found in the case of Karnataka, a south Indian state, which had institutions of local government for nearly two decades. Estimates indicate that large-scale corruption involving commissions paid in the case of public works and procurement deals was up to 65 per cent of the total cost. Karnataka, introduced decentralisation reforms in the 1980s (by the Janata government), even before the enactment of the 73rd Constitutional Amendment.⁴ Following the Constitutional Amendment, the Karnataka Panchayati Raj Act 1993 was introduced. The form of decentralisation adopted in Karnataka has more political decentralisation and less of fiscal and administrative decentralisation. Accountability and transparency, the important determinants of governance, did not get adequate emphasis in the Karnataka Panchayati Raj Acts (both 1983 and 1993), or the subsequent amendments.⁵ The two measures of accountability are grama sabhas, and *jamabandhi* [has been in existence from 2001]. Grama sabhas were envisaged as deliberative forums where the constituents meet and indicate their preferences and needs on development activities. They are the only formal channel for people to communicate with elected members and officials, and to assess the performance of the representatives and the activities of the panchayats. It is mandatory that the grama sabhas be convened at least four times a year in every village (earlier it used to be twice a year). Grama sabhas were expected to function quite effectively in transparency, accountability and, most importantly, people's participation. Subsequent years have shown that grama sabhas have not served this purpose. *Jamabandhis* were introduced in the year 2001 and are an assessment of the functioning of the grama panchayat by the electorate,

4 Karnataka has had a longer history of quotas for women in the institutions of local government. For the first time in the country, 25 percent of the total seats in the panchayats were reserved for women. This was included in the 1983 Karnataka Panchayati Raj Act, ('The Karnataka Zilla Parishads, Taluk panchayati Samithis, Mandal panchayats, and Nyaya panchayats Act 1983'). This provided the design for the provisions in the 73rd Constitutional Amendment. The first panchayats based on this Act started functioning in 1987.

⁵ When the 1983 Act was formulated, the grama sabhas (village assembly) included in the Act were ahead of what then existed.

conducted on one day in a year.⁶ It is mainly intended to enable citizens access the documents and files of the gram panchayats. All the tiers of panchayats have accounts audit and in the upper tiers the audits are conducted by the Comptroller and Auditor General. With the accounts audits at the taluk and zilla panchayats being irregular, often once in three years, their effectiveness in checking misuse of funds has had only a limited impact.

The utilisation of panchayats funds assumes importance considering that most of the central government and a few state government rural development programmes are implemented through the panchayats. Decision-making prior to the devolution of powers to institutions of local government was in the control of MLAs, MPs and the Deputy Commissioners. The political space in the post 73rd Amendment phase (after 1992) is denser, with MLAs and MPs laying claims over the same space through overlapping constituencies and intervening in the functioning of the local government.

The wide spread corruption in the panchayats of Karnataka raises questions about the mechanisms of accountability and transparency particularly at the upper tiers to which the major part of local government funds are devolved. Questions also arise about democratic controls such as representation, participatory governance, right to information, electoral accountability, and opposition parties. One of the justifications of corruption is that commissions and payments are accepted to recover election expenditure. Admittedly, there are other motives for profiteering, as the received pay offs exceed election expenses. In the panchayats, patronage links are essential to further individual political objectives. Rent-seeking is possibly one of the ways of quid pro quo by which these links are established and sustained. The layers of

⁶ *Jamabandhis* are meant to enhance the accessibility of citizens to information. The objective was not achieved in the panchayats we studied, as the citizens were not aware of the programme. Conducted once a year, and for just one day between 15 August -15 September the method of public audit of the grama panchayat financial records has several limitations. The *Jamabandhi* is conducted by the officials at the taluk level, and the executive officer has the responsibility for preparing the report of the public audit. Citizens were informed about the contents of the public audit report as there is no provision for public discussion, for example in grama sabhas. (See also Sivanna, N. and Devendra Babu, 2002. *Panchayati Jamabandhi in Karnataka: An Evaluation Study*; Bangalore, Institute for Social and Economic Change).

patronage networks increased considerably with the political space created at the local level. The larger question is the extent to which decentralised governance has addressed issues of corruption.

Using micro data the paper examines corruption in the panchayats of Karnataka. The analysis included information from Mandya and Udupi districts. A few case studies from Bangalore Rural district were also used. Two zilla (district) panchayats, four taluk (sub-district) panchayats, and twelve grama (village) panchayats were included in this study. The data were collected from interviews with 234 elected representatives, 64 officials, 25 contractors and 400 citizens. First, existing literature and perceptions on decentralisation and corruption are considered, with a brief discussion on the issues in panchayats which has a bearing on corruption. Second, the attitudes of elected representatives towards corruption are examined. Representatives were asked to respond to statements on rent-seeking, election expenses and the factors that lead to corruption. Third, the perceived levels of rent-seeking in panchayats are used to arrive at the corruption level score, and factors contributing to rent-seeking are analysed. Finally, we discuss the corruption networks and the practice of '*mamul*'.

DECENTRALISATION, UTILISATION OF PUBLIC RESOURCES AND CORRUPTION

Decentralisation has been viewed as effective in public service delivery, a better means for the implementation of programmes related to poverty reduction⁷ and is more responsive to local needs, which is an ex-post argument.⁸ The underlying assumption has been that since citizens had, in principle, an opportunity to closely interact with the institutions of local government, the accountability of representatives is enhanced.⁹ The information on the performance of the local government is also considerably increased. It was suggested that administrative and fiscal decentralisation

7 Bardhan and Mookherjee, 2000.

8 See Tiebout, 1956, for the ex-post argument.

9 See Seabright, 1996. Rose-Ackerman, 1999; Persson et al, 1997; Laffont and Meleu, 2001

reduced corruption.¹⁰ According to the governance index constructed by Huther and Shah (1998), which contains indicators such as citizen participation, government orientation, social development and economic management, fiscal decentralisation is one of the explanatory variables. They also indicate that fiscal decentralisation has a significant impact on good governance.

Devolution of powers to institutions of local government for local expenditure and revenue collection was considered essential for effective governance. It was also pointed out that fiscal decentralisation would reduce the centralization of political power, and the favourable effects from democracy will percolate, towards improving the rule of law, smaller government consumption, and enhance human capital (see Barro, 1994). The rationale of the political economy explanations is that decentralisation would increase bureaucratic accountability from what it was under the centralized governance.¹¹

It was also held that political and administrative decentralisation was effective in reducing corruption.¹² Electoral and political competition was seen to bring about innovative leadership, which would, in turn, enhance the quality of governance.¹³ Wade (1997) points out from evidence of corruption in irrigation service delivery in India that centralization was a major factor in bureaucratic rent-seeking.¹⁴ Crook and Manor (2000) concluded that decentralisation reduced the diversion of public funds by politically powerful individuals.

The view against political and administrative decentralisation is that decentralisation contributed to the localisation of corruption. While there is evidence of bureaucratic rent-seeking in the centralised system, the influence of the local elites over public resources in local governance is also visible.¹⁵

10 Wade, 1997; Huther and Shah, 1998.

11 See Wildasin (1995)

12 Crook and Manor, 1998, in the context of Bangladesh, India (Karnataka state), Cote d'Ivoire and Ghana; and Wade, 1997.

13 Fiszbein (1997) makes this observation in the context of Columbia makes this observation.

14 Besley and Coate (1999), however, show that there is inadequate evidence to substantiate claims that decentralisation is more effective in service delivery. They pointed out that decentralization must be justified by political economy explanations.

15 See Bardhan and Mookherjee (1998).

Prud'homme (1994), Tanzi (1995), Brueckner (1999) Blanchard and Shleifer (2000), Treisman (2000), consider political decentralisation as a source of corruption. If local vested interests are powerful, in the absence of local accountability, decentralization increases corruption and social fragmentation (see, for example, Blanchard and Shleifer [2000] and Bardhan and Mookherjee [1998]). Tanzi (1995, 1996) was of the view that corruption may be more common at the local level and pointed to the limitations in the local provision of services by the institutions of local government, that may prevent the realization of benefits from decentralization. Also, increased interaction between officials and citizens reduces professionalism and arms-length relationships and furthers personalism. Prud'homme (1994) had argued that the scope for corruption increases with localization because of greater influence of interest groups at the local level.¹⁶ He also indicated that the discretion available to local officials (a point argued in support of decentralisation as a means of reducing corruption) and long tenure of local officials in the same place, contributed to rent-seeking coalitions. With respect to the delivery of public service, institutions of local governments can be inefficient because of poorly trained local bureaucrats, and a similar inefficiency of elected representatives.¹⁷

In India, there are no longitudinal studies on corruption at the local government level to establish the increase or decrease in corruption after decentralisation reforms. Based on the accounts of the respondents in our study there are indications that corruption in public life has increased significantly over the years and PRIs have not reduced corruption at the local level. The perception is also that the increase of corruption at the local level is due to the increase in the number of claimants for a role in the dispensation of development funds and the pay offs and commissions in their utilisation. As is often expected, political decentralisation has not enhanced accountability to the people. In the panchayats of Karnataka, the clientelist networks (of local officials, elected representatives and contractors) contributed to the increase in corruption. Besides there are several other factors contributing to corruption

¹⁶ Prud'homme 's views are based on observations in France and Italy.

¹⁷ See Tanzi, 1995.

in panchayats. These include the paucity of information; the risks in corruption are low because of inadequate and ineffective institutional mechanisms to check corruption; electoral accountability, and social and political factors (elite dominance of panchayats continues through *de facto* politics, political parties in opposition support corruption as they are beneficiaries too). Electoral accountability, which is considerably reduced due to the reservation and rotation of seats also does not play a role as might have been expected in a democratic system. The reservation and rotation of seats as in the Indian context of local government reduces the possibility of the re-election of the incumbent as the seat may be reserved for a different group in the next election.

DEFINING CORRUPTION

Corruption is broadly defined here as the misuse of authority and public resources for private gains. It is a deviation from the 'formal duties of a public role because of private-regarding (family, close family, private clique) pecuniary or status gains; or violates rules against the exercise of certain types of private-regarding influence,' (Nye, 1967:966).¹⁸ A corrupt act therefore involves a 'public official', a 'favour' provided by the public official, and 'payoff' for the favour provided. It involves misappropriation of public funds for private gains.

The forms in which it is manifested in the context of panchayats are varied. Clientelist networks involving elected representatives (also MLAs and MPs), officials and contractors received commissions/bribes/payoffs while carrying out development work by circumventing procedures, minimising competition in procurement and public works contracts, overstatement of cost estimates and reducing the quality of work. Bribes are also paid to influence beneficiary selection.

18 Nye, J.S. (1967) Corruption and political development: a cost-benefit analysis. *American Political Science Review*, LXI, 2. Reprinted in Heidenheimer, A.J., Johnston, M., & Le Vine, VT (1990) (Eds) *Political Corruption: A Handbook*. New Brunswick, New Jersey: Transaction Publishers, pp. 963-981.

The politics of patronage entailed favouritism and nepotism, which contributed to corruption in panchayats. The abuse of the official position is also to benefit the elected representatives' political party, and a sizable proportion of pay offs to the representative. Corrupt deals are effected for individual monetary interest and the interest of the patronage network, where the elected representatives are the intermediaries. In the patronage networks, there is an element of interpersonal and social dealings, and the social element is combined with political and economic. The profiteering is camouflaged by political and social relations, to the extent that it appears as a social exchange.

Payments are being made for acting as middlemen/brokers, and for 'fixing' activity. Fixing as I use the term involves the circumventing of rules and procedures, and misuse of the official position to fulfil this, particularly when elected representatives and officials acted as fixers.¹⁹ The activities carried out by fixers or middlemen include getting license permits, transfers to a place of one's choice, settling of police cases, changing land documents, settling the cases of violation of building rules, and circumventing rules for reducing property tax. Bribes were given to representatives (who are also party functionaries) to pay officials and police as the case might be. The general understanding was that the representatives retained a part of the money. These were petty cases of corruption and the amounts involved ranged from Rs.150 to Rs.2000, depending on the nature of the problem.

A distinction has been made here between individuals who worked as fixers and representatives who essentially carried out a similar activity. In the case of the latter we can consider this form of corruption as a misuse of their position as representatives. In the case of professional middlemen, although elements of corruption are sometimes involved (as commissions and bribes are paid to officials and representatives), these individuals in a majority of cases do not have an official position. So, while there is corruption involved, it

¹⁹ Fixing is also used in a much larger context, which did not involve only illegal activities. See for example, Reddy and Hargopal, 1985; Manor, 2000, Inbanathan and Gopalappa, 2003.

does not constitute a misuse of official position, as was the case among representatives.

The above-mentioned forms of corruption are pervasive and varied in magnitude, from large scale to petty corruption. There is an absence of a principle of “arm’s-length”²⁰ in the functioning of the elected representatives, and in a majority of cases personal or family relationship interfered in public decision-making. In local government the *de facto* and patronage politics weakened the arm’s-length principle in governance. Among women, the intermediaries functioned on their behalf in the corruption networks. The immediate consequence of this is the increase in the amount of money paid as commission or bribe as there are more claimants.

It was also noted that the social conceptions of corruption are less precise and consistent, and does not sometimes conform formal definitions.²¹ The commissions and bribes paid are referred to as ‘*mamul*’ (in the local parlance) or the ‘going rate’ and are not always considered as corruption by elected representatives as well as the general public.

CORRUPTION AND LOCAL GOVERNANCE: A FRAMEWORK FOR THE ANALYSIS

The Logit model is used to determine attitudes towards corrupt practices and levels of corruption in local government. The assumption is that: the low risk factor, and ineffective institutional mechanisms increase corruption. Corruption in the utility model is regarded as an outcome of two sets of variables, i.e. the opportunities for corruption and the institutional interventions that could control corruption.²² The opportunities include the authority and access to public resources, and low risk factor. The institutional interventions are checks and balance, internal control mechanisms through procedures,

20 Tanzi, 1994.

21 A similar inconsistency in perception was also pointed out by Johnston ,1986.

Johnston, M. (1986) Right & wrong in American politics: Popular conceptions of corruption. *Polity*, XVIII (3), 367-391.

22 There are limitations to the utility model (see Gurgur, Tugrul and Anwar Shah, 2000. ‘Localization and Corruption: Panacea or Pandora’s Box?’) As the utility models suggest the issue is not always that rent-seeking is need driven..

legal, political institutions, measures to increase citizens' participation and civil society. These two sets of variables are used here to model factors contributing to corruption in local governments.

The access to funds and the authority to plan and implement development programmes provides opportunities for rent-seeking to both elected representatives and officials. The benefits are realised from using their decision-making powers in allocation of resources, selection of development projects, selection of beneficiaries, authorising development work, in preparing the statement of expenses, extracting bribes for authorisations and awarding permits to carry out work provide opportunities for corruption. To maximise opportunities and optimise payoffs rent-seeking networks are established comprising individuals who are involved in decision-making and/or are in position to influence decisions. The outcome of these networks is manifest in minimising competition in the procurement and other contracts (*personalizing* the awarding of contracts, by extending it to family members or allotting contracts to one's self but in some other person's names), reducing the quality of work and sometimes by even not carrying out the work at all, and in the payment of bribes and commissions. The general framework of the Logit model is expressed as follows.

Consider that there are two widely prevalent patterns of rent seeking practices in local government. In the first case, where the representatives in collusion with officials and other agents make private gains mainly through accepting commissions and bribes while carrying out development work. The multiple agents involved in corrupt transactions in the panchayat are representatives (p), officials (o), politicians other than panchayat representatives (r), and contractors (c) in carrying out any activity. The clientelist network in this case could be summarized as follows:

$$Cn_1 = [p + o + r + c] \dots \dots \dots (1)$$

In the second case, bribes are accepted to extend illegal services to individual clients by using the official position, which takes several forms. Consider the

agent who may be an elected representative of the panchayats and works as a broker (p) for personal favours or illegal services and speeding up bureaucratic procedures for a client. The same agent may also network with a professional broker (b) in association with an officer (o) to fulfil the client's needs. Thus, the network in the second case is between the representative, professional broker and officer/s, which could be summarized as:

$$Cn_2 = [p + b + o] \dots\dots\dots(2)$$

It is important to note that a cooperative corruption network take place in both situations in order to optimise the payoffs. The utility of situation i^{th} of the j^{th} agent may be expressed as by the following equation:

$$C_{ij} = V_{ij} + E_{ij} \dots\dots\dots(3)$$

that is, the i^{th} situation to the j^{th} agent is made of a systematic component or representative factors V_{ij} , which is assumed to reflect different patterns of the networking of agents in the various situations.

The systematic component V_{ij} was assumed to be a linear function of the role of the agents and attributes of the different rent seeking situations available to the agents.

$$V_{ij} = \sum_{k=1}^K \beta_{ik} S_{ijk} \dots\dots\dots (4)$$

Various factors affected the rent-seeking opportunities. The β value are the weights to the each of the individual, institutional, and political factors of the agent j (i.e. representative) and attributes of the situation i (S_{ijk}) in the probability of rent seeking. These weights are assumed to be constant across agents but not across the situations.

It can be demonstrated that if E_{ij} values are distributed according to the extreme value distribution, then the probability that the situation i involving payoffs will be taking place from a set of m situations, can be expressed by the Logit model presented in the following equation.

$$P(\text{situation } i) = \frac{\text{Exp}(V_{ij})}{\sum_{m=1}^m \text{Exp}(V_{ij})}$$

DESCRIPTION OF THE VARIABLES

In the model perception of corruption is the *dependent variable*.

Perception of Corruption level

The level of corruption in panchayats was assessed based on the perception of elected representatives to a set of twelve questions, on a three-point measure of 'high', 'medium' and 'low'. The questions included –level of corruption in panchayats, frequency of rent-seeking, political corruption, bureaucratic corruption, perceived risk, role of middlemen, percentage of commissions, minimizing competition in awarding contracts and procurement (where 1 indicated high and 3 was low), effectiveness of transparency measures, effectiveness of accountability measures, redressal mechanisms (where 1 indicates not effective, and 3 is effective), and development and public works for which commissions and bribes are paid (where 1 indicates 'all' and 3 was 'nil payment'). An aggregate score was constructed which indicates the corruption level in the panchayats. A corruption score of 12 indicates high level of rent-seeking, 13 to 24 indicate medium corruption, and 25 to 36 are low corruption.

EXPLANATORY VARIABLES

The explanatory variables are classified into three categories viz., institutional, political and individual. The first consists of levels of local government, transparency and accountability measures and their effectiveness, corruption cases filed, action taken on corruption cases and perception of risk. The second category comprises party composition, role of the opposition parties,

election expenses and political accountability. Finally, the individual factors include attitude towards corruption, *de facto* politics, first time representatives, and participation in civil society and number of times elected to panchayats. For each of these variables (except the ones with scores) in the analysis, one category has been selected as reference category. An estimate coefficient for each of the remaining categories of the variables, indicating the significance of the category's contribution to the probability of corruption taking place has been taken into consideration. An odds ratio has been estimated for each category of the factor, that expresses the level of corruption to the reference category. Interaction effects for variables included in the analysis were tested for significance.

RESEARCH FINDINGS

Attitudes towards corruption

Representatives indicated their opinions to a set of statements on corruption and rent-seeking behaviour (see table 1 for the statements) depicting different types of situations, which could potentially occur in any panchayat. The statements included definition of corruption, corrupt behaviours and its acceptability, range of situations which involved rent-seeking, and on reporting corruption. These have been analysed on a three point measure of 'least agreement' to 'full agreement', where 3 indicates that the behaviour can be fully justified/acceptable/fully agreeable, and 1 that it can never be justified/not acceptable/disagree. An aggregate score of opinions was constructed where 23 to 33 indicates that corruption is justified, 12 to 22 indicates a tendency towards corruption, and 11 that rent-seeking can never be justified.

The responses to the attitude statements varied from subject to subject. The way representatives perceived what constitutes corruption was situational and hence was not in agreement with the widely accepted definition. Although the representatives in general considered corruption in public life unacceptable, their attitude on specific issues in panchayats that actually amounted to corruption varied significantly. For example, the representatives did not consider accepting commissions as corruption. Similarly, there was

justification for awarding contracts to relatives, role of middlemen in carrying out development activities, and accepting commissions to cover election expenses (see Table 1). These situations were more commonly reported in panchayats, and there was greater likelihood that the representatives are a part of at some point of the time. There was a significant difference in the attitudes between the people of two districts that were studied, with the justification of corruption being lower in Udupi district compared to Mandya. There was only marginal gender difference in the attitude towards corruption.²³

Table 1. Attitudes towards corruption (N=234)

	Attitude towards corruption (justified/acceptable/agree) (Per cent)
	Men and women
Accepting commissions ("mamul") is not corruption	82.9
Commissions and bribes are accepted to cover election expenses	94.2
Politician accepting bribes	14.7
Bribing politicians and officials for government benefits for which one is not entitled	6.1
Spending money during elections to buy support	94.8
Role of middlemen and intermediaries in carrying out development work	89.4
Awarding contracts to relatives and friends	77.4
Officials accepting bribes/gifts to speed up bureaucratic procedures or for carrying out official work	9.2
Any case of corruption should be immediately reported to authorities concerned	17.5
Paying bribes	3.9
Overstatement of cost estimates	91.4

The response to statements on corruption that were more general in nature (such as 'politician accepting bribes', 'Officials accepting bribes/gifts to speed up bureaucratic procedures' and for carrying out official work') was one of disagreement. At the same time, statements on payment/receiving of commissions in panchayats were justified. A majority were of the view that commissions did not constitute corruption (when elected representatives are

23 Vijayalakshmi, V., 'Rent-Seeking and Gender in Local Governance', Forthcoming, Working Paper, Institute for Social and Economic Change, Bangalore.

involved), while at the same time the commissions paid to officials was seen as bribes. Representatives made a distinction between 'corruption/ accepting bribes' and 'accepting commissions' although both amounted to rent-seeking. While accepting bribes in general was considered as corruption, accepting commissions or 'mamul' while carrying out the functions of the panchayats was viewed as acceptable. Although the representatives held the view that corruption can never be justified, their responses to the statements on the corrupt practices in panchayats involving elected representatives was one of justification. What was most striking was that only a small section of the representatives were of the view that corruption should be reported (see Table1).

Accepting commissions was seen as a legitimate means to recover expenses incurred during election campaigns. It was claimed that getting elected to panchayats involved expenditure of considerable amount of money. Elections to executive positions involved on two occasions, i.e., to get elected as members and later, to the executive positions. Contesting executive positions involved money to buy supporters, and sometimes to pay off those who were potential competitors for the post from their own party. The ability to raise funds during elections was crucial in getting the party ticket. A lower capacity to raise funds meant that the party may not support their candidature. Getting party tickets also often entailed paying high ranking party functionaries to mediate in the process of candidate selection. The representatives considered spending various amounts of money during elections as an acceptable practice. There were several instances where contractors and the political party paid a part of the election campaign expenses.²⁴ Recovering election expenses was only a means to justify what can be clearly seen as corruption. It would, in any case, be extremely unlikely that they would classify their own activities as corruption.

24 The maximum limit of the election expenses in the gram panchayats in Karnataka was Rs. 50,000, in taluk panchayats it was 3 lakhs; and in district panchayats it was 8 lakhs. The election expenses were on a lower scale for women contesting the Scheduled Castes seats, and seats reserved for women in gram panchayats; and where elections were unopposed because of the intervention of local elites.

Among the representatives who disagreed with the statement on corruption as a means of recovering election expenses, a large section belonged to the gram panchayats. These representatives did not spend money during elections. There was a difference in the attitude score of the representatives between the Mandya and Bangalore (Rural) and Udupi districts. In Mandya district and Bangalore (Rural), there was more openness in expressing an attitude that favoured accepting bribes and commissions, when compared to Udupi district. The justification for accepting commissions, and holding the view that *mamul* is not corruption was higher in Mandya. In Udupi, the representatives were more discreet in expressing their views. The literacy levels, civil society participation of citizens in Udupi district were much higher and the representatives were conscious about expressing their views. Justifying corrupt practices was also considered politically harmful, and the responses were subdued.

The rank ordering of the responses to the statements show that there was clustering on different types attitude statements. While there was less justification for political and officials accepting bribes, at the other end of the continuum of attitude statements, there was justification for accepting commissions, overstatement, and favouritism in awarding contracts. The overstatement of estimates of public works expenditure was not only justified by a large section of representatives but was considered acceptable for various reasons. One of the reasons given was also that there was a large gap between government specified prices (for labour, and material) while the actual prices were much higher. The overstatement was to make up for this difference. In most cases however, overstatement of estimates was one of the means of paying commissions.

Perception of corruption—Results from the Logit Model

A Logit Model was estimated with corruption perception categories as the dependent variable. The results from the Logit model supports the hypothesis that institutional, political and individual factors are crucial in the incidence of corruption. The factors that were robust in explaining corruption were

effectiveness of the measures of transparency and accountability measures, perception of risks, corruption cases filed, de facto politics, election expenses, financial support received from the political party during election, contribution made to the political party, role of opposition parties, and corruption as an election issue (see table 2).

INSTITUTIONAL FACTORS

Levels of local government

The results show that there is a significant relationship between the different tiers of panchayats and level of corruption. The probability of corruption in the gram panchayats was low than in zilla panchayats by 46 per cent. Among the upper tiers, the perception of corruption was higher by 37 per cent in the taluk panchayats than in the zilla panchayats. While such a difference cannot be interpreted as low corruption in grama panchayats, such a perception is related to the magnitude of corruption and that actual fund that the lower tier received was much lower than in the taluk and zilla panchayats. Gram panchayats receive only five per cent of the total allocation to the institutions of local government, while the remaining is shared between taluk and zilla panchayats, which is 55 and 40 percent respectively.²⁵ The magnitude of the payments was higher in taluk and zilla panchayats, and the representatives associated it with the high corruption level in these tiers.

Transparency and accountability measures and their effectiveness

Grama sabhas, Jamabandhi, and accounts audit are accountability measures in local governments in Karnataka. How effectively they function and the availability of information to the citizens on budgets, procurement, and money spent on public works determine the risk that representatives are willing to take in engaging in corruption.²⁶ The lack of adequate accountability and transparency measures and ineffective implementation of the existing ones contributed to the high corruption levels.

²⁵ The state government has proposed to increase the funds devolved to grama panchayats from the current year 2005-06.

²⁶ The score on the effectiveness of transparency and accountability in public expenditure was arrived at based on the assessment by the elected representatives of grama sabhas, *Jamabandhi* and accounts audit and the procedures used in allocating the expenditure or selecting investment projects.

The coefficients for transparency and accountability measures and its effectiveness were negative. It was found that lower the accountability and transparency score the probability of corruption was higher by 57 and 63 per cent respectively. The existing mechanisms such as grama sabha, Jamabandhi, and audit which were more centred on the gram panchayats. The accounts audit at the gram panchayats was carried out once every year and was regularly conducted. At the upper tiers the accounts audit was the only accountability mechanism, and it was not effective. It also needs to be pointed out that the accounts audits look more at the following of procedures and accounting and not at the quality of development works. Interaction with the electorate was minimal in the taluk and zilla panchayats although representatives were of the view that they had access to citizens' perspectives and were responsive to their needs through party networks. The lower the political accountability, the higher was the corruption level.

One of the problems in enhancing transparency and accountability has been sheer number of development programmes. The information on the allocations for these programmes is not easily available to the citizens and sometimes even to the elected representatives. A few individuals who had access to this information also had greater possibility of extracting bribes and commissions. The other consequence is also that the dependency on the bureaucracy is far greater when information is not easily available, thereby strengthening the corruption networks.

There was a close relationship between elite dominance, lack of accountability and rent-seeking in the panchayats. The political networks showed a central core of elites perceived as influential in the political and local community affairs. The elites were from locally dominant caste groups who occupied leadership roles (such as community elders) and belonged to prominent political families of the area and who had access to and control over various structural resources. They had a political base and occupied important party positions, and had contacts with prominent politicians, MLAs

and MPs. By virtue of their social, economic, and political positions, these individuals wielded considerable power. The elites at each level of panchayats usually had more than one of these characteristics. While elites controlled the activities of the panchayats, there was a difference in the perception of who among the elites influenced the functioning of the panchayats at different levels. The social, political and economic power enabled the elites to influence the functioning of panchayats whether or not they were representatives. In the clientelist networks in Karnataka elites played a major role even when they were not elected to panchayats. This was not objected to as they played a significant role in the selection of the candidates, mobilising support for them during elections and in keeping the election competition under their control.²⁷

Corruption cases filed

When there is widespread corruption, filing of corruption cases or seeking legal recourse is an indication of public awareness of corruption and their trust in the rule of law. Only a few corruption cases were filed despite the general awareness about rent-seeking in panchayats. No legal action was taken on these cases. The environment from the point of view of representatives and officials was risk free and more favourable for rent-seeking. The results indicate that the probability of corruption reduce by 34 per cent if there were more reporting of corruption. Similarly, lower risk of action being taken the probability of corruption increased by 29 per cent.

In the study districts, petitions were filed only on eleven cases of misappropriation of funds, out of which three in Mandya and one in Udupi had been filed with the Lok Ayukta. The representatives were emphatic that legal action was not forthcoming. In one of the cases, a senior official who was involved was transferred, and there was no follow up action on that case. The enormous delay in taking action on cases filed discouraged citizens and representatives from reporting on corruption. The representatives who on earlier occasions acted as whistle blowers (out of personal reasons as was seen in Mandya district where these representatives were dissidents within their own party, and also did not get their share of commissions,) were also

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discouraged by extended legal procedures. In one of the cases in Udupi district, eleven months had passed after the Lok Ayukta filed a report on the misappropriation of funds in the Engineering Department. No legal action had been taken even after one year and the report was not available.

Table 2 Logit regression estimates of level of corruption

	Reference category	Corruption in panchayats Exp (B)
Institutional Factors		
Tiers of local government	Zilla panchayat	
<i>Grama panchayat</i>		0.54***
<i>Taluk panchayat</i>		1.37*
Effectiveness of Transparency measures	High Score	1.63**
Effectiveness of Accountability measures	High score	1.57**
Corruption cases filed	Less frequent	0.66
Risk factor (getting caught and action taken on corruption)	High	1.29*
Individual factors		
Number of times elected to the panchayats	First time	0.98
<i>De facto</i> politics	Low	
High		1.47**
Medium		1.10**
Attitude towards corruption	Justifying corruption	0.89
Civil society participation	High score	0.97
Political factors		
Favours received during elections	High incidence	0.51*
Contribution to political party	High	0.37*
Party composition	Large	0.97
Role of opposition	Effective	1.01
Corruption is an election issue	Relevant	1.32**
Election expenses	Low	2.03*
Ancillary Statistics		
-2Loglikelihood ($\delta = 0$)		587.558
2Loglikelihood ($\delta = 1$)		286.762
Chi-Square		10.56**
Degrees of Freedom		8
Number of cases		234

* Significant at 1 %

** Significant at 5 %

*** Significant at 10 %

POLITICAL FACTORS

Role of opposition

As is in the higher levels of government, in the panchayats too the expectation is that opposition play an important role in making corruption an issue within and outside the forums of panchayats. The results show that opposition parties were not effective in raising issues of corruption. One of the reasons for the failure to take up corruption issues is the involvement of opposition party representatives in misappropriation of development funds.

Party composition

The composition of the major political parties, the ruling and the opposition influences accountability and rent-seeking in the panchayats. The assumption is that the opposition parties can play an effective role in ensuring accountability if their numerical strength is closer to that of ruling political parties; and that the marginalisation of the opposition parties is greater if they are a small number in the local government.

We had included in our sample the panchayats that had a close numerical composition of the members from at least two major parties. In both the districts, the panchayats where the seats occupied by the opposition and the ruling party was close there was more responsiveness compared to the panchayats where a single party was dominant. The coefficients of close composition of the political parties, however, did not act as checking mechanism in the prevalence of corruption. Despite having significant numbers, corruption was not a major issue for the opposition parties. The opposition did not make corruption in public funds an issue because most of the members received payments for the work implemented in their constituencies. The negotiating power in the payments was high for members of the opposition when the composition was close to the ruling party/parties.

Corruption as an election issue

The relationship between representatives perception of corruption as an issue in winning election was examined. The results show that the lower the perception that corruption influenced winning future elections the probability of

corruption increased by 32 per cent. Our study also found that corruption was never an electoral issue during panchayats elections.

Election expenses and contribution to the party funds:

The results show that expenses incurred by the representatives was significantly related to corruption in panchayats. The higher the election expenses there was a corresponding increase in the likelihood of corruption by 103 per cent. The election expenses included money spent and favours received during elections. This also includes contributions of cash and kind from contractors and other individuals, and sponsoring by the political parties. The contributions made by the elected representatives to the party funds are related to the rent-seeking behaviour. This was found more in the case of district and taluk panchayats.

INDIVIDUAL FACTORS

The relationship between level of corruption and representative's attitude towards corruption, number of times elected to panchayats, participation civil society associations and risk perception were examined. The results show that the attitude of representatives on corruption did not have any significant influence on the level of corruption in panchayats. The results also show that the participation of representatives in civil society associations did not have any significant influence on corruption. However, *de facto* politics and risk perception had a significant influence on corruption.

De facto politics and number of times elected to panchayats

There were high levels of *de facto* politics in both the districts, and between the districts it was comparatively higher in Mandya district. High and medium levels of *de facto* politics increased the probability of corruption by 47 and 10 per cent respectively. A related factor in *de facto* politics is the reservation of seats. The undesirable aspects of representation through reservation of seats and rotation of seats is that it significantly reduced political accountability as it was not possible for most panchayat representatives to be elected for a second term. It curtailed accountability, as often, in the case of women and Scheduled Caste members, party functionaries and /or elites and family members carried out the functions of the representatives.

In panchayats because of the rotation of seats, there were a high percentage of representatives who are elected to the panchayats for the first time. There are two possibilities if a majority of elected representatives are elected for the first time. Being new to politics would mean that exploring rent-seeking opportunities and establishing rent-seeking networks takes a longer time. The possibility of *de facto politics* was high particularly among women who hold the seat for one of the male family members. The higher the *de facto politics*, the higher was the level of corruption as the claimants for commissions paid will be more. The other reason for the high probability of corruption when the number of representatives who were first timers was used as an explanatory variable is that since the representatives are not likely to contest again the profiteering tendency was greater. There is also no risk of electoral accountability.

The representatives (including women) were drawn into the 'practice of commissions' in panchayats earlier in their career as panchayat representatives than into other responsibilities or development of their skills. It was also evident that over 85 per cent of the representatives being first timers did not have any significant impact on the level of corruption. Part of the reason for this was the entrenched corruption network comprising officials and contractors. While the institutional structure is clear about the accountability of elected representatives to the people, and the officials to the representatives, the reality is different. . The inexperience of the representatives, their lack of awareness about the rules and procedures and the paucity of information on development activities contributed to a dependence on the officials. This largely reduced the accountability of officials to the elected representatives. Although it cannot be justified, officials were of the view that their accountability to the elected representatives was low because of the poor administrative capability of the representatives. Such a view cannot be generalised as some of the representatives in the taluk and district panchayats in Karnataka had higher levels of administrative and political skills.

Risk perception

The perceived risk factor is considered here to have a corresponding effect on the rent-seeking tendencies of the representatives. This is assessed based on the perception of the elected representatives on the possibility of getting caught and the possibility of legal action being taken for accepting commissions and bribes. The results show that there is a significant relationship between risk perception and the corruption level. The lower the perception of getting caught and action being taken the probability of corruption increases by 29 per cent.

The results of logit model also indicate that other factors that increase the risk perception of representatives had a significant impact on corruption. These include institutional measures, opposition parties acting as a checking mechanism, electoral accountability and number of corruption cases filed and number of cases where action was taken. It was found that lower the effectiveness of these risk factors the greater was the probability of corruption.

COMMISSIONS OR *MAMUL*

Mamul in local parlance is the rate of bribe paid to get work done and for commissions (or payments) made in carrying out development activities. It is used, rather loosely, for both bribes and commissions. *Mamul* in the case of bribes was paid to get land records changed, reduce property tax, obtain electricity connections, get transferred to a place of one's choice, to settle police cases, and for official documents of any kind. Representatives did not make any distinction between bribes and commissions and also referred to the commissions paid for awarding public works and procurement contracts as *mamul*. This is a percentage of payment that was made for different slabs in all the development and public works activities carried out in the panchayats.

While bribes paid by the citizens for getting work done can be categorised as petty corruption, the going rate paid in the case of public works and procurement deals was large scale corruption involving commissions up to 65 per cent of the total cost in Karnataka. There were fixed rates of payments.

For example, in a procurement deal in zilla panchayats which cost 65 lakhs, the president of the panchayat received a proportion of up to 10 per cent, the chairperson of the committee received 15 per cent, officials shared 20 percent and the key individuals (which also included the representative in whose constituency the work was implemented i.e., if it is not a procurement contract) shared 20 per cent. While there were indications that the entire commission amount was not retained by the representative alone and was shared with politicians at higher levels, there was no means to verify this information.

'Fixing' activity by middlemen in panchayats was the crucial link in the payment of bribes. Among the representatives who carried out activities of middlemen, there were two types— elected representatives who as party workers were engaged in these activities and continued to do so; and representatives who started this work after their election to panchayats. Both these categories of representatives did not consider themselves as middlemen. Although the services of middlemen were widely used, they did not have respectability and the representatives did not like to be referred to as middlemen. It was much easier for representatives who were fixers to influence officials, and more so if the representative was also the president. Although representatives at the three levels carried out activities as middlemen, the visibility was far greater in the village panchayats than at the district and taluk levels. While we did not come across women representatives who acted as fixers (all middlemen were men), there were instances where the husbands of the representatives acted as middlemen, using their wife's position.

The fixers were actively involved in petty corruption in panchayats. Considering the active presence of fixers in panchayats and their own involvement in the same kind of activity, the support expressed by the representatives is not surprising. The representatives considered fixing as being responsive to the needs of their constituents. Citizens often approached the elected representatives for getting work done for which they were willing to pay the going rate. In Karnataka, the most common work that citizens

sought included—to get license permit, transfers to a place of their choice, settling of police cases, and changing land documents. The elected representatives used their position and political influence to get the work done. It needs to be noted that not all representatives were politically influential to accomplish these tasks. The people approached the representatives who could get their work done. In the case of women, representatives the constituents did not approach them for any help. They sought either the intervention of the politically powerful male representatives or the husbands of the women members if they were politically influential.

Citizens were content if the work that they wanted done was actually accomplished, and did not consider it as corruption even if they had paid a fee to get it done. From the perspective of the citizens a bribe is not problematic if the money paid is commensurate with the savings in time and effort, that they would otherwise have spent in getting the work done by themselves (and without the bribe). The acceptability of *mamul* was high in Karnataka as the public pressure against corruption was weak. Among the citizens we had interviewed, 62 per cent said that they paid bribes on more than one occasion. They considered the officials and representatives who completed the work helpful, and not corrupt, even if they accepted the bribe. Having said this, it should also be noted that citizens' experience and interface was usually with petty corruption.

CONCLUSION

Corruption in panchayats exists in various forms. As with its manifestation in most other institutions, it is not easy to measure the full extent of corruption in the panchayats. Our study indicates that pay offs and commissions are in the region of 65 per cent of the development funds. The wide spread prevalence of corruption has serious implications for development at the levels below the district, and to the villages. At the outset, it should be stated that the institutions of local government have not succeeded in reducing corruption, though this was one of the anticipated outcomes of decentralisation and the functioning of the panchayats. According to politicians and officials, the scale

of payments and commissions has also increased considerably over the years, and particularly after the formation of panchayats. A reason for this is the increase in the number of individuals who have a role in decision-making at the local level. Also, while individuals from different social groups are elected as representatives, elites who have had a longer presence in politics continue to dominate the political and development space at the local level.

The virtues of liberal democracy, viz., electoral politics, citizens' voice, opposition party and a vigilant media, have not made any significant impact in reducing corruption in panchayats. Participatory forums have not been effectively used by citizens, and they do not function as measures of accountability and transparency. There is still a considerable gap in what citizens know about panchayat funds and resources, and what perhaps they ought to, if principles of accountability had been adequately fulfilled. There is, however, a general awareness of the corruption that prevails in the panchayats, though ordinary citizens think cases against corruption have very little chance of meeting with success, or that any action would be taken against erring officials or representatives.

Access to information and the quality of information are factors that may contain rent-seeking. Here, however, the poor reporting systems of panchayats impede such a possibility. For example, there are no uniform standards for the accounting of expenditure, that would enable the assessment of public expenditure. There is also a lack of information on the unitary costs of public works. A lack of a proper budgeting system also provides additional opportunities for rent-seeking. The collusion of elected representatives and officials furthered the reluctance to share information on the utilisation of public funds with the public. The large number of government schemes/programmes (various central and state grants) and the paucity of information about them increased the scope for rent-seeking.

Accounts audits, which are an accountability measure at all the levels of panchayats, are not effectively managed, and no regular audits conducted particularly at the taluk and zilla panchayat levels.²⁸ There are no effective mechanisms to check clientelist networks, and to ensure quality in the implementation of the development works. Adequate vigilance mechanisms are not present, to follow up the functioning of the elected representatives and officials, particularly in areas of procurement, awarding contracts for development work, and on the quality of work. Although the present Lok Ayukta in Karnataka is active, clearly that is not of a sufficient scale to monitor the functioning of the panchayats.

Opposition parties did not make corruption an important issue in the provision of development services. While there were discussions on the misappropriation of development funds in panchayat meetings, it was not an important issue for the opposition, and few cases were filed. Even when opposition parties had a significant presence in the panchayats, corruption was not a governance issue, as they were more interested in negotiating for payoffs. The risks for the political parties engaging in corruption is also minimal, and there is not much of difference between political parties. The local press occasionally reports on acts of corruption, but usually no action is taken, though on rare occasions, some limited action is taken at least to avoid further publicity. Such actions, though, are few and far from adequate.

Institutions of local government provide an opportunity to introduce measures to further governance that is more responsive and accountable. Without adequate and effective institutional mechanisms to monitor the use of public funds, the institutions of local governments will only add to the layers of clientelist networks and claimants for commissions and payoffs. The continued dominance of traditional patterns of patronage has blurred the notion of accountability in panchayats. There are no checks on the activities of powerful individuals interfering in the functioning of panchayats.

28 In one of our study districts, the zilla panchayat accounts were not audited for three years. However, grama panchayats appear to be better managed in terms of an annual audit.

Finding corruption on the scale that we have observed should not be construed as an argument against local government. Sufficient need has been recognized for the establishment and functioning of the panchayats. However, greater participation in governance should not be a means of greater participation in corruption, where the benefits of development are diminished by the leakages of resources towards private enrichment, rather than for the benefit of the community and the people.

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