

# Decentralization and Corruption: Does Decentralization Lead to Corruption in Local Level in Nepal?

Dipesh Kumar Ghimire\*

## Abstract

Federalism has been constitutionally uniting separate political communities in a limited by encompassing political community (Kincaid and Tarr 2005). Federalism as a mode of governance is concerned with combining 'self-rule and shared rule' (Elazar, 1987), where by the constituent members of the federal union can govern themselves autonomously while they and their citizen also participate together in the common national governing regime, which is autonomous within its sphere of constitutional authority (Kincaid, 2011). Federalism is the extreme form of decentralization. Similarly, corruption is defined as exercise of official powers against public interest or the abuse of public office for private gain. Corruption is a symptom of degeneration of the relationship between the state and the people, characterized by bribery, extortion and nepotism (Altas, 1968). Similarly, Sen (1999) defines corruption or corrupt behavior as "the violation of established rules for personal gains and profits".

This article tries to explore the relationship among federalism, decentralization and corruption. My finding is: constitutional, political and spatial decentralization is very strong and fiscal decentralization is very weak in Nepal. Fiscal decentralization plays vital role to improve quality of governance. However, lack of proper fiscal decentralization and highly constitutional, political and spatial federalism or decentralization promote corruption in the local level. Similarly the monitoring mechanism and vertical controls system are very weak in Nepal. It shows that the localization process motivate to corrupt behavior among public authorities.

*Key Words:* Federalism, decentralization, corruption, governance

## Introduction

The Article 4 of the Constitution of Nepal, promulgated on September 20, 2015, has declared Nepal as a 'Federal Democratic Republican State'. Generally, Federalism is defined as the division of state into several independent provinces and local governments where the power of the government is constitutionally divided into central authority and constituent political units. Some scholars argue that federal states have high level of corruption and it promotes corruption in the local level. At the same time, other scholars have found that federalism and decentralization is associated with lower level of

---

\* Mr. Ghimire is Lecturer in Sociology working at the Central Department of Sociology, Tribhuvan University, Kirtipur.

corruption. This paper tries to explore the relationship among federalism, decentralization and corruption in the context of Nepal.

This article is based on the secondary data. The content analysis method is applied to collect the data. The article is divided into five sections. The first section gives an introduction. The second section introduces the concepts of federalism, decentralization and corruption, while the third section unfolds the relationship among federalism, decentralization and corruption. Similarly, the fourth section deals with decentralization and corruption in Nepal and the conclusions are given in the final section.

### **Understanding Federalism, Decentralization and Corruption**

There is no universally applicable definition of federalism and federal systems of governance. Many scholars have defined federalism in several ways. A variety of definitions of federalism may be found but there is an agreement on basic feature; a guaranteed division of power between central, regional and local governments. Federalism is a political organization in which the activities of government are divided between regional governments and a central government in such a way that each kind of government has some activities on which it makes final decisions (Riker, 1975 cited in Lijphart, 1999; 186).

Elazar (1997 cited in Lijphart, 1999; 187) gives more emphasizes on 'non-centralization' of power in federalism. He sees federalism as the fundamental distribution of power among multiple centers...not the devolution of powers from a single center down a pyramid'.

There have been some distinctions between federalism and decentralization. For instance, under the federalism, the autonomy of member states has been established and guaranteed on a constitutional, not legislative, as it is the case with decentralized units. However, federalism is taken as decentralized governance system. Because, both the concepts have common aim of equipping people with fundamental rights and give access to constitutional, political, regional and financial rights. According to Basta (nd) decentralization implies the transfer of powers of national government or its agents to the representatives of local territorial collectivities whereby the latter are not directly responsible either to the national government or to its agent. In Nepal the federalism has furnished local level government with special rights and has dreamt of strong local government. Thus, I have taken federalism as the decentralized governance system in this article.

### **Corruption: Violation of Established Rules for Personal Gains**

There is not a single definition of corruption that is popularly accepted. Many scholars have defined corruption in different ways. Nas et. al. (1986: 108) have defined a

corrupt act as any illegitimate use of public power or authority for private benefit. According to them, corruption is a product of individual and structural variables that interact to produce both positive and negative consequences. Individual level consideration such as greed and the likelihood of detection and prosecution suggest one set of policies for reducing corruption. Corruption is the moral incapacity of citizens to make reasonably disinterested commitments to actions, symbols and institutions which benefit the substantive common welfare (Dobel 1978; 958). Corruption is the abuse of public office or position for private gain (Zakiuddin 2000). Similarly Amuwo (2005) defines corruption as the exploitation of public position, authorities, power, resources for private interest and gain. In the same way, Altas (1968) defines corruption as a symptom of degeneration of the relationship between the state and the citizen. It will be characterized by extortion, nepotism, bribery. Sen (1999) defines corruption as the violation of established rules for private or personal gains or profits.

Heidenheimer (1970; 3-9) describes three types of corruption in the society: public office-centered, market-centered and public interest-centered. Public office centered definition focuses on the violation of the public place by the official; market-centered definition refers to maximize personal gain by dispensing public benefits. Similarly, public-interest centered definition focuses on the violation of the common interest in favor of special interests that provide direct or indirect benefit to government officials. TI (2011) has developed a working definition of corruption. It is defined as "the abuse of entrusted power for private gain."

### **Relationship between Decentralization and Corruption: Lessons from Others**

Evaluating the results of decentralization in the local level is not an easy task. The study of relationship between decentralization and corruption is very complex. Decentralization is multifaceted and can give rise to mixed predictions (Fjelstad 2004). Some scholars argue that centralized governments are more corrupt whereas others find decentralized ones are more corrupt. However, there are no clear-cut findings and conclusions on the relationship and linkages between decentralization and corruption. There are equal groups of intellectuals supporting and opposing the relationship between decentralization and corruption. Many say that decentralization leads to more corruption while other says that it decreases corruption. The perspectives of both groups have been mentioned here.

Many scholars argue that the local governments provide the efficiency, accountability and transparency in local level. Local governments have the potential to perform better; and they also argue that the close relationship between citizens and government at the local level fosters better accountability.

Breton (1996) finds that the competition between different levels and layers of government will lead to less corruption in the public services. Shleifer and Vishny (1993) argue that a very decentralized may suffer less from the damaging effects of corruption. Wingast (1995) argues that federalism contributes to more honest and efficient government by providing for competition between sub-jurisdictions. Fisman and Gatti (2002a) also agree with them. According to them fiscal decentralization in government expenditure is strongly and significantly associated with local corruption. In a similar way, Gulsun (2000) finds out that increased decentralization causes more competition for capital among jurisdictions resulting in a lower level corruption. Gurgur and Shah (2000) also argue that decentralization has a greater negative impact on corruption. Decentralization supports greater accountability in the public sector and reduces corruption. USAID and World Bank (2000) have conducted a survey and find that the local governments are perceived to be less corrupt than central and provincial governments.

However, other scholars do not agree with these findings. They strongly believe that decentralization will lead to more corruption. Banfield (1979:98) argues that decentralized political systems are more corruptible. Manor (1999; 101) argues that decentralization is always attended by an increase in the number of persons who are involved in corrupt acts and corruption may be rampant at the local level. Prud'home (1995; 211) finds that the decentralization provides more opportunities for corruption at the local level. There are two reasons behind it. First, local officials usually have more discretionary powers than national decision-makers. Second, local bureaucrats and politicians are likely to be more subject to pressing demands from local interest groups in matters such as taxation. In a similar way, Carbonera (2000) argues that more decentralization has positive impact on corruption, raising the individual's propensity to accept bribes.

Political accountability in poor countries is, particularly, affected by the likelihood of corruption or capture by interest groups. Local governments may be more vulnerable to capture by local elites (Bardhan 2002: 192). The possibility of capturing of local governments and administration by the elites is very high. While there is capture of local governments, there is a tendency for services to be overprovided to local elites at the expense of non-elites (Fjeldstad, 2001:4). According to him expenditure decentralization is highly vulnerable to corruption. There are four reasons. First, local capture by elites, second, local financing constraints, third inter-jurisdictional conflicts and finally, lack of adequate cost information of bargaining power of local government official vis-à-vis service suppliers. Turner and Podger (2003; xiv) find out that the local democracy might tend to favor local elites and the emergence of money politics.

Tiebout (1956) argues that decentralized provision of public goods allows better fulfillment of diverse individual demands. However, the time has changed and his argument is not reality in present time in many developing countries. Brueckner (2000) finds out that local corruption and tax evasion may exist in many developing countries in the present time. Treisman (2000a) finds out that the multi-tiers of government tend to have higher perceived corruption. Treisman (2000b) using TI's Corruption Perception Index (CPI) identified that the federal states are more corrupt than unitary ones. Goldsmith (1999) argues that the federal or decentralized countries are more corruptible because they make it very easier to hide corrupt practices. Fisman and Gatti (2002b) find out that the larger federal transfers are associated with higher rates of conviction for abuse of public office in USA. Fjeldstad (2001) also argues that the fiscal administration in many local authorities is found to be highly corrupted. Kingsbury (2017; 408) argues that the decentralization can provide greater opportunities for patronage and nepotism. World Bank (2004) study finds that decentralization increase opportunities for corruption in developing countries.

The process of decentralization is a means to better allocate resources, to devolve administrative responsibility away from a sometimes remote center. It also support to direct political control in the hands of local people (Kingsbury, 2017; 408). However, the impact of decentralization is not always positive and successful.

"During the 1990s it became clear that the normative expectations of decentralization had often exceeded it actual performance. Sub-national deficits, debt, and corruption - an inefficient resource allocation emerged in many countries, in a few cases threatening national fiscal stability (Smoke et. al. 2006:3 cited in Kingsbury 2017; 408).

Huntington (2006) argues that modernization breeds corruption. According to him there are three supporting connections. First, modernization involves a change in the basic values of society. In the traditional time there are no differences between public role and private interest. Corruption is a product of the distinction between public role and private interest which comes with modernization. Second, corruption is a means of assimilating new interest groups into the political systems by irregular means because the system has been unable to adapt sufficiently fast to provide legitimate and acceptable means to create new source of wealth and power during modernization. Thirdly, modernization encourages corruption by the changes on the output side of a political system and it supports to breed corruption in the society.

Generally, the intellectuals who study on the relationships between corruption and decentralization categorize federalism into four types. These are fiscal federalism, political federalism, constitutional federalism and spatial federalism. Freille et. al. (2008)

investigate the empirical relationship between decentralization and corruption. Their study suggests that fiscal or market decentralization is associated with lower corruption and constitutional decentralization is associated with higher corruption. Similarly, political decentralization worsens the positive effect of constitutional centralization on corruption and spatial federalism does not appear to have a strong association with corruption. De Mello and Barenstein (2001) and Fisman and Gatti (2002b) have found that fiscal decentralization is associated with lower level of corruption.

If we review the literature there are numbers of arguments that support to the notion that localization increases to corruption. There is much logic behind it. First is personal interest. Vito Tanzi (1995) finds out that the decentralization always brings officials in close contact with local people and promotes personal interest and reduces professionalism. Personal interest always supports to breed corruption in local level. Second, monitoring will be very weak and vertical controls almost weak. Lower monitoring, vertical controls and supervision may support to increase the motivation for corruption in local level. Third is the political decentralization leads to lack of discipline in the community. Blanchard and Shleifer (2000) argue that the political decentralization is a source of corruption in Russia. Fourth, local government and resources will be captured by interest groups. Some scholars (Prud'homme 1995, Bardhan and Mookherjee (2000) argue this way. They argue that opportunities for corruption increase due to a great influence of interest groups.

### **Decentralization and Corruption in Nepal**

Nepal has a long history of decentralization. Decentralized governance system had been in practice since long time (Lumsali, 2064 B.S.). It had become institutionalized after the promulgation of the Local Self-Governance Act in 1999. Nevertheless, due to political transition, the local governments in Nepal became void of peoples' representatives from July 2002 to May 2017. During this period, the government gave the responsibility of peoples' representatives to the bureaucrats. There had been considerable increase in conditional and unconditional grant to local governments during this period. While there was abundance of rights and resources, corruption got more flourished due to lack of peoples' representatives for the management of that (Upadhyaya and Ghimire 2073 B.S.). The political vacuum created by prolonged absence of elected leaders (2002-2016) has also helped to breed massive corruption and elite capture at the local level (Manandhar, 2018). Meanwhile, the means and resources got more increased when the Constitution of Nepal 2015 was promulgated and the federal governance system was introduced in Nepal. The Annex 8 of the constitution contains list of 22 concurrent powers for local government, the Annex 9 contains jurisdiction for federation province and local level. This is presented in Table 1.

**Table 1**

List of concurrent powers/jurisdiction for federation, province and local government

List of Powers/Jurisdiction for Local Level	List of Concurrent Powers/Jurisdiction for Federation, Province and Local Level
<ul style="list-style-type: none"> <li>• Municipal police</li> <li>• Cooperatives</li> <li>• FM operation</li> <li>• Local tax (property tax, house rent tax, fee on registration of houses and land, vehicle tax), service fee, tourism fee, advertisement tax, business tax, land tax (land revenue), fines, entertainment tax</li> <li>• Management of local services</li> <li>• Local statistics and record keeping</li> <li>• Local development projects and programs</li> <li>• Basic and secondary education</li> <li>• Basic health and sanitation</li> <li>• Management of local markets, environment conservation and biological diversity</li> <li>• Local roads, rural roads, agriculture roads, irrigation</li> <li>• Village assembly, Municipal assembly, district assembly, local courts, dispute settlement and mediation</li> <li>• Management of local records</li> <li>• Distribution of land, building ownership certificates</li> <li>• Farming and livestock, agriculture production management, livestock health, cooperative</li> <li>• Management of senior citizens, people with physical disability and disabled</li> <li>• Collection of statistics of unemployed people</li> <li>• Management, operation and control of agriculture extension</li> </ul>	<ul style="list-style-type: none"> <li>• Cooperatives</li> <li>• Education, Health and Newspapers/Magazines</li> <li>• Health</li> <li>• Agriculture</li> <li>• Services like electricity, drinking water, irrigation</li> <li>• Service fee, registration fee, fine, tourism fee and royalty received from natural resources</li> <li>• Forest, wildlife, birds, water use, environment, ecology and biodiversity</li> <li>• Mines and minerals</li> <li>• Disaster management</li> <li>• Social security and poverty alleviation</li> <li>• Registration of personal incidents, birth, death, marriage and statistics</li> <li>• Archaeology, ancient monuments and museums</li> <li>• Management of landless</li> <li>• Royalty received from natural resources</li> <li>• Permission for vehicles</li> </ul>

- Drinking water, small electricity projects, alternative energy
- Disaster management
- Conservation of Watershed, wetland, wildlife, mines and minerals
- Preservation and development of language, culture and fine arts

Source: Constitution of Nepal 2015

The budget allocation for local level has been increasing in the recent time. This can be clear from the budget of past six years (Refer to Table 2 below). (Note: A chart showing a trend line will have more visual effect than the Table below)

**Table 2**

The condition of budget allocation in the local level

Fiscal Year	Total National Budget (in Rs. 000)	Allocated budget for local level	Allocated Percent
2070/71	5,17,24,00,00	46,54,28,11	9
2071/72	6,28,10,00,00	57,44,46,60	9.30
2072/73	8,19,46,88,84	77,23,93,08	9.43
2073/74	10,48,92,13,54	1,16,73,79,08	11.13
2074/75	12,78,99,48,55	2,25,05,45,91	17.6

Source: Ministry of Finance, Nepal

The table above shows the picture of budget increment over the past five years. In 20170/71, if only nine percent of total budget was allocated to the the local level then in 2074/75 this got increased to 17.6 percent. The budget allocation has double within a span of five years. In 2075/76 a total of 1.315 trillion has been allocated.. This is a substantial amount of budget allocation for the local level. The government of Nepal has allocated Rs. 135.51 billion as equalization grant for FY 2075/76. Out of Value Added Tax and Excise Duty levied on domestic production, GoN has projected revenue sharing grant to be Rs.114.24 billion for provincial and local level governments. This sharing is done on the basis of their population, territory, human development indicators, and infrastructure and expenditure requirement. Similarly, GoN has allocated Rs. 63.14 billion and Rs. 109.85 billion as conditional grants to provinces and local level, respectively. Finally, GoN has allocated Rs. 20 billion to provide complementary grant to provinces and local levels for projects identified by them under their jurisdiction, and to



provide special grant to provinces and local levels to execute activities of special nature for FY 2075/76 (MoF, 2018).

The corruption must have decentralized with the increase in budget allocation for the local level (Upadhyaya and Ghimire 2073 B.S.). There has been considerable increment in the incidences of corruption and financial irregularities with the increase in local budget (Poudel, 2075 B.S.). The budgets for target groups have been misused and there are also instances where budgets have been consumed simply by undertaking “paper works” (Ghimire, 2074 B.S.). The study of CIAA has also shown that there could be irregularities and misuses during policy formulation and budget allocation (CIAA 2074 B.S.). Various studies have shown that there have been duplications in the development works at the local level. For example, the road division, users committee, education office, local entity all makes different bills for the same work (CIAA, 2074 B.S.:22). The cases filed against financial irregularities in the local level are on rise. This is depicted in the Table 3 below.

**Table 3**

The cases filed in the last five years in CIAA.

Fiscal Year	Education	Local Development	Land Administration	Health	Home Administration
2073-74	3974	3042	1341	901	895
2072-73	5671	3659	1582	1242	1189
2071-72	7264	3982	2165	1493	1263
2070-71	2900	1857	1292	768	1010
2069-70	2093	1728	876	664	800

Source: CIAA Annual Reports

The table above provides the clear picture of the cases filed in the CIAA. The largest number of cases is related to the education sector followed by local development sector. Among all the cases filed, 80 percent of all cases are related to education, local development, land administration, health and home administration. The 24<sup>th</sup> Annual Report of the CIAA includes:

...though huge amount of budget is being allocated for the local levels but the monitoring mechanism is not effective...all the budget is not utilized, there have been irregularities. The targeted groups have little or no excess to the development works carried out through the users committees thus leading to corruption by the local elites...during social security allowance distribution, there have been irregularities: the employees are creating false bills and signatures... Similarly, the budget is being

allocated not by formal process but by the aid of political power. So, in most cases, there is duplication in development works. The works do not meet the minimum quality requirements but the certificates of quality assurance are issued by taking bribe (CIAA 2071; vii-viii).

A huge amount in the local bodies has remained as arrears. The Table 4 below shows the total audited amount and pending irregularities.

**Table 4**

The arrears amount in the local entities in the last five years (in thousand)

Year	Total Amount of Audited	Arrears figures			Total	Total arrears percentage
		to be recover	to be regularize	unsettled advances		
2074	1557429	7445	38952	67247	113644	11.99
2073	670626	2552	42013	35783	80348	9.04
2072	401648	2038	24267	46064	72370	14.84
2071	414603	2747	16738	25386	44871	12.00
2070	352829	1930	13901	26537	42368	14.73

Source: Annual Report of OAG

The table above gives a clear picture of the arrears status in the decentralized system. The total amount of arrears has been increasing astoundingly. While the resources have been decentralized, the lack of proper management leads to excessive financial irregularities. The report of the office of Auditor (?) General 2074 B.S. also shows that the financial management in the local level is very weak. The report also includes that lack of criteria and standards in revenue collection in jurisdiction among the local, provincial and federal government has created problems. Similarly, lack of accountability in elected members as well as employees, transparency in procurement and prudential expenditure, the amount in local bodies are not managed well (OAG, 2074 B.S.; 69)

While analyzing the above scenario in a micro level, it seems that federalism has delegated excessive jurisdiction to the local level. (Avoid this line or summarize, as it has already appeared in the text above). Similarly, the resource allocation for local government has also been increased. After the elections, there has been excessive political decentralization in the local level. The peoples' representatives have been handling the local bodies. Along with this, public complaints gunaso against financial irregularities and corruption have also been increasing implying the misuse of public resources.

The federalism has formed 761 theoretically autonomous governments. It seems that the financial activity in these autonomous bodies have invited massive irregularities and corruption. The strong control mechanism has not yet been formed. There are no strong intuitional arrangements for improving the status of internal good governance. This has invited increased corruption in the underdeveloped federal country like Nepal. Though the financial decentralization is expected to minimize corruption to some extent, this could be countervailed by further increase in political, constitutional and regional federalism. According to Wagle (2074 B.s.) (who?) the elections of local government is starting point of corruption in the political federalism.

In most of the cases, the political and constitutional rights are delegated to the lower level in the under developed and developing countries but the strong monitoring mechanism is absent or just stands for formality. This leads to the decentralization of corruption (Widmalm 2008). In case of Nepal, the status of fiscal or market federalism is very weak. Political and constitutional aspects of federalism seen more strong in Nepal (this line is not clear). The prospect of resources mobilization in regional federalism has been neglected. In this way, it seems that theoretical basis of federalism has provided a ground for corruption (Wagle, 2074 B.S.:3).

The constitution of Nepal has made the provision of CIAA for controlling corruption. Though the structure and jurisdiction of investigation is very scattered, distributive and duplicated (this line is not clear). Around half a dozen of government entities have been provided with the right to investigate and adjudicate corruption crimes (Koairala et. al. 2015). The structure of various government entities like National Vigilance Centre, Department of Anti-Money Laundering, and Revenue Investigation Department is not clear yet. Furthermore, the restructuring of CIAA has not yet been finalized. Neither the CIAA has made any solid management for improving the deteriorating status of corruption in a federal set up. The existing watchdog entities are also not keeping their eyes on the local level corruption. . It seems that the decentralization shall lead to increased corruption.

The Local Government Operation Act 2017 has provided jurisdiction of investigation of natural resources and monitoring to local level. The peoples' representatives and officials are themselves involved in exploitation of natural resources. They are personally involved in contract and working as contractor of various development works which has led to conflict of interest. For example, the chair person and vice chairperson of Kerabari Gaupalika are the owners of crusher business. They have been involving in making public decisions in commensurate with their business interest. (Bhattarai 2075 B.S.). Similarly, the people representatives' of Nalgaun Municipality, Jajarkot has purchased an excavator and constructed road. There are

complaints from people on the financial irregularities during the road construction. 50 percent of the total budget in the ward has been allocated for road construction and this road construction was made through the use of excavator owned by the elected representatives (Karki, 2074 B.S.). The representatives in Okhaldhunga also possess their own excavators. The first village council in Manebhanjyang rural municipality has allocated seven crore rupees budget for road construction. Almost all the roads have been constructed with those excavators (Onlinekhabar 2074 B.S., a).

The incidences of involvement of peoples' representatives in corrupt activities are being publicized. The cases filed against corruption in CIAA and NVC have increasing. Those incidences include financial irregularities by elected representatives, corruption by Mayor and Vice-Mayor in connivance with the Users Committees (Sharma, 2075 B.S.). The representatives are not publicizing the running cost of rural municipality; there is duplication in evaluation of works. Similarly, the excavators are used in road construction without rate analysis and payment is not made according to the estimate. There is also irregularity in providing permit to extraction of riverbed materials like sand and boulders. For example, a case has been filed against this in District Administration Office (Okhaldhunga news, 2074 B.S.). Similarly, the vice-chairman and other representatives expressed their agitation against the chairperson of Pakaha Mainpur Rural Municipality of Parsa District. The vice chairperson, Kushmi Devi and other representatives waged movement on 7 September 2018 against the chairperson Bijay Chaurasiya. The chair person along with administration officer were accused of misusing 23 crore 95 lakh rupees (Shah, 2075 B.S.).

At the local level there are instance of corruption while getting approval for building construction. Ward chairpersons from 14 wards of Lalitpur Sub-Metropolitan City submitted (what petition?) to Mayor Chiribabu Maharjan in January 2018 while there had been extensive irregularities. Legally, the employees of Municipality themselves cannot be associated with the consultancies. The news of the employees taking up to 60 thousands bribe money from the clients for granting approval to building constructions. The civil engineering firms are often owned by the employees of the municipality (Mali, 2074 B.S.). Similarly, the investigation committee found that there had been excessive indiscretion in purchasing of winter clothes in Parashuram Municipality in Dadeldhura. There had been corruption of 3 lakh, 20 thousand, 4 hundred and 19 rupees in total purchase of 9 lakh rupees (Malla 2074 B.S.). (I have stopped editing after this end)

Engineer of Kathmandu Metropolitan City, Sushil Chapagain was arrested with 10 thousand bribe on 16 January 2018 by CIAA. He was arrested on the basis of information that he asked for bribe while providing the client with the building

completion certificate (Onlinekhabar 2074 B.S. b). Similarly, Mayor and Deputy Mayor of Itahari Sub-Metropolitan City were arrested on November 2017 for investigation on the information that they purchased electric goods costing 90 lakh rupees against the public procurement act (Annapurna Post 2074 B.S.). There have been intensive corruptions in policy formulation, procurement and expenditure, construction, treasury collection and mobilization among others (Khadka 2074 B.S.).

Decentralization focuses on prioritization of projects on the basis of problems and necessity in the local level and allocating budget accordingly. Whomever, the politicians and peoples' representatives are identifying the projects and allocating budget by regarding their cadres and voters only (Basnet, 2018). Majority of projects are divided politically. The budget of Manthali Municipality has been divided by the representatives. After deducting the running cost, the remaining budget has been divided equally among the political leaders (Pathik, 2074 B.S.).

The events stated above can be the basis to identify the probable sectors in the local level where there can be intensive corruption. Basically, while the financial discipline mechanisms are not being institutionalized, there is enough possibility of misuse of resources in local level. Not only the constitutionalism and political decentralization but also the status of market decentralization is also weak in Nepal which boost for corruption and financial irregularities. The political leaders with constitutional rights have arrived to the local level. The status of market decentralization is very feeble. As a result, the representatives are curtailing themselves and spending the budget as their wish. This has further encouraged for corruption.

While analyzing the events stated above in a micro level, it seems that while resources and rights are decentralized, incapability of fetching strong monitoring and evaluation mechanism in the local level has aided for further corruption. The decentralization in Nepal has promoted personal interest rather than professionalism. There is high risk of local capture by elites in the local level. In developing country like Nepal elites interests dominate and people's participation, transparency and accountability mechanisms are very weak. Similarly, political interference and domination in local affairs is rampant. So, localization or decentralization of corruption is very high. In the same way, local resources are captured by local authorities and elites. Misuse of public resources by public office holders is excessive. It also promote to the rampant bribes and corruption in local level in different sector. People's representatives and officials are also politically biased and randomly divide the budget. Also, they are spending public money in luxuries goods and unproductive sectors.

The entities like CIAA and NVC are still centralized in this changing governance system but there has been decentralization of resources, rights and power. This has

limited these watch dog institutions to keep eye on lower level in an enough manner. There is no formal opposition in local governments. Neither there is strong presence of media and civil society. Rather there has been practice of dividing budget politically in the name of political consciousness which has promoted corruption. The goods and services provided by local level have not been information technology friendly. The manual works have supported for irregularities. Similarly, the entities to which the cases are filed on the irregularities in local government and procedures are very complicated. The mechanism, entities and procedures seem to be excessively centralized while corruption seems to be excessively decentralized. The transparency and accountability has not been promoted in the local level. This has also led to corruption.

### **Conclusion**

The federalism has provided the provincial local level with unrestricted constitutional and political right. The market has not been decentralized accordingly. Hunther and Shah (1998) argue that fiscal decentralization is associated with enhanced quality of governance system, accountability and financial management system. It also contributes to reduced corruption. Similarly, De Mello and Barenstein (2001) also argue that tax decentralization is positively associated with improved quality of governance. However, the fiscal decentralization seems very feeble in Nepal. Because there is the absence of right to proper taxation and freedom to mobilize local resources at the local level, it supports to promote corruption. The competitive market has not established in local level yet which has been endorsing monopoly and non-transparency. Similarly, the political leaders spend extensively to win the election and when they come to power, misuse it excessively to get back the expenditure. Political decentralization creates the lack of discipline in the local level. The political and constitutional rights have given rise to possibility of conceal the corrupt activities.

In the meantime, as said by Vito Tanzi (1995), localization brings officials in close contact with citizens and it promotes personal interest and reduces professionalism. The constitution of Nepal 2015 has provided the local government with specific rights. In the same way, the local government operation act 2017 has also provided enough rights to it. Although, monitoring mechanism and vertical controls system are very weak in Nepal. It shows that the localization process motivates to corrupt behavior among public authorities. The interest groups capture the local resources as said by Prud'homme (1995). According to him, opportunities for corruption increase due to greater influence of interest groups at the local level. In Nepal, there exists unwarranted influence of various interest groups which seems to aid for corruption. In this situation, decentralization can only be effective when agencies and actors at the regional and local levels have developed and capacities to perform effectively the planning, decision making and management functions that are formally granted to them as said by Cheema and Rondinell (1983:299).

### References

- Acharya, S. (2068 B.S.), Sthaniya Nikaya Bikashkram ra Sambhabyata (Historical Development of Local Bodies and Possibilities) in: Local Governance in Nepal. Lalitpur: MIREST Nepal. (In Nepali Language).
- Altas, S. (1968). *The Sociology of Corruption: The Nature, Function, Causes and Prevention of Corruption*. . Singapore: HoongFatt Press.
- Amuwo, K. (2005), The Peripheral State: Critical Perspectives on the Structure and Role of the Public Bureaucracy. *Journal of Development Alternatives*. ADB Area Studies, 24 (2-3), pp.. 119-130.
- Annapurna Post (7 Manshir, 2074 B.S.). Itahari ka Mayor ra Upamayor le 90 Lakh Bhrastachar garepachhi Akhtiyar ko Kabja ma (Mayor and Deputy Mayor are under the arrest due to 90 Lakh corruption in Itahari Municipality). p.4.
- Banfield, E.C. (1979). Corruption as a feature of governmental organization. In: M. Ekpo, (ed.) *Bureaucratic Corruption in Sub-Saharan Africa: Towards a Search for Causes and Consequences*. Washington D.C.: University Press of America.
- Baral, L.R. (2009). Nepal: Federalism in a Divided Society. In: D. B. Gurung (ed.), *Towards A Federalized Democratic Nepal*, pp. 23-44. Kathmandu: FFP.
- Bardhan, P. & Mookherjee, D. (2000), Capture and governance at local and national levels. *American Economic Review*, Vol. 90 (2), pp. 135-139.
- Bardhan, P. (2002). Decentralization of governance and development. *Journal of Economic Perspectives*, Vol. 16 (4), pp. 185-205.
- Basnet, D. (2018). Aafna lai Budget, Arkaka Yojana Rokka ( Budget to Relatives and no project to others). Retrieved from <http://cijnepal.org.np/201813-2/> [Accessed 10 September 2018].
- Basta, L.R. (nd), Decentralization- Key Issues, Major Trends and Future Developments. Retrieved from [http://www.ciesin.org/decentralization/English/General/SDC\\_keyissues.pdf](http://www.ciesin.org/decentralization/English/General/SDC_keyissues.pdf) on 24 September 2018.
- Berton, A. (1996). *Competitive governments: An economic theory of politics and public finance*. Cambridge: Cambridge University Press.
- Bhattarai, D. (2075 B.S.). Morang ma Janapratidinidhi batai Prakritik Shrot ko Dohan. (Exploitation of Natural Resources from People's representatives in Morang) Retrieved from [https://www.onlinekhabar.com/2018/05/679474?utm\\_source=Facebook&utm\\_medium=fbshare](https://www.onlinekhabar.com/2018/05/679474?utm_source=Facebook&utm_medium=fbshare) [Accessed 21 May 2018]

- Blanchard, O. and Shleifer A. (2000), Federalism with and without political centralization: China versus Russia. Working Paper, National Bureau of Economic Research. No. 7616 (March): 1-14.
- Brueckner, J.K. (2000), Fiscal decentralization in developing countries: The effects of local corruption and tax evasion. *Annals of Economics and Finance*, Vol. 1 (1), pp. 1-18.
- Carbonera, E. (2000), Corruption and decentralization. Working Paper 342/83. Dipartimento di Scienze Economiche, Universita di Bologna.
- Cheema, G.S. & Rondinelli, D. N. (1983), Decentralization in Developing Countries. A Review of Recent Experience. World Bank Working Papers No. 581, Washington DC.
- CIAA (2071 B.S.). 24<sup>th</sup> Annual Report of The Commission for the Investigation of Abuse of Authority (CIAA). Kathmandu.
- CIAA (2074 B.S.). 27<sup>th</sup> Annual Report of The Commission for the Investigation of Abuse of Authority (CIAA). Kathmandu.
- Constitution of Nepal [Nepal], 2015 (2072.6.3), 20 September 2015, available at: [http://www.lawcommission.gov.np/?workflow\\_state=prevailing-laws-constitution](http://www.lawcommission.gov.np/?workflow_state=prevailing-laws-constitution) [accessed 24 September 2018].
- De Mello, L & Barenstein, M. (2001), Fiscal decentralization and governance: A cross-country analysis. IMF Working Paper WP/01/171. Washington DC: International Monetary Fund.
- Elzar, Daniel J. (1987), Exploring Federalism. Tuscaloosa: University of Alabama Press.
- Fisman, R & Gatti, R. (2000a), Decentralization and corruption: Evidence across countries. *Journal of Public Economics*, Vol. 83 (3), pp. 325-345.
- Fisman, R. & Gatti, R. (2002b), Decentralization and corruption: Evidence from U.S. federal transfer programs. *Public Choice*, Vol. 113 (1-2), pp. 25-35.
- Fjeldstad, O.H. (2001), Taxation, coercion and donors. Local Government tax enforcement in Tanzania.' *The Journal of Modern African Studies*, Vol. 39 (2), pp. 289-306.
- Fjeldstad, O.H. (2004), Decentralization and corruption: A review. CMI Working Paper 10, Bergen: Chr. Michelsen Institute.
- Freille, S. et. al. (2007), Federalism, decentralization and Corruption. MPRA Paper No. 27535, Retrieved from <https://mpra.ub.uni-muenchen.de/27535/> on 24 September 2018.
- Ghimire, D. (2074 B.S.), Nepal ma Sthaniya Shasan: Abadharana ra Abhyas (Local Governance in Nepal: Concept and Practices). Kathmandu: Sangri-la Books.



- Goldsmith, A.A. (1999), Slapping the grasping hand: Correlates of political corruption in emerging markets. *American Journal of Economics and Sociology*, pp. 866-883.
- Gulsun, A.G. (2000), Fiscal decentralization: A remedy for corruption?, Department of Economics, University of Illinois at Urbana-Champaign.
- Gurgur, T. & Shah, A. (2000), Localization and corruption: Panacea or Pandora's box? OED, World Bank.
- Heidenheimer, A. J. (1970). *Political corruption: Readings in comparative analysis*. New York: Holt Rinehart and Winston.
- Huntington, S.P. (2006), *Political order in Changing Societies*. New Delhi: Adarsh Books
- Huther, J. & Shah, A. (2000), Anti-corruption Policies and Programs: A Framework for Evaluation. Policy Research Working Paper 2501. Washington: World Bank.
- Karki, R. (10 Magh, 2074 B.S.). Janapratidinidhi Bane Thekedar (People's Representatives became Contractor). *Annapurna Post*. P.4.
- Khadka, T. (2074 B.S.). Sthaniya Taha ma Bhrastachar (Corruption in Local Level). Retrieved from <http://www.onlinekhabar.com/2017/07/608888/> [Accessed 10 July 2018].
- Kincaid, J. (2011), Editor's Introduction: Federalism as a mode of Governance. In: Kincaid, (ed.): *Federalism. Volume 1: Historical and theoretical foundations of federalism*, pp. xxi-xxxv. London: Sage Publications.
- Kincaid, John (1999), 'Confederal Federalism and Citizen Representation in the European Union', *West European Politics* 22 (2): 34-58.
- Kincaid, John and G. Alan Tarr (eds) (2005), *Constitutional Origins, Structure and Change in Federal Countries*. Montreal & Kingston: McGill-Queen's University Press.
- Kingsbury, D. (2017), Indonesia: Arbitrary polity, unitary state. In: *Routledge Handbook of Regionalism and Federalism*. John Loughlin, John Kincaid and Wilfried Swenden (eds.). New York: Routledge Publication.
- Koirala, B. Kedar Khadka and Yasoda Timsina (2015), *Anti-Corruption Interventions in Nepal: Policy, Practices and Possible Collective Interventions*. Kathmandu: Royal Norwegian Embassy in Kathmandu.
- Lijphart, Arend (1999) *Patterns of Democracy. Government Forms and Performance in Thirty-six countries*, Chapter 10; Division of Power, pp. 185-199.
- Local Government Implementation Act (2074 B.S. ). Retrieved from [http://www.lawcommission.gov.np/page/17/?workflow\\_state=prevailing-laws-statutes-acts](http://www.lawcommission.gov.np/page/17/?workflow_state=prevailing-laws-statutes-acts) [Accessed 22 September 2018].

- Lumsali, R.R.(2068 B.S.), Nepal ma Sthaniya Sarkar Sewa Prawaha ra Bikendrikaran ( Local Government in Nepal, Service Delivery and Decentralization), in: Local Governance in Nepal. Lalitpur: MIREST Nepal. (In Nepali Language).
- Mabuhang, B.K. (2009). Federalism from Ethno-democratic and Linguistic Perspectives. In: D.B. Gurung (ed.), Towards A Federalized Democratic Nepal, pp.45-76. Kathmandu: FFP.
- Mali, P. (26 Poush, 2074 B.S.). Lalitpur Mahanagarपालिका मा Naksha Pass मा Bhrastachar (Corruption in pass of house's Map in Lalitpur Metropolitan City). Kantipur National Daily. P.3.
- Malla, A. (2074 B.S.). Parshuram Nagarpalika मा Nyano Luga Kinda Bhrastachar (Corruption in purchasing of warm cloth in Parshuram Municipality). Retrieved from <https://www.onlinekhabar.com/2018/01/654128> [Accessed 24 September 2018].
- Manandhar, N. (2018, May 10). Corruption in Federalism. *my Republica*, p.6.
- Manor, J. (1999), The political economy of democratic decentralization. Washington D.C.: The World Bank.
- MoF (2018). Budget Speech of Fiscal Year 2018/2019. Retrieved from [http://mof.gov.np/uploads/document/file/speech\\_english\\_20180715091522.pdf](http://mof.gov.np/uploads/document/file/speech_english_20180715091522.pdf) on 22 September 2018.
- Moreno, Luis and Cesar Colino (eds) (2010), Diversity and Unity in Federal Countries Montreal and Kingston: McGill-Queen's University Press.
- Nas, T.F., Albert C. Price and Charles T. Weber (1986) A Policy-Oriented Theory of Corruption. *American Political Science Review*. University of Michigan Flint, Vol. 80 No. 1 March. PP 107-119.
- OAG (2074 B.S.). 55<sup>th</sup> Annual Report of Office of the Auditor General. Kathmandu.
- Okhaldhunga News (2074 B.S.). Sthaniya Jana Pratinidhi Biruddha Bhrastachar ko Muddha (Complain against the Local Peoples' representatives). Retrieved from <http://okhaldhunganews.com> [Accessed 15 March 2018]
- Onlinekhabar (2074 B.S. a). Jana Pratinidhi ko Dojar Byabasaya (Excavator business of People's Representatives). Retrieved from <https://www.onlinekhabar.com/2018/01/654128> [Accessed 22 September 2017]
- Onlinekhabar (2074 B.S.b). Kathmandu Mahanagarपालिका को Engineer Ghus Sahit Pakrau (Engineer of Kathmandu Metropolitan City were arrested with bribes). Retrieved from <https://www.onlinekhabar.com/2018/01/653070> [Accessed 24 January 2018].
- Pathik, N. ( 2074 B.S.). Manthali ko Bikash Bajet ma Bhagbanda (Sharing the budget of Manthali Municipality by Political Parties). Retrieved from <http://www.onlinekhabar.com/2017/09/626870> [Accessed on 17 September 2018].

- Poudel, D. (02 Baishakh, 2075 B.S.). Sthaniya taha ma Arabau Aniamitata (Millions of rupees misuse in Local Level). Nagarik National Daily. p.1
- Prud'homme, R. (1995), The dangers of decentralization. The World Bank Research Observer, Vol. 10, No. 2 (August), pp. 201-220.
- Roy, Katy Le and Cheryal Saunders (eds) (2006) Legislative Executive and Judicial Governance in Federal Countries. Montreal & Kingston: McGill-Queen's University Press.
- Sen, A. (1999), Development as Freedom. New York: Anchor Books
- Shah, K.(23 Bhadra 2075 B.S.). Adhyaksha Mathi Bhrastachar Aarop (Corruption charge over Chairperson). Annapurna Post. P.4.
- Sharma, B. (5 Ashoj, 2075). Jana Pratinidhi mathi Aarthik Aniyamitta ko Ujuri Badhdai (Increasing complains against Peoples' Representatives on financial irregularities). Nagarik Daily P.4.
- Shleifer, A. & Vishny, R.W. (1993), Corruption. The Quarterly Journal of Economics, pp. 599-617.
- Tanzi, V. (1995), Fiscal Federalism and Decentralization: A Review of Some Efficiency and Macroeconomic Aspects. Annual World Bank Conference on Development Economics, pp. 295-316.
- Tiebout, C.M. (1956), A pure theory of local expenditures. Journal of Public Economics, pp. 399-457.
- Transparency International (TI) (2011), Global Corruption Barometer. Transparency International <https://www.transparency.org/gcb201011> accessed on 31 March 2018
- Treisman, D. (2000a), Decentralization and the quality of government. department of Political Science. Los Angeles: University of California Press.
- Treisman, D. (2000b), The causes of corruption: a cross national study. Journal of Public Economics, pp. 399-457.
- Turner, M. & O. Podger (2003) Decentralization in Indonesia: Redesigning the State. Canberra: Asia Pacific Press at Australian National University.
- Upadhayay S. & Ghimire D. K. (2073 B.S.), Samaj ra Bhrastachar: Karan, Aayam ra parinam (Society and Corruption: Causes, Dimensions and Consequences). Kathmandu: Sangri-la Books.
- USAID & World Bank (2000). Corruption in Slovakia: Results of diagnostic survey, Report prepared by James Andersson. Retrived from <http://www.government.gov.sk/english/dokumentary-en.html>. on 24 September 2018.

- Wagle, A. (2074 B.S.). Sanghiyata ma Bhrastachar Niyantran (Corruption Control in Federalism). In: Souvenir of the Commission for the Investigation of Abuse of Authority (CIAA), pp. 1-6.
- Watts, Ronald L. (2002), The Relevance Today of the Federal Idea, Keynote address at Pre-Conference for the International Federalismuskonferenz 2002. Glion, Switzerland (14 February).
- Weingast, B.R. (1995), The economic role of political institutions: market-preserving federalism and economic development. *Journal of Law, Economics and Organization*, pp. 1-31.
- Widmalm, S. (2008), *Decentralization, Corruption and Social Capital From India to the West*. United Kingdom: Sage Publications.
- World Bank (2004), *Mainstreaming Anti-Corruption Activities in World Bank Assistance –A Review of Progress since 1997*. Washington: World Bank.
- Zakiuddin, A. (2000), *Corruption in Bangladesh: An analytical and sociological study*. Retrieved from <http://www.ti-bangladesh.org/olddocs/research/CorBangl.htm> on 20 September 2018.