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PEOPLE-CENTRED APPROACHES TO WATER AND ENVIRONMENTAL SANITATION

Corruption and decentralisation: Evidence from India's water sector

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This paper presents empirical findings regarding the relationship between decentralisation of provision of water supply and corruption in provision of services. The current policy advice from the international agencies of aiming for decentralisation as an end in itself is questioned. The conventional wisdom that decentralisation is likely to induce participation and reduce corruption is also disputed. Drawing on a large data base, interaction between various actors is analysed. In developing countries corruption takes many forms depending on the actors and the nature of transaction. Types and magnitude of corrupt behaviour are analysed and shortcomings of the current strategies to combat corruption are discussed. We find that corruption in water supply agencies run by local governments is significantly higher than in the agencies run by the state government. This applies to almost all types of corruption. The reasons for this situation are discussed. Measures to combat corruption in decentralised water supply agencies are suggested.

Introduction

Countries of South Asia do not fare well in the Transparency International's Corruption Perception Index. In the data compiled for 2003, Sri Lanka comes at 66th position, India at 83rd, Pakistan at 92nd and Bangladesh at the very bottom of the pile at 133rd position (Transparency International, 2004). Considering that a lot of public investment has gone into the water sector in these countries, especially in India, it is not surprising that water sector too is beset by corruption. One of the least confronted challenges facing the achievement of Millennium Development Goals in the water sector is corruption in public water supply institutions.

The rich countries are not free of corruption in the water sector. In 1995, Lyonnaise des Eaux was prosecuted for paying a bribe to the Mayor of Grenoble to get a water contract. In the same year, two Generale des Eaux executives admitted making payments to elected officials on the French island of La Reunion in return for a water deal. In 1996, Government of Singapore blacklisted five multinational companies, Siemens, Pirelli, BICC, Marubeni and Tomen from bidding for any government projects for five years after their consultant was convicted of paying bribes for utilities contracts. In case of developing countries, corruption is not confined to high level dealings. Moreover, the consumers are also caught in the web of corruption directly.

Not long back corruption was viewed as 'beneficial grease' for wheels of development (Lui, 1985). The word 'corruption' was avoided by international agencies; 'lack of transparency' and was often ignored as minor annoyance. "Corruption… what Corruption?" was the apt title of an influential paper on bribery in India (Schneck, 1989).

In the 1990's 'grease or sand' debate occupied the attention of development economists. A consensus emerged that Marcos type of centralised well-organised corrupt state, where corruption is a necessary evil, would do better than a confused state like Russia under Yeltsin, where corruption is sand in the wheels of development. Though corruption is very difficult to measure, the current consensus is that all types of corruption, soft touch or hard graft, is bad for development. It is not merely a moral issue but an economic issue and a major obstacle to development in third world countries. International agencies have graduated from skirting the issue to describing corruption as 'a cancer that eats into social and economic fabric of development' (Bitarabeho, 2003). Strong words indeed! And the prescription? Liberalise, globalise, privatise and decentralise (World Bank, 1997).

This paper analyses the nexus between corruption and decentralisation; the latter being the current mantra of development being promoted by the international agencies. While no final solutions are provided, some policy implications can be drawn from the analysis.

The case for decentralisation

The Decentralisation of provision of public services is considered essential for improvement in the efficiency of the public sector. The standard argument provided by the theory of fiscal federalism is that within a region, there is varied preference. In area A, people prefer libraries, but in area B, the people may prefer more sports facilities. The same mix of libraries and sports facilities will satisfy neither. Decentralised provision makes it possible to give the residents of A and B the mix they want and, thereby, to increase welfare. This being so, the local governments are better placed to recognise the asymmetries in tastes and to

provide appropriate responses. The second argument is based on supply efficiency. The local government being closer to the people is more likely to run public service projects in the interest of the stakeholders.

A consensus is slowly emerging to the effect that decentralisation is desirable not only from the point of view of sustenance of democracy but also of efficiency and honesty. Responsibility for provision of public services should lie with the lowest level of government, unless due to strong reason of externality, chargeability and technicity, the higher level has to step in. This is invariably the essence of policy advice given to developing countries by the international organisations.

Looking from the side of the demand efficiency, in developing countries the hypothesis on which this classical model rests is fragile. In the developing countries, the fine difference in preferences (e.g., parks versus libraries) is not the issue. The main issue is the satisfaction of basic needs.

From the supply efficiency side, few scholars have challenged the validity of the decentralisation approach. Even those of who have raised doubts are of the view that while the provision of infrastructure could be centralised, maintenance should be decentralised because the local governments have comparative advantages in terms of information and incentive (Prud'homme, 1995).

The bias towards decentralisation in the federalism literature could be due to the fact that hardly any empirical studies relating to the comparative efficiency are available. Analysis is based on individual case studies and subjective assessments subject to the halo effect. The halo effect comes when something, which is politically or socially desirable, is also assumed to be economically efficient by the evaluators in their subjective evaluations (Isham et al., 1995).

The setting

The area of study covers the rural areas of two large central Indian states, Madhya Pradesh and Chhattisgarh, which cover the whole of central India. These states together cover an area of 440,000 square kilometres and a population of 76 million. Per capita income (US$ 313; PPP$ 1626) is lower than the Indian average (US$ 460; PPP$ 2390). 86 per cent of the population is below the international poverty line of two dollars a day and 44 per cent below one dollar a day. As per 2001 census, the literacy (64%) is only slightly lower than that of India as a whole (65%). Health standards are as poor as in the rest of India. Infant mortality rate is 99 per thousand, even higher than that of India as a whole (61 per thousand). If we leave out some small outlier states and metropolitan cities with high levels of human development, the demographic and socio-economic profile of the area of study is same as the rest of the India, and similar to the whole of South Asia (CMIE, 2004).

In general, small villages and remote habitats are served by handpumps whereas larger villages, usually with a compact population of 2,000 are covered through piped water schemes. Towns of all sizes have piped water supply schemes. Governments in India, at national, state and local levels spend over half a billion US$ for provision of water supplies. The national government does not directly implement any scheme, as under the Constitution of India, water supply is a state subject. It is up to the state governments to implement the scheme or leave it for the local governments to do the same.

Unlike other developing countries, foreign aid component in this sector is just about five per cent. Hence, policy making is autonomous.

All state governments in India have decided to transfer the maintenance and operation of drinking water schemes to the local bodies. This decision, however, has yet not been fully implemented in most states. In general, NGOs have been in favour of decentralisation. The activist groups, however, hold the state governments responsible if there is an epidemic in an area even where the provision of water supply is under the control of the local authority. While the federal government

Table 1. Rent seeking in water sector

Table cell heading	Customers	Water Supply Staff	Contractors	Politicians
Water Supply Staff	**Speed money for new connections and repairs to existing connections. Falsifying records for lower bills and concealment of illegal connections.**			
Contractors		**Contract kickbacks and concealment of sub-standard work.**	**Collusion in contract bids.**	
Politicians	**Money or promise of support for prevention of disconnection**		**Tendering kickbacks**	

has been urging the states to go ahead with decentralisation, the international aid agencies are even more insistent. The German aid agency KfW withdrew the second stage of their rural piped water supply project from the state of Madhya Pradesh because decentralisation was incomplete.

On the other hand, the State Human Rights Commission, which has jurisdiction over the geographical area under study, has recommended that the maintenance and operation of drinking water schemes should be with agencies of the state government. The commission is of the view that the availability of safe drinking water is not merely a basic need but is also a human right and that the state government is better placed to safeguard this human right as compared to a local authority (MPHRC, 1999).

Prevalence of corruption

The term corruption in this paper refers to a range of misconduct involving the use of public office for private gain. There are four principal actors – the consumers, water service providers, contractors and politicians. Interactions are given in Table 1.

Consumers do not have dealings with the contractors but they must contend with interaction with all other actors. Contractors could deal with each other to form a cartel, but this will be possible only with the collusion of water service professionals and the politicians. This study, as also others indicate that cartelisation is not the dominant form of corruption. Contractors prefer to beat the system through tendering irregularities and passing on sub-standard work. On the one hand, corruption increases the bid price due to kickbacks, on the other it could reduce the same as the contractors know that they can get away with sub-standard work. Thus, the works do not cost much more than the Schedule of Rates prescribed by the State Government.

If S is the schedule of rates including contractor's profit, in a corruption-free competitive environment, the bids should be clustered around S. If the bids are too high, there will be re-tendering. If a contractor has to pay an amount B1 to secure contract through tendering process and grease his way through passing of bills etc., saves an amount A through sub-standard work of which he passes on B2 as bribe to get away with it, in a competitive environment, the bids will cluster around S+ B1-A+ B2. If A, i.e., quantum of sub-standard work is fairly large, corruption can flourish in a competitive environment.

A cartel can be broken up by an outside contractor as also by the Government by plugging the loopholes in the Schedule of Rates. However, if a contractor tries to minimise B1, (s)he is unlikely to get a contract and if (s)hedoes manage to get it, he may face harassment and his bills may be unduly delayed.

Water supply personnel are at various levels and corruption does seem to exist within this cadre. Field personnel have to get their travelling and contingency bills cleared from the accountants. Often, superiors have demanded bribe for favourable postings. This type of corruption is on the low key because the politicians can overrule senior personnel and transfers and postings are now the preserve of the ruling politicians.

Thus our main focus is on interaction of water supply personnel with the consumers and the behaviour of contractors. The former reduces the revenue while the latter reduces the cost.

Data

Since corruption cannot be measured directly and is extremely difficult to measure even indirectly, usually, perception of corruption is taken as a proxy. It is often assumed that this leads to under-reporting because persons engaged in corruption, even the sufferers of a corrupt system decline to report. Some sociological studies on the other report that corruption is not as wide-spread as perceived because persons not directly involved assume everyone in the system to be corrupt and single out individuals as exceptions. This study is neither an exposé of corruption nor an attempt to measure corruption accurately, but a comparison of corruption between two systems, under-reporting and over-reporting is unlikely to influence the results significantly.

The data is obtained from a large survey which covers issues other than corruption and decentralisation also. A 2-stage random sampling method was used for the survey. In the first stage 200 water supply schemes were selected. From each of these schemes, 30 households were selected. Details are given in table 1. Data collection was achieved through semi-structured interviews based on pre-tested flexible questionnaire. All the contractors concerned with these schemes were interviewed. Interviews were also conducted with 'key informants' viz. NGO staff, union representatives and elected officials.

Does decentralisation matter?

First we compared the general characteristics of two types of agencies. In terms of size and age, no significant differences were found. In terms of indicators of efficiency, we looked at expense per litre of production and production in litres per day per unit of assets.

According to both these measures, centralised agencies were found to be significantly more efficient than the de-

Table 2. Size of Samples

Sample	Total	Decentralised	Centralised
Water supply agencies	200	149	51
Number of households	6000	4470	1530
Number of repairs	1620	1221	399
New connections	593	439	154
Contractors	508	398	110

centralised ones.

Our primary aim is not to measure efficiency which could be higher in centralised agencies due to centralised inventory control and more likely due to higher level of human resource development. Our aim is to empirically test the quantum of corruption.

For this purpose, first we focussed our attention on the consumers. Have they paid a bribe to an employee of the water utility during the last one year for any purpose relating to the water bill, be it for showing lower consumption, concealment of connection or whatever. As many as 51% respondents had paid bribe in case of decentralised agencies and 41% in case of centralised agencies. There is a caveat here. Many respondents said that it was not a bribe. They gave 'tip' so that the bills are not inflated. Since it was very difficult to segregate the two types of payment and often the purpose of the payment was to secure both objectives, a combined figure is reported in table 3. The median of this transaction is very small and there were no complaints of extortion. The difference between the amount paid in case of decentralised agencies and centralised agencies is not statistically significant.

Next sub-sample was smaller, as we considered only those consumers who needed repairs during the last one year. Of these, 39% respondents had paid bribe in case of decentralised agencies and 41% in case of centralised agencies. The caveat mentioned earlier applies. Again, while there is a significant difference in the proportion of transactions which involved speed money when we compare decentralised agencies and centralised agencies, the amounts involved in the transaction are not statistically significant.

The next sub-sample is still smaller – households that needed new connections. Only a small number paid bribes. This is explained by the fact that the water supply agencies are under intense pressure to regularise illegal connections. Instead of the applicants requesting expeditious connection, often the consumers have to be persuaded to get legal connections when the water supply workers are under pressure to meet targets. Even so, the difference between decentralised agencies and centralised agencies persists in a similar manner as in other forms of illegal payments.

Table 3. Type of Corruption

Type of corruption	Decentralised	Centralised	Difference
Falsifying records for lower bills	0.51	0.41	0.10***
Median Payment per transaction	US$ 0.45	US$ 0.46	-0.01
Expediting repairs	0.39	0.30	0.09***
Median Payment per transaction	US$ 1.90	US$ 1.92	-0.02
Expediting new connections	0.15	0.10	0.05***
Median Payment per transaction	US$ 22.98	US$ 23.50	-0.52
Kickbacks from contractors	0.75	0.73	0.02*

Notes:
*significance at the 10 percent level,
**significance at the 5 per cent level, and
***significance at the 1 percent level.

Personnel policy

Unhealthy relationship between the staff members with the politicians and the local residents was cited as a major reason for higher levels of corruption in decentralised agencies. Local politicians are likely to be more subject to pressing demands from local interest groups. Managers under the state governments, move from place to place and have less unethical relationships with the local politicians (e.g., Kiltgaard, 1988; Rose-Ackerman, 1999).

However, this is only one side of the coin. Following the British imperial tradition, most South Asian bureaucracies have impartial systems for recruitment and promotion, often an independent Public Service Commission overseeing these matters. As far as transfers are concerned, politicians elected for policy making and members of the legislature elected for law making have taken on the role of personnel managers. There is a thriving market for transfers. Often it is bartering of favours. A cash market for desirable posts also exists and movement from a 'dry' post to a 'wet' post can be expensive (Wade, 1985).

Neither the local governments nor the state governments have made any serious efforts for disciplining the corrupt personnel. Procedures are too cumbersome. A person who is punished has several opportunities of appeal and revision in his own hierarchy as also two or through levels of judicial redress. Removal from public service for corruption is rare. Those who were removed have come back with back wages and seniority restored through law courts. When it comes to 'carrot and stick', it is absent both in case of decentralised and centralised agencies.

In India, while political decentralisation is substantial, administrative decentralisation is incomplete. While officials of the local government are invariably elected, often the senior officials in local bodies are seconded to them from the state governments. It will be interesting to see what impact this oncoming change will have on corruption. In all likelihood, unless there are major institutional reforms, corruption is likely to increase because the local level bureaucrats have less independence from local politicians as compared to their state level counterparts.

Breaking the nexus

The main reason for higher level of corruption in decentralized agencies seems to be that there are fewer obstacles to

corruption at the local level.

Monitoring and inspections are better developed at the state level. There is no quick-fix solution to this as capacity building and institutional development, even if seriously pursued, will take a long time.

There is a strong system of audit at the state level functioning under the Comptroller and Auditor General of India, who under the Constitution is completely immune from political pressures. At the local level, auditing systems are neither as strong nor immune from political influence.

In a free democratic society, exposure to the media could be a strong check on corruption. Since the media at the local level is under developed, the pressure of the media, if it exists at all, is hardly a disincentive at the local level.

An argument often advanced in favour of decentralisation is the fact that participation by stake holders is likely to reduce corruption. There is some evidence that participation by the beneficiaries in drinking water projects leads to better project outcomes (Briscoe and de Ferranti, 1988; Isham et al., 1995). Decentralisation is not the same as participation. When social inequalities supplement economic inequalities, the process of decentralisation is political rather than participative and liable to be captured by the local elite. The pressures of caste, tribe and local politics are too strong even for a well-meaning local government official. Location of public water stand posts is an example. The state governments have issued clear guidelines as to how these should be located with a view to serve the disadvantaged sections of society. Often, the local level functionaries are compelled to install these near the influential households.

Free market enthusiasts believe that privatisation of water supply will end corruption. Privatisation can improve the situation only partially. When the local government selects the private provider and supervises the service, the problem of corruption will remain.

The foregoing analysis does not necessarily mean that decentralisation is a wrong policy and with more and more decentralisation to come, there will be more and more corruption. Some signals to the contrary do appear on the horizon.

The silver lining is increased transparency through Information Technology. Not only the state government agencies, but also the local governments are moving towards e-governance. A computerised system of monitoring is coming into place. The customers and contractors can lodge applications, complaints, tenders and many other items on line. A lot of material is being published on the web sites in vernacular. This is like to reduce corruption in the time to come.

IT by itself may not achieve the end, though. The only valid argument in favour of decentralisation, rarely advanced, is that of learning by doing. Under the guidance of the state governments and under pressure from the people and the NGOs, the local governments have to learn to be less corrupt. This would take time even if a carefully formulated strategy is put in place. At present, there is only ham handed pressure from the metropolitan elite and the donor community for decentralisation. Another strategy could be to sidetrack centralisation-decentralisation dichotomy, empower the people to band together, form NGOs and engage in provision of public services that the local governments fail to provide satisfactorily. In most developing countries no long term viable strategy is in place. With advances in IT, perhaps India can show the way.

Conclusion

There is enough evidence to believe that corruption in the provision of public services in developing countries is widespread. Since large amounts of public money are pouring into water supply systems in India, there is reason to believe that substantial amounts are being siphoned off. The legitimate question is whether decentralisation improves services through greater transparency or are we merely decentralising corruption.

Decentralisation of corruption can have beneficial redistributive effects. But there is also evidence that corruption is more prevalent at local level as compared to regional and national level.

It is often assumed that the people want decentralisation while the regional level governments oppose it. This view is without foundation. There has never been any referendum to determine what the people want. The decisions relating to decentralisation are taken without consulting the people, paradoxically, at the central level.

Combating corruption, however, does not mean doing away with decentralisation. What is needed is not taking decentralisation as an end in itself. Decentralisation has to be accompanied by strong measures to promote transparency.

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