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DOI:

[10.1080/00346764.2020.1734228](https://doi.org/10.1080/00346764.2020.1734228)

*Document Version*

Peer reviewed version

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*Citation for published version (APA):*

Khan, M. S. (2020). Quality of governance, social capital and corruption: local governance and the Pakistan marketplace. *REVIEW OF SOCIAL ECONOMY*, 0, 1-30. <https://doi.org/10.1080/00346764.2020.1734228>

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# **Quality of governance, social capital and corruption: Local governance and the Pakistan marketplace**

**To cite this article: Khan, Muhammad Salman. Quality of governance, social capital and corruption: local governance in the Pakistan's Marketplace. Review of social Economy, DOI: 10.1080/00346764.2020.1734228.**

## **Abstract**

Theoretical debate on the relationship between the quality of government, social capital and corruption remains underspecified in relation to the analysis of local governance. This paper asks how quality of government (QoG) impacts on the role of social capital (SC), and how SC connects with corruption in the local governance context. I analyse how existing theories (and their critiques) surrounding the link between QoG, trust and corruption are underspecified in this context. The paper develops a local governance approach in order to better understand this relationship through an in-depth qualitative case-study of the governance of Batkhela Bazaar in Malakand District of Pakistan. Three main findings emerge from this analysis with implications for the existing literature on the link between QoG, SC and corruption. Firstly, the results demonstrate how QoG and socioeconomic inequalities shape the context for SC development and its role in corruption, which feeds into the poor quality of governance. Secondly, unlike the existing mainstream literature, the results show the fundamental importance of petty corruption to levels of trust within a society. Thirdly, the paper highlights the crucial role of reciprocity in maintaining trusting ties in the context of ineffective formal institutions.

**Keywords: social capital; quality of government; corruption; trust; local governance; Pakistan**

## **1. Introduction**

The relationship between quality of government (QoG hereafter) and apparently high levels of corruption remains a key political concern, particularly in relation to developing state contexts (Tanzi, 1995; Prud'homme, 1995; Gurgur and Shah, 2005; Diaby and Sylwester, 2014). Central to understanding the relationship between QoG and corruption is the presence and nature of social capital (SC hereafter) comprised of networks of relations and norms of cooperation such as trust and reciprocity (Putnam, 1993; Mohmand, 2008; Teles, 2012; Christoforou and Davis,

2014). Over recent years the literature on the relationship between these three elements (QoG, SC and corruption) of governance has developed rapidly, characterized by two contrasting viewpoints: a society-centred approach, which argues that government effectiveness and design have little impact on SC and its operation (Uslaner and Badescu, 2002; Uslaner, 2008, and a contrasting state-centred viewpoint, which holds that the type of government (centralized or decentralized) and its quality largely determine the health of SC in that society (Wacquant, 1998; Svendsen, 2004; Rothstein, 2013, 2016; Cagala et al., 2016). The state-centred approach treats the nature of trust relations as a product of poor institutional performance, in that mismanaged, poorly run governments breed distrust (Rothstein, 2001).

However, to date this debate has given only limited consideration to how the evolving relationship between QoG, SC and corruption is embedded across different local contexts and the particular role of local government within this (Charron and Rothstein, 2014). General theories that explore whether and how SC facilitates corruption in a decentralized local governance context begin with universal assumptions regarding human behaviour and the operation of SC to explain why all societies end up with efficient or dysfunctional social institutions (Putnam, 1993). However, what such approaches fail to provide is a theoretical approach that can explain the enormous *variations* in QoG, and the role of SC in facilitating corruption (Rothstein, 2013: 1019).

This paper addresses this gap. To this end, it views SC as a meso-level concept (Bebington, 2002) whose outcomes for governance are context-dependent (Christoforou and Davis, 2014). It argues that a localized understanding of SC, sufficiently embedded within its particular context, is crucial to understanding the relationship between QoG, SC and corruption, particularly where government institutions and socioeconomic inequalities play an important role in structuring the functions and outcomes of SC (Mohan and Mohan, 2002: 194, 201; Schuller, 2007).<sup>1</sup> Whilst QoG alone is not sufficient to explain the role of SC, or the causes and consequences of corruption, context matters (Lambsdorff, 2006). SC per se is not the cause of corruption, but may facilitate it, depending on the particular context provided by socio-economic inequalities and governance quality (Bjornskov, 2004; Wallis, Killerby and Dollery, 2003; Ariely and Uslaner, 2017). To investigate these contextually embedded

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<sup>1</sup> Fine (2003: 586-7) criticizes SC scholarship on the ground that it usually neglects how SC is created. Taking this criticism seriously, this paper develops a more localized understanding of the determinants and outcomes of SC for local governance (See also Harriss, 2001).

relationships, this paper asks how QoG impacts upon the role of SC and how SC explains corruption in the local governance context. How are existing theories (and their critiques) on the link between QoG, trust and corruption underspecified for the analysis of local governance?

To answer these questions, this paper presents empirical research from a qualitative case study of the governance of Batkhela Bazaar in Pakistan's Malakand District in relation to the implementation of regulations in the governance of marketplaces. Governance in Pakistan is characterized by a poor QoG, socioeconomic inequality and power asymmetries. Hence the level of corruption is high, while trust in government fairness and social trust are low (Acemoglu et al., 2018; Jackson et al., 2014; Islam, 2004). However, to date, there have been only very limited attempts to examine the link between SC and corruption in the context of Pakistan (Yousaf et al., 2016) and the implications of this for the local governance structure in Pakistan<sup>2</sup> and more broadly. Following the mainstream literature on SC, QoG and corruption, the paper focuses on the cognitive/attitudinal dimension of SC, by defining SC as a combination of interpersonal generalized trust and networks based on reciprocity (Rothstein, 2013: 1010). Despite generally following a Putnamian definition of SC and focusing particularly on its attitudinal dimension, this paper develops a much more sophisticated perspective on SC. For Putnam (1993; 1995), institutional performance is an outcome of SC, whereas this paper draws on the literature, which argues that QoG shapes SC within a society (Levi, 1998; Harriss, 2001). Furthermore, for Putnam (1993; 1995), interpersonal networks based on particularized trust are synonymous with the absence of SC (Fischer, 2001) or with the "dark side" of SC (Foley and Edwards, 1999), whereas this paper assigns both positive and negative outcomes to SC within the developing state context with weak formal institutions (Flora, 1998; Nooteboom, 2007).

The paper is structured as follows. The first section examines the SC, decentralization and corruption literatures and the weaknesses of existing mainstream theories, to develop a local governance perspective linking QoG, SC and corruption. The next section outlines the case

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<sup>2</sup> The literature on SC in Pakistan is underdeveloped (for exceptions see Mohmand, 2008; Khan, 2019) and on trust, remains at an embryonic stage (Acemoglu et al., 2018; Jackson et al., 2014). Cross-national comparisons on trust often do not include Pakistan due to missing data on key variables of the World Value Survey (Uslaner, 2010).

study setting and methodology. Empirical findings are then presented, followed by a concluding section which discusses the theoretical implications of these findings.

## **2. Local governance: Corruption and social capital**

The study of local governance, defined as a phenomenon encompassing formal rules and structures and informal norms of cooperation such as trust and reciprocity and their mutually interactive relationship (Shah and Shah, 2006: 2; Torfing et al., 2012), has paid attention to its relationship with corruption (Gurgur and Shah, 2005) and the trust dimension of SC (Fitzgerald and Wolak, 2016; Reitan et al., 2015). However, to date these literatures have developed somewhat separately and focused particularly on local government, lacking in attempts to combine the notions of trust, corruption and local governance in a single frame, and hence the relationship between these elements of local governance remains under-explored. This constitutes a major gap in the existing SC and local governance literature, where the trust dimension of SC remains under-researched. (Maloney, Smith and Stoker, 2001; Lowndes and Wilson, 2000; Teles, 2012). One of the key reasons for this gap is the absence of attempts to situate SC and local governance scholarship within the mainstream debate on the link between QoG, trust and corruption (Charron and Rothstein, 2014; Ariely and Uslaner, 2017).

### ***2.1. Quality of local governance and corruption***

In existing research, the concept of QoG is commonly defined as having two dimensions: impartiality and effectiveness (Rothstein and Teorell, 2008). Impartiality here is understood as “while implementing laws and policies, government officials shall not take into consideration anything about the citizen/case that is not beforehand stipulated in the policy or the law” (Rothstein and Teorell, 2008: 170). Effectiveness is defined as the degree of successful implementation of state policy and regulations (Rothstein and Teorell, 2008: 182). With the exception of Charron and Rothstein (2014), discussion of QoG and its relationship with trust has tended to focus on the national level through single or cross-national analysis (Rothstein, 2003; Rothstein and Stolle, 2008; Persson and Rothstein, 2013). As a result, important regional and local dimensions are often overlooked within this literature and its critiques<sup>3</sup> (Rothstein and Eek, 2009; Uslaner, 2013).

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<sup>3</sup> For an exception see Rothstein and Stolle, 2001.

A principal factor accounting for weak performance in terms of both the impartiality and effectiveness of governance in developing state contexts, is the presence of corruption (Gurgur and Shah, 2005). Corruption here is defined as public authorities deviating from their role both for financial gain and non-financial gains, such as status, power or reputation (Graeff, 2004: 40). This definition encompasses both pecuniary gains and other intangible benefits in cases where official duty or people's rights are violated (Melgar et al., 2010). An important distinction is often made between grand and petty corruption (Albanese and Artello, 2019). The former is committed at the higher levels of government and distorts the functioning of the state. The latter refers to the everyday abuse of interested power by low- and mid-level officials in their interactions with ordinary citizens seeking access to basic services such as hospitals, schools, police officers and so forth (Uslaner, 2008; Adaman and Odabas, 2014: 87). Due to its focus on everyday engagement between state and citizens at the local level, this study focuses on petty corruption. Specifically it examines a situation where corrupt officials act independently to take bribes, as opposed to the "principal-agent" situation where lower level officials collect bribes for higher authorities (Shleifer and Vishny, 1993: 608), or politicians act in a partisan way as an agent of citizens (Gurgur and Shah, 2005: 6). Intercession as a form of petty corruption is particularly problematic in terms of judging the extent to which intercession by politicians is an act of corruption and the extent to which it is an act of representation by bridging the gap between the state and polity.<sup>4</sup> In this paper, it is viewed as an act of corruption, as it is used to build patron-client relationships to favour a few at the expense of the general public (Palifka, 2006: 6).

Lambsdorff (2006) observes ambiguity in the results of studies of the relationship between decentralized government systems and corruption. Some studies find that decentralisation leads to elite capture and corruption (Barden and Mukherjee, 2006; Treisman, 2002); others find that decentralization reduces corruption (Fisman and Gatti, 2002) or has no direct relationship (Widmalm, 2005: 197). What is apparent, even within the most developed democracies, is that decentralized decision-making favours the powerful and often reproduces inequalities (Hastings and Matthews, 2015). Mohmand (2008) observes that decentralisation reforms are often grounded in a flawed belief that people at the grassroots level will automatically work towards improving governance regardless of these power differences. For advocates of society-centred approaches, who frequently overlook power differences, local stocks of SC or

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<sup>4</sup> I thank the anonymous reviewer for this point.

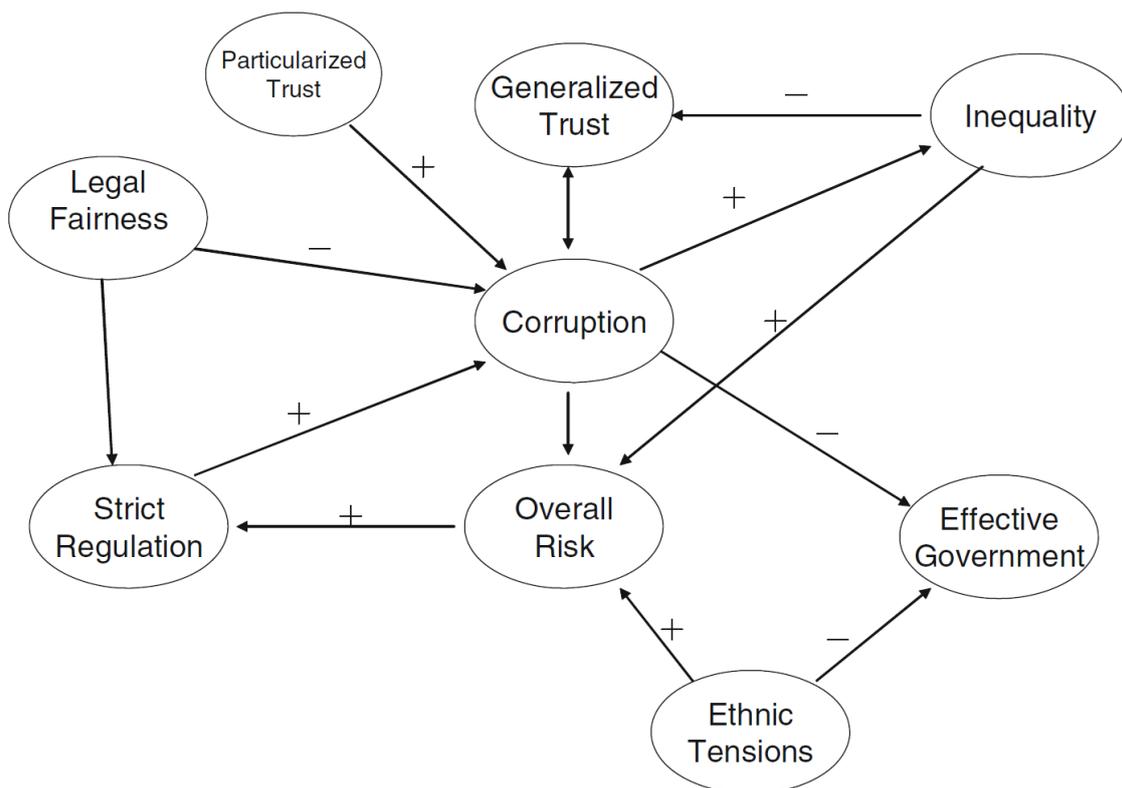
generalized trust within a society are the only cause of variation in the performance of regional governments (Putnam, 1993; 1995). The existence of generalized trust in a society presupposes an institutional framework that is put into place through the agency of a state (Harriss, 2001: 29). Undoubtedly, trust and corruption have a mutually reciprocal relationship, but the argument here is that both QoG and socioeconomic inequalities shape the level of trust in a society and its relation to corruption.

Trust in local government is different to trust in national government, and is often not positively linked to levels of trust in national government (Fitzgerald and Wolak, 2016). In contexts such as Pakistan, socioeconomic inequalities are a primary determinant of trust in government and the prevalence of corruption. However, local governments are also historically designed to control the local population through elites rather than to deliver equal and efficient service – a situation that exacerbates citizens’ distrust in government institutions (Guess, 2005). Therefore, it is only possible to understand the role of SC in local governance if the design of local government institutions and their effectiveness is considered (Lowndes and Wilson, 2001: 632). It is less clear how trust in politicians – the input side of government – generates trust, whereas the effect of institutions that implement state policies and punish the lawbreakers (the output side) is often emphasized in the literature (Levi, 1998; Rothstein and Stolle, 2001; Rothstein and Stolle, 2002). Confidence in institutions on the input side (Reitan et al., 2015), which represent citizens’ interests and are often partisan, is limited and their effect is of a temporary nature. In contrast, trust in institutions that implement state policies represents institutional trust of a more permanent nature. These institutions are expected to represent the ideals of impartiality, equality before the law, and universalism and a reasonable degree of efficiency in implementing the state’s policies (Rothstein and Stolle, 2002: 11-13). In this study therefore, we focus on the effectiveness, fairness and impartiality of the output side of local government, rather than trust in the input side of government.

## ***2.2. Social capital, local governance and corruption: What is missing in current theorisation?***

In seeking to understand QoG and levels of corruption, the central role that SC plays has been increasingly identified within the literature (Bjornskov, 2004; Svendsen, 2004; Uslaner, 2013; Rothstein, 2013; Adaman and Odabas, 2014). However, mainstream literature on the relationship between QoG, SC and corruption continues to debate the foundations of trust and the causal linkages between QoG, trust and corruption, characterized by opposition between

the competing QoG theses (associated with the works of Rothstein) and inequality trap theses (associated with the works of Uslaner) on the foundations of trust (Uslaner, 2008; Rothstein and Stolle, 2002). Rothstein (2013), for instance, argues that government institutions, specially courts and law-enforcement offices matter for explaining why generalized or particularized trust is high in a society (Rothstein, 2013). Conversely, the economic inequality thesis holds that QoG is not a sufficient or even a necessary condition for determining the levels of trust in a society (Uslaner, 2008: 289; see also Figure 1). Even on institutional fairness, where Uslaner and Rothstein’s views do converge (Uslaner, 2005: 30, 47-8) QoG matters less in non-egalitarian societies (Ariely and Uslaner, 2017). Given the plausibility of both perspectives, further study is required to identify situations where QoG and socioeconomic inequalities offer a foundation for the operation of trust within a single governance structure.



**Fig. 1** Model of inequality, trust, corruption, and effective government

A major limitation of the literature on the foundation of trust is that both state-centred and society-centred perspectives on trust and corruption rely primarily on national surveys and focus on grand corruption. As a result there is little consideration of the role of local governance and the role of petty corruption in shaping levels of generalized trust within a society (Rothstein

and Stolle, 2008; Uslaner, 2008). Uslaner and Badescu (2002: 18) argue that there is “clear evidence” that when corruption does shape trust, it is large-scale corruption at the top of the hierarchy, not the petty payments of everyday life. This approach does not consider how petty corruption links to levels of generalized trust, because petty corruption does not make the rich richer. Acts of bribery and intercession as a manifestation of petty corruption are considered morally wrong, and help people get around bureaucratic systems that are broken. “You pay a small bribe or payment to a doctor or police [officer] so you do not have to spend the entire day in the traffic court or in a waiting room” (Ariely and Uslaner, 2017: 355).

Yet petty corruption does more to the system than Uslaner would think, if it is defined more precisely and its impact is understood beyond that of getting around the bureaucratic system (Albanese and Artello, 2019). It may be used to violate health, price and quality standards, affecting perceptions of corruption and levels of trust in local government (Khan, 2019). Both perception of corruption and trust in government indirectly impact upon levels of generalized trust (Rothstein and Eek, 2009; Charron and Rothstein, 2014). Charron and Rothstein (2014: 24-25), in their subnational level analysis of QoG, trust and corruption, show that people’s perception and experience of corruption influence levels of generalized trust. However, in low QoG environments, they found no difference in the propensities to trust others between those who have experience of bribes, and those who do not have such experience. The focus of this paper on petty corruption thus examines how petty corruption impacts upon levels of trust in society in order to elucidate the link between QoG, SC and corruption at the local level. Rothstein and Stolle (2001) focus on the role of street-level bureaucrats in explaining the impact of partial and ineffective institutions on generalized trust, but do not develop an analysis of petty corruption that influences service delivery at the local level and hence influences levels of trust.

This is mainly due to the preoccupation of the SC-local governance literature with the structural dimension of SC and its underdevelopment on the attitudinal dimension, both in the developed and developing state contexts (Lowndes and Wilson, 2001; Maloney, Smith and Stoker, 2001; Teles, 2012; Titeca and Vervisch, 2008; Rydin and Pennington, 2000). The absence of engagement by the SC and local governance scholarship with the mainstream debate on the link between QoG, SC and corruption further contributes to the underspecification of local governance analysis (Charron and Rothstein, 2014). The SC-local governance literature – in both the developed and the developing state contexts – shows that SC provides relations of trust where formal institutions are weak (Lyons and Snoxell, 2005:

1302). Moreover, the character and operation of both bonding (based on particularized trust) and bridging (underpinned by generalized trust) SC is linked to the wider institutional context (Titeca and Vervisch, 2008: 2216). Yet trust in national government cannot be used as a proxy for trust in local government (Fitzgerald and Wolak, 2016: 134), because these two are often juxtaposed (Tang and Huhe, 2014). Petro (2001: 232-233) demonstrates that stocks of local SC may vary across regions within a country due to the varying quality of local government in terms of policy formulation and implementation. This suggests that state policies and their effective implementation at the local level influence levels of generalized trust (Teles, 2012: 25). The present paper develops this theory further by showing that QoG is positively related to generalized trust (Rothstein, 2013) which is negatively related to particularized trust, and particularized trust is positively related to corruption (Uslaner, 2013; see also Figure 3).

The streams of scholarship on both the link between QoG, SC and corruption, and on SC and local government, assign normatively positive outcomes to generalized trust and negative outcomes to particularized trust. However this is incorrect (Titeca and Vervisch, 2008). In most developing states, particularized trust is a necessity, due to ineffective governments and associated low levels of generalized trust (Woolcock, 2001: 16; Rothstein and Stolle, 2008: 445; Nooteboom, 2007: 37). Particularized trust performs a dual role. On the one hand, it helps agents develop insurance mechanisms in contexts where formal guarantees are absent, insufficient or costly for citizens (Adaman and Odabas, 2014: 83). On the other hand, it promotes corruption that feeds into poor QoG. In any case, the key role that reciprocity performs in shaping the outcomes of particularized trust for local governance is barely mentioned in this literature. Hence there is a clear need for further consideration of the critical role of reciprocity in the operation of trust relationships in the context of ineffective institutions (Nooteboom, 2007).

### **3. Empirical settings and methods**

Studies of corruption and government (Jackson et al., 2014), and trust in government (Acemoglu et al., 2018) in Pakistan have developed separately, with the notable exception of Yousaf et al. (2016), with no attempt to integrate QoG, social trust and corruption. Moreover, the SC literature in Pakistan is underdeveloped on the trust dimension (Mustafa and Qazi, 2007; Mohmand, 2008). Corruption has also not been the concern of this literature (Khan, 2017a). Over the past two decades, Pakistan has been consistently ranked low in the

Transparency International corruption index.<sup>5</sup> Both grand and petty corruption are rampant in the country, to the extent that it is almost impossible to talk about any level of governance in Pakistan without mentioning corruption (Islam, 2004; Yousaf et al., 2016). Petty corruption is a historical feature of local administration of Pakistan's governance, predating Pakistan's inception. Pakistani administration is regarded as corruption-infested and "rotten to the core" (Islam, 2004: 326). Recent studies show that low levels of trust in state institutions in Pakistan lead to higher reliance on, and trust in, non-state actors (Acemoglu et al., 2018: 2-3). In their study on corruption and police legitimacy in Lahore, Pakistan, Jackson et al. (2014: 1076) found that when people felt government authorities were corrupt, they no longer felt the need to respect laws or enforcement institutions, and instead began relying on informal mechanisms, leading to further corruption (see also Yousaf et al., 2016). This context of poor QoG, rampant petty corruption, and the link between QoG, SC and corruption requires a systematic analysis of local governance.

The present study fills this gap with a specific empirical focus on marketplace governance. The embeddedness of marketplace governance within the local governance structure allows us to speak to SC and the local governance literature (Khan, 2019). Pakistan is an ideal setting for such an investigation, owing to the well-recognized weakness of its state institutions, rampant petty and grand corruption, and the associated low levels of trust in the state at the subnational level (Jackson et al., 2014; Acemoglu et al., 2018; Yousaf et al., 2016).

The local governance structure of Malakand District, with Batkhela Bazaar as its largest marketplace, is the case-study site for this research. Malakand District is divided into two administrative subdivisions: Swat Ranizai, with Batkhela as its headquarters, and Sama Ranizai, with Dargai as its headquarters. The district has a total area of 952 sq km, with a total population of 720,295 (49.7% female and 50.3% male). Eleven per cent of the population is urban (PBS, 2017). In terms of regulation enforcement, taxation generally forms the most direct link between marketplaces and the administrative and judicial machinery of local government (Grossmann, 2016), but this link is irrelevant in the Malakand District, as Malakand enjoys a special constitutional status that allows legal tax exemption to the local economy (Khan, 2017b). Therefore, the focus here is on the implementation of regulations governing price,

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<sup>5</sup> See <https://tradingeconomics.com/Pakistan>).

health and quality standards as a measure of government quality, and its linkages with SC and corruption. Within this context, the extent to which local administration is effective in implementing regulations related to price, health and quality standards is representative of the effectiveness dimension of QoG, whereas, the equal treatment of citizens by officials in the implementation of these regulations represents the impartiality dimension of QoG (Rothstein and Teorell, 2008).

The bazaar, which is three kilometres long, is the centre of the local economy and a major element of local governance (Jan, 2014; Khan, 2019). In 2016, it comprised more than 5,000 fixed shops, 150 street vendors, 75 cart pushers and more than 1,500 rickshaws exclusively operating in the bazaar (Khan, 2017b). The local administration executes policies and regulations related to price, health and quality standards formulated at the higher level of government (Khan, 2019: Chapter 7). Two distinct formal mechanisms are in place for regulating prices: daily price determination in the fruit and vegetable sector, and a fortnightly price review for the rest of the food sector. The fruit and vegetable prices are determined by agreement between the officially designated price controller and the sector's elected representatives, following a process of daily bidding (*boli*). The fortnightly decisions regarding the rest of the food sector are taken by a district price review committee comprising the district commissioner, assistant commissioner, representatives of respective sectors of the bazaar and public representatives.

Health and quality standards apply to the market's beverages, food and pharmacy sectors (see Appendix 1 for sector-specific regulations and relevant local government departments). Traders are involved in decision-making related to price determination but not in the implementation of health and quality regulations. Moreover, legally, the administration is responsible for ensuring that pharmacies hold licences. The local drugs inspector has the authority to seal a pharmacy if a trader fails to produce his licence. The administration is also responsible for prohibition of the sale of contraband, counterfeit, expired and legally prohibited natural and herbal medicines by licensed pharmacies. The local drugs inspector is responsible for confiscating all such substances, and in the case of counterfeits, he prepares the case and sends samples to a laboratory in Peshawar for forensic examination.<sup>6</sup> Decisions on whether to impose a penalty against traders are made on the basis of the outcomes of the forensic tests.

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<sup>6</sup> Peshawar is the capital of Khyber Pukhtunkhwa province, located 78 km from Batkhela.

Similar procedures apply in the food sector (except the fruit and vegetable sector). Designated food authorities confiscate goods or collect samples to determine the quality and origin of the product. In the case of a visible defect in the quality of some goods, such as rotten meat, vegetables or cooked food, officials have the authority to conduct a summary trial, which implies the enforcement of an on-the-spot penalty against the violator without recourse to forensic tests. To regulate prices, health and quality standards in both the food and pharmacy sectors, local administration officials are responsible for regularly inspecting the bazaar.

Within this setting, some key terms are operationalized for analytical clarity. The term “administration officials” collectively refers to all the appointed officials within the local administration: the district commissioner (administrative head of the district), assistant commissioner (administrative head of the subdivision), food and drugs inspectors, district food controller, and designated food and price controllers. Besides food inspectors and controllers, the administrative officials also have magisterial powers. In line with the 18<sup>th</sup> amendment to the 1973 (present) constitution of Pakistan, all the aforementioned administrative officials are employees of the provincial government (see more generally Wolkewitz and Bhatti, 2015: 4). Finally, the three union councils that cover the area of Batkhela Bazaar – Upper, Middle and Lower Batkhela – are assigned the descriptors (in a random order) UC1, UC2 and UC3. The use of such broad categories instead of specific designations is deliberate, to avoid deductive disclosure and to ensure respondents’ anonymity and confidentiality, owing to the sensitivity of the subject and its possible implications for study participants (Kaiser, 2006).

### ***3.1. Data collection and analysis***

The fieldwork for this research was carried out in May-September 2016 after an exploratory survey had been carried out in Batkhela Bazaar in July-August 2015.<sup>7</sup> A multi-method, qualitative study was designed to deliver an in-depth investigation of the linkages between QoG, SC and corruption, for analysing local governance. The data includes in-depth, semi-structured interviews, informal conversations and field observations, along with secondary data such as the text of relevant regulations and records of the relevant local government departments.

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<sup>7</sup> This survey was conducted as a part of the author’s PhD to identify major trends on the embeddedness of marketplace governance within the broader governance structure; however, its findings are not reported in this paper due to their relevance to the subject under consideration.

Forty-three interviews were conducted with traders (n=23), government officials (n=10) and local political leaders (n=10) in the Swat Ranizai subdivision of Malakand District. The sampling frame for this research was determined on the basis of respondents' expertise (Pawson and Tilley, 1997: 161-2). The interviews were conducted in Pashto, audiotaped with the respondents' consent, and translated and transcribed by the author, before formal analysis (see Appendix 2). All the interviewees were male, due to the absence of women as traders in the marketplace, in local government leadership roles, or in relevant local administration departments.

The data was analysed using flexible thematic analysis (Braun and Clarke, 2006: 80; Fletcher, 2016) using Microsoft Access (Hahn, 2008). It was thematically organized into seven initial codes, which were expanded into 29 subthemes. Row 1 in Appendix 3 shows how each of these seven codes was expanded into various (associated) subthemes. Two additional codes emerged: non-implementation and reciprocity. The expansion of the initial organising codes and the emergence of the new organising codes developed an interesting dialogue between the theory and data emerging from the field. By employing a higher level of theoretical abstraction, these 29 codes were reformulated into four major theoretical categories to draw final conclusions (see Appendix 3). In addition to coding and categorising, various data sources were triangulated for performing "if-then" tests to determine the interrelationship between the themes, and between the contexts, mechanisms and outcomes (Miles et al., 2014: 304). These "if-then" tests helped in distinguishing those aspects of implementation that are purely due to quality of government and those likely to be caused by inequality, a distinction that emerged as a major pattern within the data.

#### **4. Empirical findings**

This section presents the empirical data on the link between QoG, the ubiquity of corruption, and the implications for how trust and reciprocity operate in an ineffective regulatory environment marked by low levels of generalized trust, high levels of particularized trust, and pervasive corruption. Furthermore, situating SC-local governance relations within the broader QoG, trust and corruption debate advances current understanding of the foundation of trust in the mainstream literature.

##### ***4.1. Government quality and the link between institutional and social trust***

As with the rest of Pakistan, the quality of government in Malakand District is poor, corruption is high, and the level of trust in the state institutions is low (Acemoglu et al., 2018; Jackson et

al., 2014; Easterly, 2001; Hussain and Hussain, 2009; Khan, 2017b). Evidence shows that government ineffectiveness is one of the major contributing factors leading to low levels of generalized trust. For instance, the fact that the district price review committee meets only once a year, typically before the Islamic month of Ramadan, leads to a discrepancy between official prices and retail prices in the market (see Table 1). Figure 2 demonstrates that the implementation of price, health and quality standards is rigorously pursued only around the month of Ramadan, while during the rest of the year government officials mainly tick boxes to give the appearance that they are fulfilling their duties and making progress. Eight out of ten government officials justified the unequal distribution of enforcement across the year by saying that irregularities increased before and during Ramadan. Undoubtedly irregularities do increase over this period, but this does not imply there are commensurate levels of decrease in inspections and violations during the rest of the year. Between August and September 2016, 52 violations were identified in which 22 retailers and five wholesalers justified price violations due to the discrepancy between the stagnant official prices and the fluctuating market prices.

The inability of the local administration (due to inefficiency and resource constraints) to effectively regulate prices leads to violations of health and quality standards. These violations are largely an outcome of traders' coping strategies to deal with the discrepancy between lower official and higher market prices. As a prominent tea trader stated: "If they insist that I should follow their (official) price, I will do that - for instance, if they have fixed the price of tea at [PKR] 550 per kg. But they do not know that I am selling a cheaper quality to avoid argument with them" (Zafar interview, 19 August 2016). In addition to prices, the governance of licences in the pharmacy and food sectors reflects poor QoG due to government inefficiency and resource constraints. None of the wholesalers in the food sector holds a licence, because administrative officials "never ask about these licences", whereas in the pharmacy sector, local government has adopted the strict implementation of licensing regulations since 2012. However, the resource-constrained administration cannot implement these regulations to the letter; they allow for minor infringements. A local health official explained: "If I apply these laws to the letter and in spirit, I am sure all 300 pharmacies in the Batkhela Bazaar will be sealed and patients will be unable to acquire medicines. The government does not have the means to deal with such situation; therefore I have to overlook some of the infringements" (Saleem interview, 17 August 2016).

## Pattern of Regulation Enforcement in the Bazaar

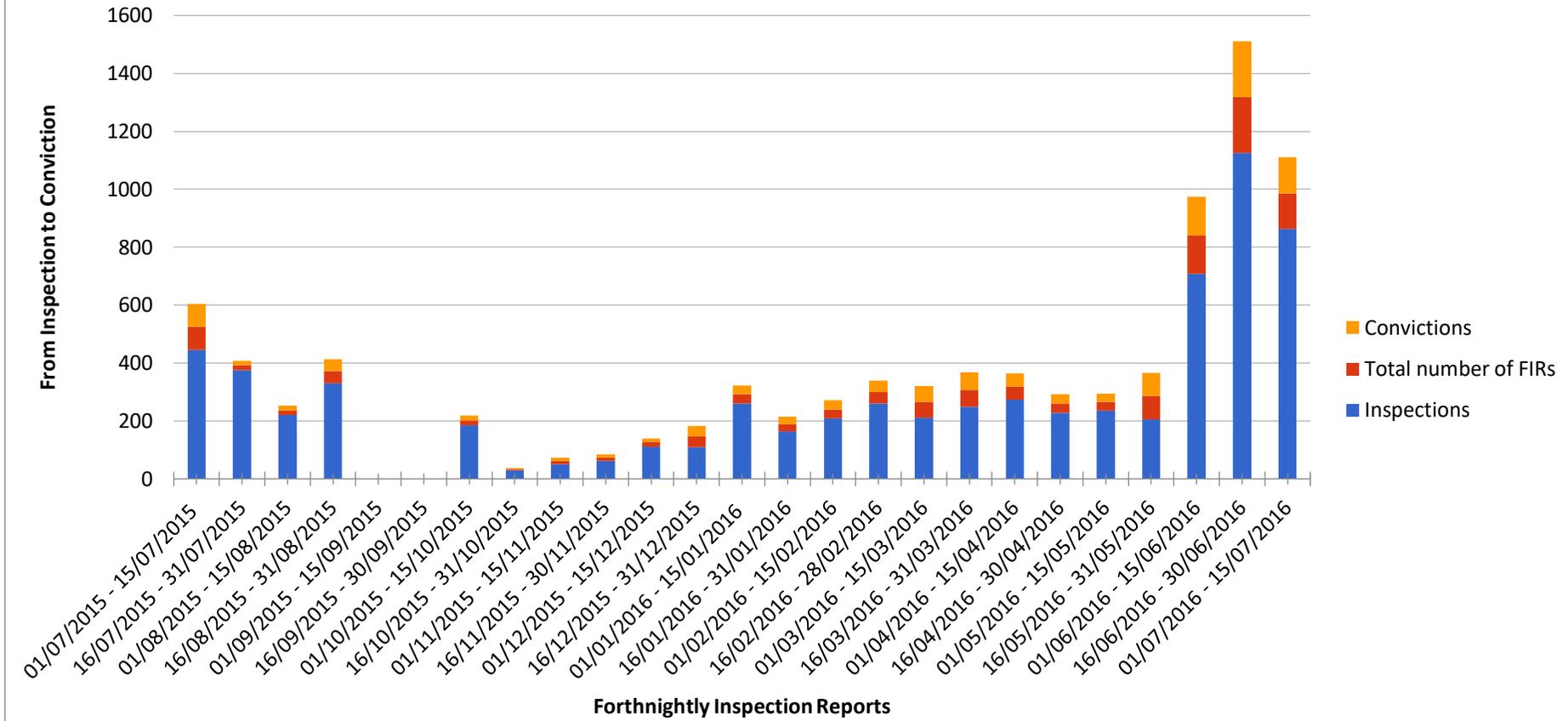


Figure 2: Pattern of regulation enforcement in the bazaar. Source: Official records of District Commissioner's office

The ineffective implementation of regulations negatively affects institutional trust, contributing to the rise of rule violation and corrupt practices. The regulations demand that food and health officials confiscate counterfeit food items or medicines for forensic examination (for relevant regulations see Appendix 1). It was found that the district administration had neither the facilities to perform forensic examinations, nor efficient mechanisms to monitor official practices of reporting that these violations existed. Explaining this situation, an official from the food department stated: “It’s like a jungle: whatever one does, there is no questioning” (interview with administrative official, 27 July 2016). The absence of standard operating procedures to inspect the market and monitor the conduct of local government officials also results in greater rule violation. Returning samples before sending them for forensic tests, distorting facts in the forensic reports in the lab, and officials’ attempts to impose the minimum possible penalty against the violators are common practices of official misconduct that are often unnoticed. Moreover, rules are unevenly enforced across the district. The main areas of the bazaar are regularly inspected, while peripheral areas are often overlooked. This also creates opportunities for greater rule violation. Selling medicines that are illegal under the Drugs Regulatory Authority Act (2012) is difficult near the hospital where most of the pharmacies are located, but traders can easily sell these medicines in other areas of the bazaar and surrounding villages.

Poor governing by these street-level bureaucrats erodes citizens’ trust in government institutions, negatively impacting generalized trust. In one instance, a grocery wholesaler was convicted of selling low-quality adulterated flour. A penalty was imposed against him on the basis of the forensic report, which stated that the sample collected from the shop of the grocery wholesaler contained 40% soil, 40% flour and 20% *fattor* (interview with local official, 27 July 2016). The grocery wholesaler, who refused to pay a bribe in this instance, stated: “Since then, I have realized that if you bribe them [food officials], you can sell whatever you like. Now they come to my shop and ask me to decide what sample I want them to collect. I ask them to collect biscuits from a multinational brand. Before they seal the sample, I ask them to do it in their office. I know, and they know, that they will eat the biscuits and not send them for testing” (Shairzada interview, 5 September 2016). These practices are not an exception but a rule, and every trader in our sample believed that everyone else was involved in violating regulations, except those with a reputation for not doing it. A pharmacy trader explained: “We see this happening every day. These people [traders around me] are involved in selling illegal medicines but no one says that openly”

(Hussain interview, 4 September 2016). The ineffectiveness of state institutions to enforce laws lowers institutional trust, which is positively associated with generalized trust. In other words, improving QoG will enhance generalized trust and reduce reliance on particularized trust. Resource constraints, inefficient monitoring mechanisms, the absence of standard operating procedures and the non-performance of stipulated official responsibilities are some of the factors explaining poor QoG in the Malakand region.

In the initial stages of implementation, poor QoG is simply due to inefficient and resource-constrained regulatory institutions, necessitating the development of and reliance on particularized trust (Nooteboom, 2007: 48). Government ineffectiveness, as Table 1 demonstrates, also erodes trust in formal institutions. Here, the role of SC is essentially twofold. Firstly, the norms of particularized trust and reciprocity govern transactions and stabilize economic exchanges in the absence of efficient state institutions. Secondly, the ineffective enforcement of regulations leads to a spiral of corrupt practices that add to poor QoG.

Socioeconomic inequality shapes the role of SC at the latter stages of the implementation of regulations. Traders' beliefs in the ineffectiveness of formal institutions, which are shaped by poor administrative practices and their absence of trust in the fairness of public authorities, lead them to consciously engage in corrupt practices (Rothstein, 2017: 356; Adaman and Odabas, 2014: 85). Table 1 demonstrates how the weakness of institutions affects traders' trust at various stages of regulation enforcement related to price, health and quality standards.

Table 1: The impact of weak formal institutions on traders' trust in state institutions

<b>Case information /Sector</b>	<b>Implementation stage</b>	<b>Quality of government</b>	<b>Impact on traders' trust</b>	<b>Alternative (informal) mechanisms employed by traders</b>	<b>Reported cases</b>	<b>Total respondents</b>
<b>Food and pharmacy</b>	During implementation	Inspectors do not pay compensation for sample collected	Generates distrust in the formal practice of sample collection	Tacitly agreeing to officials' acts to avoid strict implementation	15	23
<b>Food and pharmacy</b>	Pre-implementation	Traders believe officials impose penalties only on poor traders and ignore rich ones	Erodes trust in institutional fairness	Relying on suppliers who can bribe officials or who cover the cost of penalties when they are imposed.	19	23
<b>Food and pharmacy</b>	Post-implementation	Inspectors impose penalties on multinational (trusted) brands and ignore nonstandard goods	Creates doubts over the motives of enforcement officials	Cultivating bribe-based ties with enforcement officials	9	23
<b>Pharmacy</b>	Pre-implementation	Administration's inability to detect hoarding of medicines and changing of price tags after price increases	Creates perception of government incapacity to govern	Developing trust-based understanding with suppliers (especially producers)	9	12
<b>Food</b>	Pre/during implementation	Administration's inefficiency in balancing official prices with fluctuating wholesale prices	Discrepancy in official and market prices that Leads to greater price violations and erosion of trader's trust in price implementation	Colluding with producers to prepare low-quantity flour and oil packages to avoid violations of price regulations	3	11
<b>Food and pharmacy</b>	Post-implementation	Partiality in regulation enforcement and trader's lack of trust in administrative officials	Inspections do not affect those who can bribe officials or who have personal ties with them	Finding the best resource to seek concessions in penalties	18	23

Source: Interview data

#### ***4.2. Low institutional trust, higher corruption and particularized trust***

The findings presented so far suggest that both QoG and socioeconomic inequalities are the deeper systemic factors that together shape low levels of institutional trust, low levels of generalized trust, high levels of corrupt/illegal practices and high levels of particularized trust. Lack of trust in the fairness of government institutions is rampant in the Malakand region. Eighteen out of 23 traders reported lack of trust in institutional fairness. In contrast, 19 out of 23 traders reported trust in the ability of interpersonal networks to help violate regulations.<sup>8</sup> A pharmacy retailer explained this negative relationship between trust in government fairness and interpersonal ties in the following terms: “It is a custom here: if you have a lot of money, and ties to powerful people, then it’s fine, but if you don’t, you’re nothing. You will be doing your business, but you have to ask everyone for pity, even if your case is legitimate” (Goher interview, 11 August 2016).

Low levels of institutional trust necessitate reliance on interpersonal networks. These networks, especially in the market, are often asymmetric, but particularized trust stabilizes exchanges within these networks. For instance, trading in counterfeit, adulterated and low-standard products is pervasive in the market. A dominant majority of the traders interviewed (19 out of 23) said they knowingly sold counterfeit, contraband and adulterated goods to stay competitive because everyone else did it. For example, pointing towards a brand of spices in his shop, a grocery wholesaler stated:

“I know that the ingredients used in its production are far more expensive than the price of this pack, but my customers demand this brand, therefore I have to sell it. If [government officials] inspect my shop and collect any product which is supplied by this supplier, all that I have to do is to give him the name of the official who collected the sample and the serial number of the sample” (Shairzada interview, 15 September 2016).

In order to navigate this environment, characterized by poor QoG and low social trust, a norm has developed in the bazaar that holds suppliers responsible for protecting buyers from the cost of penalties. This trusting disposition runs upwards in the supply chain, meaning that both retailers and wholesalers make purchases from their respective suppliers with the

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<sup>8</sup> These contrasting responses on interpersonal trust and trust in government’s fairness are drawn from interviewees’ evaluation of their experiences with state institutions and their experiences of reliance on personal ties.

confidence that either the product supplied is original or the supplier will take care of any government action against his product. Actions of suppliers to maintain their customers' trust is governed by the norm of reciprocity that will be discussed in the section below. Protecting one's interests and developing one's reputation create incentives for agents to be reliable (Smith, 1978: 171-5, cited in Gambetta, 1988. This relational and role-based trust governs the networks of bribery and intercessions in the Malakand region, where formal institutions are both partial and ineffective.

Within this context, reliance on interpersonal networks that facilitate intercession and bribery not only feeds back into poor QoG, but further erodes institutional trust. A bakery owner who has paid penalties several times for poor health standards explained: "If you have ties to protect you from penalties, do whatever you like, but if not, you are doomed" (Shafeeq interview, 26 July 2016). An administrative official confirmed this, stating: "We see every day those who have ties. They get concessions, or even are acquitted sometimes. For those who do not [have ties], there is no reason that the law will not work against them" (Ali interview, 9 August 2016). For instance, A and B, two bakery owners, were charged with similar violations of health standards. A lacked any trusted ties that could save him from penalties, while B, due to his business size and socioeconomic status, had enough personal ties to be useful in protecting him. In theory, both should have paid the fine, but B visited the office with a powerful political figure. Unable to lift the penalty, but also unwilling to disappoint the politician, the official himself submitted the fine to please the politician. Thus, B not only got away with the penalty, but also demonstrated the influence of his networks over governance institutions. This demonstrates how trust in both the capacity and fairness of institutions is low, while trust in relational SC to influence those institutions is high.

#### ***4.3. Reciprocity: Ensuring trust and governing networks of corruption***

If trust creates expectations, reciprocity is a governing mechanism to ensure that those expectations are met. Particularized reciprocity as a mechanism for governing market transactions and the socially embedded networks of corruption is necessitated by the absence of trust in institutional fairness and effective implementation. As demonstrated in the previous section, poor QoG erodes trust in government institutions, which necessitates reliance on closed ties underpinned by particularized trust for governing everyday exchange relationships. As highlighted in Table 1 (Row 3), each trader in the supply chain believes that the government is partial, in that large traders get preferential treatment. Reciprocity plays a

central role within a local governance structure characterized by ineffective and partial institutions. Key administrative officials in Malakand District rely on local political leaders to enhance their governing capacity. On the other hand, political leaders rely on both voters and administrative officials. All 10 of the administrative officials interviewed stated that the introduction of local government elections in 2015 was followed by increased intercession for rule violators. A key official in the food department explained: “There are three Union Councils in Batkhela. Since the local government elections, there is a *nazim* or councillor in every street. Thus, each business owner is accompanied by these members when a penalty is imposed” (Shakirullah interview, 27 August 2016). Large traders rely on low-level government officials with whom they cultivate bribe-based ties, whilst small traders rely on political leaders and large traders for protection against penalties. Clearly, large traders are at an advantage here. However, small traders who have personal ties to administrative officials also believe that their networks (if they have any) influence the functioning of LG institutions. A small-scale manufacturer of confectionery reported three instances where he was about to be penalized for using harmful ingredients in the preparation of sweets: each time the food inspector was due to collect a sample, he was prevented from doing so by a high-level official.

Within this context, evidence suggests that the impartiality of government officials can improve government quality and reduce traders’ reliance on the particularized trust and reciprocity that facilitate corruption. For instance, during the fieldwork for this research, an official from the health department sealed a pharmacy involved in selling illegal medicines, whose owner had also failed to produce a licence when requested to do so (Saleem interview, 17 August 2016). This was not the first time that a penalty had been imposed on this pharmacy owner. In previous instances, he had relied on intercession by his cousin, the mayor of UC1, who had a reputation for successfully acquiring concessions from government officials. This time, the pharmacy owner stated: “I knew that he [mayor of UC1] could not do it, because [the drugs inspector] does not listen to anyone” (Ziad interview, 17 September 2016). Such impartial behaviour by government officials also influences the capacity of powerful traders to perform their expected role of protecting their customers from penalties. As a pharmacy trader explained: “I have been to his office only once to ask him to let go one of my customers for selling fake medicines, but I will never go there again because I know that he [the health official] is not going to listen to me in such matters” (Zakir interview, 13 August 2016).

Socioeconomic inequality is a question *ex-post* to the quality of government institutions. For instance, a pharmacy retailer had sold fake life-saving drugs which caused the death of the user. Due to the severity of the offence, and its moral implications, the entire district machinery attempted to bring the pharmacy owner to justice. Most of the political leaders refrained from interceding in the case, and those who did were unsuccessful. All the medicines were confiscated from the trader's shop, the case was filed, and the samples were sent for forensic examination. However, the trader escaped the penalty with the help of his economic networks, which facilitated bribing laboratory officials to alter the outcome of the forensic examination. In this instance, the trader was not only aware of the illegality of his act, but confident despite the immense social and regulatory pressure that the outcome of the forensic test would turn the situation in his favour. In all, 11 instances were recorded where traders had paid bribes through their economic networks to alter the outcomes of forensic examination. In most of these instances, wholesalers had ties that benefited all the actors including the retailers; however "this conspiracy against the public" is not due to socioeconomic inequality alone (Adaman and Odabas, 2014: 84), but also to inefficient government institutions. In the example elaborated above, both the retailer and his supplier of fake medicines (a mobile vendor) were low down on the socioeconomic ladder. Interestingly, the key node in this network, a government official in Peshawar who facilitated channelling the bribe that helped the pharmacy owner to escape the penalty, was also a clerical-level official.

In summary, inefficient government institutions, a lack of belief in institutional fairness, and socioeconomic inequality prevent the development of generalized trust and contribute to corruption underpinned by particularized trust and reciprocity. There is a negative relationship between generalized and particularized trust here. Key expressions employed by traders to highlight the trade-off between generalized and particularized trust included "Everyone else is engaged in selling these [illegal] goods", "You cannot purchase from a stranger", "It takes time to develop trusting relations", and "You purchase goods from those who take responsibility". However, within this environment, as Table 2 demonstrates, particularized reciprocity is a major governing mechanism that performs a dual role. On the one hand, it stabilizes trust in economic exchange relations in a context characterized by poor QoG, but it also stabilizes exchange relations within the networks of corruption that feeds back into poor QoG.

Table 2: Reciprocity as a governing mechanism for networks

<b>Case details/ Type of request</b>	<b>Expectations of request initiator</b>	<b>Relation of expectations to QoG</b>	<b>Motives of benefit provider</b>	<b>Sanction against defector</b>	<b>Number of cases</b>
<b>Small trader expects from large trader</b>	Protection against the cost of penalty	Belief that government officials do not punish large traders	Development of trusted- durable economic exchange	Cutting off business ties and spreading negative word	5
<b>Large trader expects from small trader</b>	Increased number of permanent customers	Belief that bribing government officials to protect customers from penalty is important because everyone else does it	Development of trust and durable economic exchange	Cutting off business ties	4
<b>Trader expects from political actor</b>	Intercession to reduce or omit penalty	Belief that officials accommodate political leaders more than anyone else	Seeking support in rallies and votes in the next election	Shifting support to another actor	4
<b>Political actor expects from trader</b>	Development of reputation and increasing support base	Belief that the administration favours only politicians with a large following, thereby favouring voters	Increasing the numbers of political clients	Withdrawing support	9
<b>Friend expects from friend</b>	Fulfilling past obligations or creating future ones	Belief that those who have ties to government officials can escape penalties; and that for those who do not, the law perfectly works against them.	Maintaining friendship ties	Cutting off friendship ties	7

Source: Interview data and field notes

Trust within asymmetric networks is underpinned by poor QoG, especially owing to the partiality of government officials and the poor implementation of regulations. If satisfaction with the quality of service delivery is the most important of all individual-level determinants of differentiating between trusting and mistrusting citizens (Fitzgerald and Wolak, 2016), Table 2 shows that citizens' mistrust in QoG increases reliance on particularized trust and reciprocity that is negatively associated with generalized trust and positively associated with corruption (see Figure 1). Moreover, if corruption is added to this equation, these findings suggest that if the state is corrupt, individuals dealing with bureaucracy will recognize that corruption is a general way of life while dealing not only with politicians but with everyone else (Islam, 2004). This will result in the expectation that neither the citizenry nor the government can be trusted (Cook et al., 2005, cited in Robbins, 2012).

In such an environment, characterized by ineffective and partial institutions with corrupt officials and low levels of social trust, reciprocity, as an important component of SC, serves as an informal insurance arrangement (Adaman and Odabas, 2014: 83). These arrangements, underpinned by particularized trust, establish security in the absence of effective formal institutions (Nooteboom, 2007), but also promote corruption that feeds back into poor QoG (see Figure 3). A few key findings emerge here. Firstly, an agent avoids sanctions (see Table 2, Column 4) unless the cost of cooperation exceed its returns. Furthermore, the decision to apply a type of sanction depends on an agent's trust in the intention of others (government officials, political leaders or suppliers) to help protect them from the penalty. Secondly, pecuniary gains are not the only returns: power, reputation and prestige are some of the other resources that actors, especially political actors and large traders, aim to develop through exchanges of bribery and intercession, as Column 3 of Table 2 indicates. Thirdly, cutting ties, shifting one's trust to competitors of the benefactor, reminding an agent of his failure to maintain trust in front of others, and spreading negative words about a person are powerful social sanctions that ensure the continuity of mutual exchange relationships in the context of ineffective formal institutions (Nooteboom, 2007).

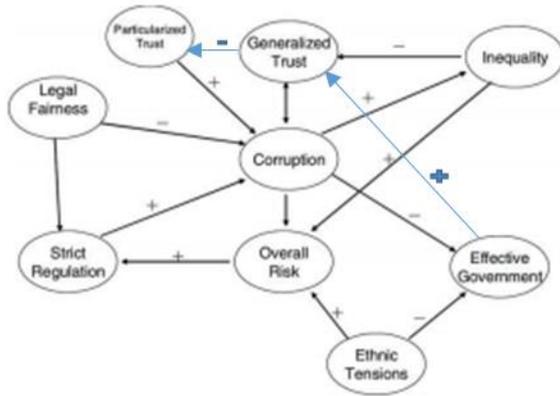


Figure 3: Inequality-trust-corruption model adding QoG as an important causal mechanism. Modified from Uslaner (2012).

## 5. Conclusion

Through the study of marketplace governance embedded within the local governance structure, this paper has tried to answer two questions. Firstly, it has asked how QoG impacts on the role of SC and how SC explains corruption in the local governance context. It has been demonstrated that poor QoG leads to low levels of institutional trust that are positively linked to low levels of generalized trust, which is negatively related to particularized trust that is positively related to corruption. A key finding here is that QoG and socioeconomic inequality are both deeper systemic factors shaping the role of SC. Here, our findings signify the need to distinguish between situations where government ineffectiveness influences levels of trust and where socioeconomic inequalities are the underlying factor in shaping low levels of generalized trust. Especially by showing how QoG influences levels of trust along with socioeconomic inequalities, this paper contributes to Uslaner's inequality trap thesis from a Rothsteinian (state-centred) perspective. Figure 3, modified from Uslaner (2013) demonstrates this contribution.

The second key question this paper has asked is how existing theories (and their critiques) on the link between QoG, trust and corruption are underspecified for the analysis of local governance. Analysing the link between QoG, trust and corruption at the local level has revealed that the mainstream QoG-trust and trust-corruption debates are underdeveloped for local-level analysis (Uslaner, 2013; Charron and Rothstein, 2014). Through its focus on petty corruption, the paper has demonstrated that this erodes citizens' trust in government, which influences generalized trust and leads to greater reliance on particularized trust, which feeds into poor QoG. Through its central empirical focus on petty corruption, this paper questions

the assumption that petty corruption does not matter for social trust (Uslaner and Badescu, 2002; Uslaner, 2010). In this way, it contributes to the underdeveloped theory of the link between QoG, trust and corruption at the local level (Rothstein and Stolle, 2002; Charron and Rothstein, 2014).

Developing a local analysis of the link between QoG, trust and corruption offers promising directions for future research. The literature streams on corruption and local governance (Diaby and Sylwester, 2014; Gurgur and Shah, 2005), trust and corruption (Adaman and Odabas, 2014; Bjornskov, 2004) and trust and governance (Fitzgerald and Wolak, 2016; Charron and Rothstein, 2014) are often developing separately. Moreover, in the mainstream literature on QoG, trust and corruption, petty corruption is assumed to have little or no impact on generalized trust. The next step would be to create a typology of petty corruption, which is rampant at the local level, to analyse which types influence levels of trust in society and which types do not. This was clearly beyond the scope of the present paper. Sufficient evidence exists to suggest that corruption is higher in decentralized bureaucratic structures (Diaby and Sylwester, 2014) and that corruption occurs more at the local level, even in the most advanced industrialized countries (Albanese and Artello, 2019: 3). There is much to gain from combining these parallel but interrelated streams of literatures for developing a more fine-grained local analysis of the link between QoG, SC and corruption. On the one hand, it will overcome the underspecification of the SC-local governance literature on the attitudinal dimension. On the other hand, it will remedy the underspecification of the mainstream debates on the link between QoG, SC and corruption for analysing local governance.

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