DECENTRALIZATION, SUB-NATIONAL GOVERNANCE & CORRUPTION

Nicholas Charron
Associate Professor
Copenhagen Business School &
Quality of Government Institute, Goteborg
Sweden

Today's presentation

- Brief introduction to the QoG Institute
- Decentralization, sub-national actors and corruption

-background

-defintion & measurement (decentralization)

-theory

-evidence: case studies, cross-national and regional

- Measuring regional corruption within countries: the 'European Quality of Government Index (EQI)

The Quality of Government Institute (QoG): University of Gothenburg

Who are we? What have we done?

- Independent academic research institue within political science dept.

- Began in 2004 by Bo Rothstein and Sören Holmberg, grant from Swedish research council

- around 20 researchers, 5 Phd. students och 5 assistents (opportunities for students..)

- New EU-financed project began 2012 - ANTICORP - 10.000.000 €, 5 years, 21 research groups in 16 European countries

- www.qog.pol.gu.se

The Quality of Government Institute (QoG): University of Gothenburg

- **Teaching:** QoG MA course

- **Publications:** 7 books, over 90 articles in international, peer-reviewed journals

- **QoG database**: to collect and organize freely available data on QoG, corruption & correlates (www.qog.pol.gu.se)

- **2 original datasets**: 1. QoG Expert Survey on public sector employees & 2. **European Quality of Government Index (EQI),** 1st measure to capture QoG and corruption at regional level for multiple countries

Our work in Anti-corruption

- Lots of different actors – politicians, bureaocrats, firms, NGO's, researchers, etc.
- Each with a division of labor
- For example, politicians make policy, bureaocrats implement policy, IGO's & NGO's help with oversight and information to public
- Our job as researchers is to evaluate proposed relationships with theory and evidence, collect data
- Political scientists tend to focus on effets of institutions & public policy on various outcomes (like economic prosperity or corruption)
- for example, does giving local actors more authority lead to less corruption?

Decentralization, sub-national governance & corruption: background

Overview of research literature

- "what happens to corruption & QoG (DV) if power is transferred (IV) from central to local actors? moreover, which types of decentralization should be adopted and which avoided & in what context?"

- Huge literature with lots of mixed results

- As opposed to 'geography', 'ethnic-diversity', 'history', etc., this is an institution that can change rapidly within a country & varies greatly world-wide..

Decentralization: The Political Context

- Since the 1980's & especially since fall of the Berlin Wall, a key policy recomendation from World Bank, IMF and Western governments for transitioning states's. Major policy issue of today

- Why? 'Failures' of central governments, especially those in the former Soviet bloc & Latin America

- Intended to promote among other things: Accountability, transparency, Efficiency & pluralism

- Policy supported by wide range of groups:

we find that support tends to come from:

Center-Right or far right, neo-classical economists, anti-communists, activists & political parties from wealthy regions (Lega Nord, Vlaams Belang, etc.)

-Left – multi-culturalists, some environmentalists, and even some socialist-leaning leaders like Evo Morales..

**big political issue & very large literature in field of corruption research

Defining Decentralization: The Basics

⊙ 'Horizontal' vs. 'Vertical' power sharing

⊙ What is 'Decentralization'?

⊙ **CAN mean <u>federalism</u> – but does not always mean so – can be:**

1. *Political* – decision-making

2. *Administrative/spatial* – region/local actors carry out center's policies

3. *Fiscal* control of sub-national actors

Horizontal Power Sharing

Lower House Upper House Executive Political Parties Judiciary

Vertical

Power

Sharing

Sub-National Units
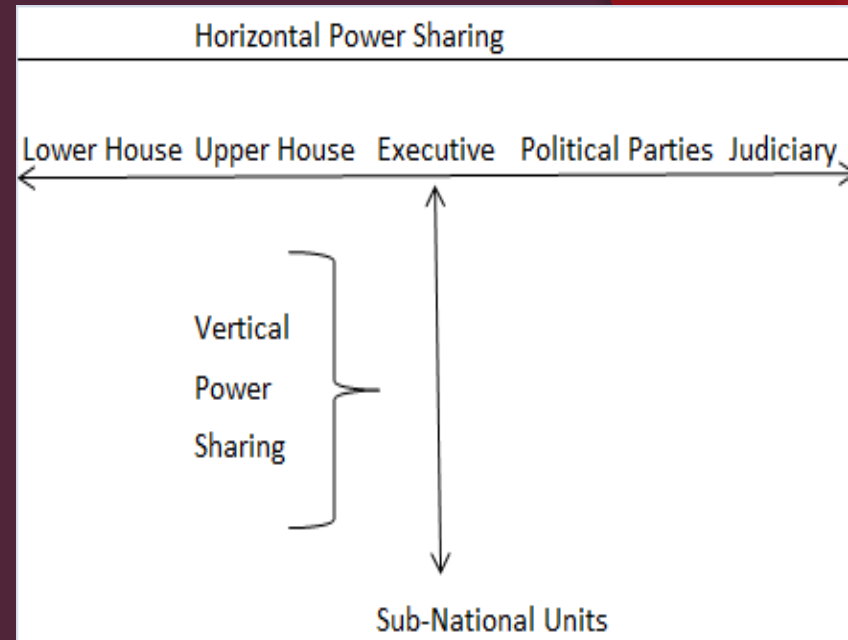
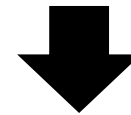# Adminsitrative, fiscal and Political in general

Most all states have SOME type of decentralized governance, but how much?

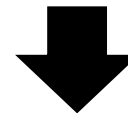World Bank defines the continuum like this:

How might we measure this?

Deconcentration
local adminsitraters carry out
center's policies

↓

Delegation
center still responsible, but local administraters
have some authonomy in experimenting with certain
policy areas, can maybe charge fees, etc.

↓

Devolution
local elections & politicians have some/lots
fiscal tax authoritiy. Can make own policy on
certain areas

1. Fiscal – some measurements

Actual spending levels:
-Sub-national expenditure (% total exp. or GDP)

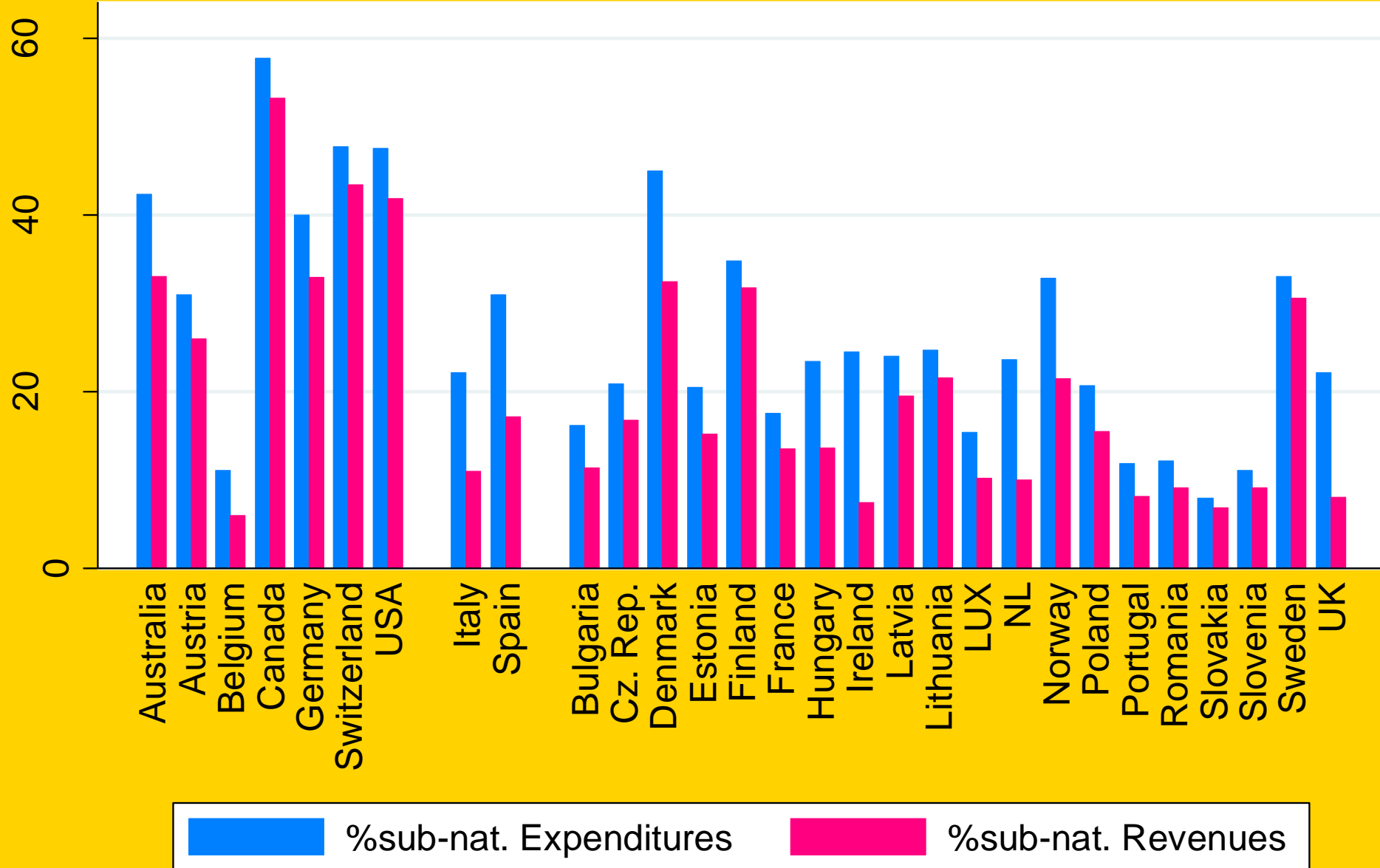-Sub-national revenues (% total rev. or GDP)

Legal rights:
-fiscal authority – do sub-national units have rights to tax, spend, charge fees, etc.? If so in how many policy areas? (0,1 or 0-4 or so..)

2. **Political/ constitutional** decentralization

For example, some studies use measures like:

-are provincial/local governments elected?

-do sub-national levels have authority to pass laws? In how many policy areas?

-Is there an upper chamber at the national level?

-Are there autonomous regions?

-Can a majority of provinces change the constitution?

-Is the country federal, semi-federal?

Decentralization & Federalism

3. Adminstrative/Spatial

For ex. :

-number of elected sub-national tiers

-size of sub-national units

-number of local/mid-level jurisdictions

-Employment sub-national/ total public sec. Employment

***however, most of these data very limited over time & often not available for poorest contries..*

Regional Authority Index (Hooghe et al. 2014)

- Most comprehensive data over time on decentralization: 1950-2010 for about 70 countries

- Covers 14 aspects of decentralization, covering all three types (political, fiscal, admin.)

- Some visuals..

Countries by Decentralization (RAI)
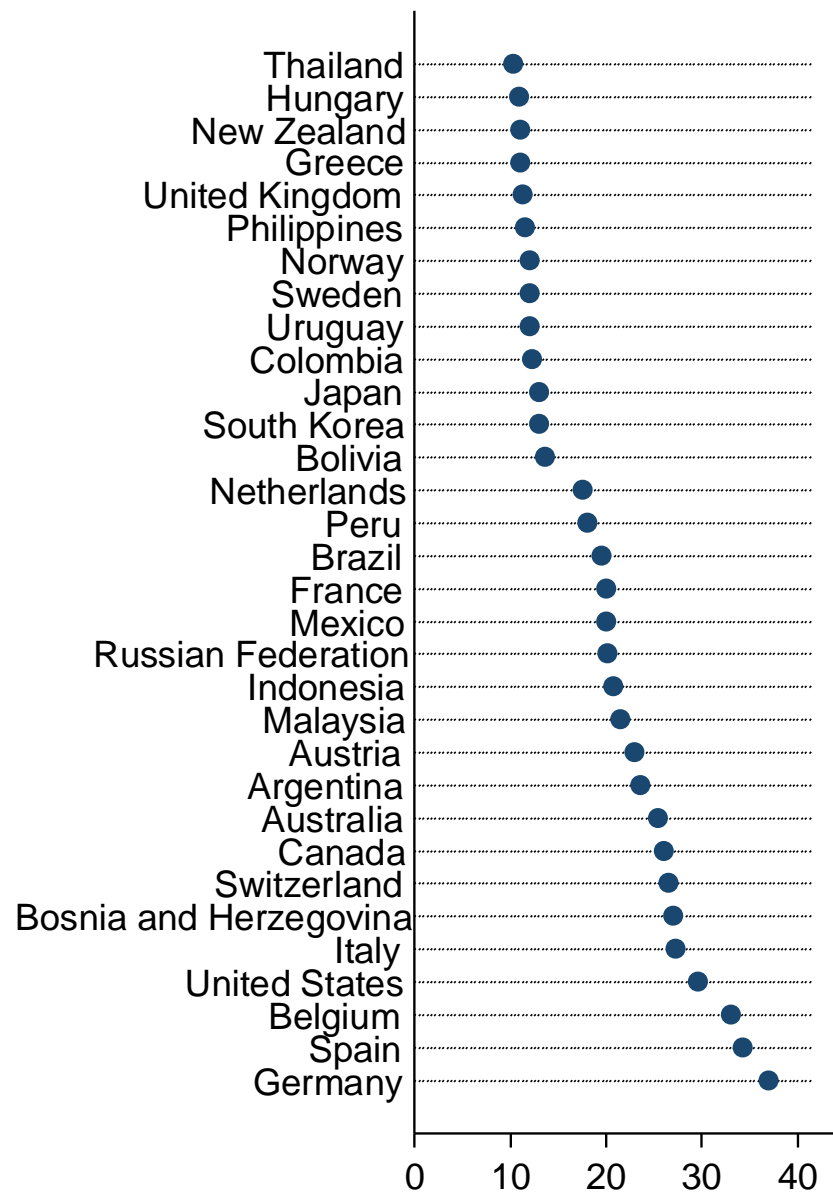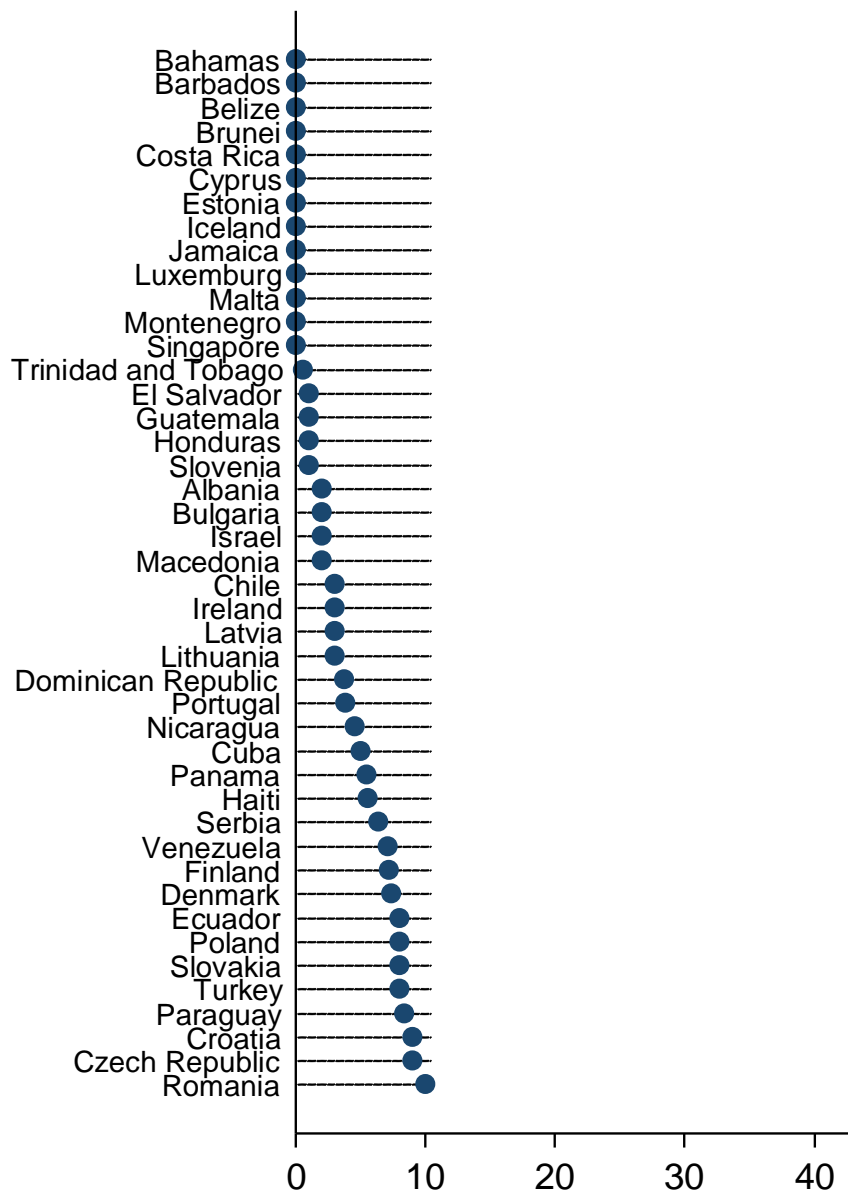
Corruption: concept & measures used in literature

- 'misuse of public office/resources for private gain'

- 'subjective' measures – CPI, WGI, ICRG, mainly expert driven

- 'objective' measures – bribe frequency, convictions, public procurment provisions

- Problem – lack of sub-national data for multiple countries... more later..

Theory

Why would Decentralization of power lead to less corruption & better governance??

Some common arguments from the literature

Dentralization leads to better governance

I. force regions to provide efficient and quality services, less corruption, etc. to attract firms & skilled labour (Ostrom, Schroeder, & Wynne (1993) – *race to the top!*

II. Breaks up the 'corrupt leviathan' central government/ provides more 'veto players' that can hinder poor QoG

III. protects minorities from potential majority rent-seeking and/or underprovision of goods,

Cont.

IV. Ambitious local politicians (with national ambitions) might build reputation on 'integrity'

V. Local politicians have more incentive to cater to local needs (elections the mechanism), thus individual preferences more likely met, local specialization, etc.

VI. Better **ACCOUNABILITY** – collective action problems greater with large central elections, voters closer to regional politicians, etc., 'yardstick competition, etc.

Why would decentralization lead to more corruption?

Or –

Why might *centralization* of power be better for QoG and inhibit corruption?

Some common arguments

1. Poorer countries do not have the capacity that wealther countries do (Tanzi 1995, 2000; Prud'homme 1995)

-less competant, skilled workers overall – best and brightest go to the capital and less competant stay in poorer regions

-might lead to over-spending and cause budget crises (Roden 2000)

2. Too much competition a bad thing:

-may lead to a ***'race to the bottom'*** among regions – attracting firms might lead to lower quality services, etc.

-corrupt regions say 'good riddens' to unhappy citizens that move elsewhere

3. Decentralization leads to LESS accountability not more:

-local media weaker than central (Lessmann & Markwardt 2010)

-many voters look at regional elections like a referendum on central actors (for ex., Germany)

-less accountability, more 'Buck-passing'

-less available data on regions than the central governments to evaluate (lack of yardstick..)

4. Regional governments are more easily 'captured' by local interest groups than the center

-makes corruption ramped, spending and taxes favor only select 'in-groups'

-collusion with media & other power actors (US police force in Fergeson, Missouri for ex.)

5. **Economics of scale** lead to better provision of goods and better QoG

***Possible result** -leads to increased inequality among regions?   Effect might depend on local conditions ('interaction effect')

Testing the relationship: what does the evidence look like?

1. single country case studies

Some Examples of 'success cases'

- (Faguet & Sanchez 2008) Bolivia & Colombia success stories with decentralization in several areas

- **Bolivia** – 1950-70's ISI & centralization let European elite dominate poorer Indian population,

- 15 strait years of zero growth, IMF and rural population push for reform –

- Followed World Bank & IMF recomendations and decentralized rapidly.

Decentralization and Popular Democracy

GOVERNANCE FROM BELOW IN BOLIVIA

Jean-Paul Faguet
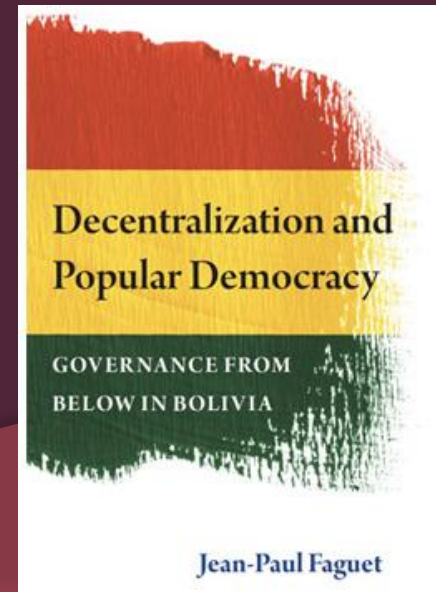
Political decentralization reforms

-creation of more municipalities (311 more)

-now 4 levels with economic autonomy:

1. Central
2. Regional '*departamentos*' (9) - transfers, local responsibility & oversight established
3. Municipality (326)
4. Indiginous communities (11)

-electoral system reforms – mixed-member system to allow for more choice at sub-national level – created a parallel party system 4 national parties & over 150 regional parties –

**Some consequences - much more fragmentation & uncertainty about electoral outcomes

Fiscal reforms

Changing Allocation of National Transfers

	center to local (Bs 000)			% total national transfers	
	1993	1995	%change	1993	1995
3 major cities					
La Paz	114292	61976	-46%	51%	11%
Santa Cruz	51278	63076	23%	23%	10%
Cochabamba	25856	38442	49%	12%	6%
total (3 cities)	191427	163494	-15%	86%	27%
rest of Bolivia	32099	444786	1286%	14%	73%
total	223525	608280	172%	100%	100%

-before 1994, urban elites captured resources for themselves - 3 largest cities took 86% of transfer funds,

after, they got just 27%, public investments shifted from industry and commerce to education, health and water.

-huge shift of investment to rural and poor regions

-**results:** greater investment in multicultural education, better teacher/student ratios, higher literacy rates in rural areas, greater electoral participation and better access to water

Trends over time

Decentralization & Corruption in Bolivia: 1980-2010

RAI index of decentralization — Corruption (ICRG)
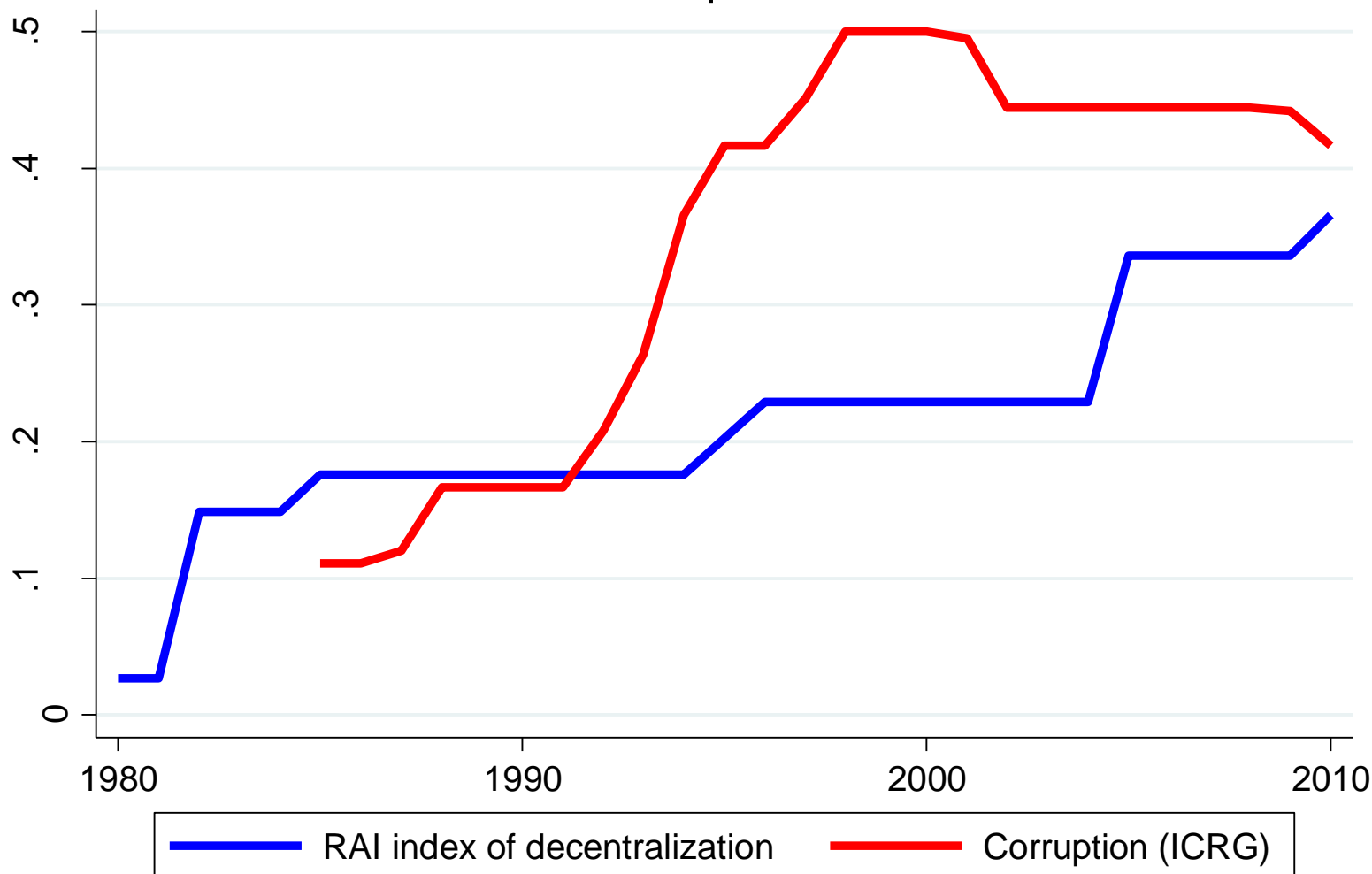
Less clear success - India, by Veron, Williams, Corbridge & Srivastava (2006)

- Study on the the *Employment Assurance Scheme (EAS)* in 2 localities in rural West Bengal – monitered by a 'benficiary committee'

1. Old Malda – poor, less educated region
2. Debra – better educated, higher levels civ. society

EAS transferred funds from center to local government to employ local workers for infrastructure projects. Local actors to set up accountability & oversight regimes

party system & development key:

Found that in Old Malda, local politicians and elites found ways to steal $ while in Debra, the party system was stronger (stronger links with national level), citizens more informed and produced better results in infrastructure & job assistance

Mixed results from Indonesia (Henderson & Kuncoro, 2011)

- After Suharto, Indonesia democratized in late 1990's and subsequently decentralized
- 2001 district governments responsible for education, health care and local services, & popularly elected.
- Bribery for licencing and services frequent in localities
- *Focus on local party system again* - Authors asked: are certain political parties were better at curbing corruption than others?

Decentralization & corruption in Indonesia

- Compared the local vote share of 2 mainstream secular parties (PDIP & GOLKAR) with that of Islamic parties for 1999 election.
- Using firm-level data on bribery for licencing, compared 2001 bribe rate (when leaders came into office) with 2004 (end of their term). Sample: about 1850 firms operating in 37 districts.

Findings:

1. less bribery overall when looking at all 37 districts in 2004
2. Yet bribery rates + from 2001-04 where secular parties did better in 1999 election
3. Bribery rates – during this time in districts with higher Islamic party success ('Outsiders vs. Insiders')
4. In 2004, people voted on corruption – PDIP & GOLKAR did worst in districts that had highest rates of bribery increases from 2001-04.

Total bribes for local officials and labor office
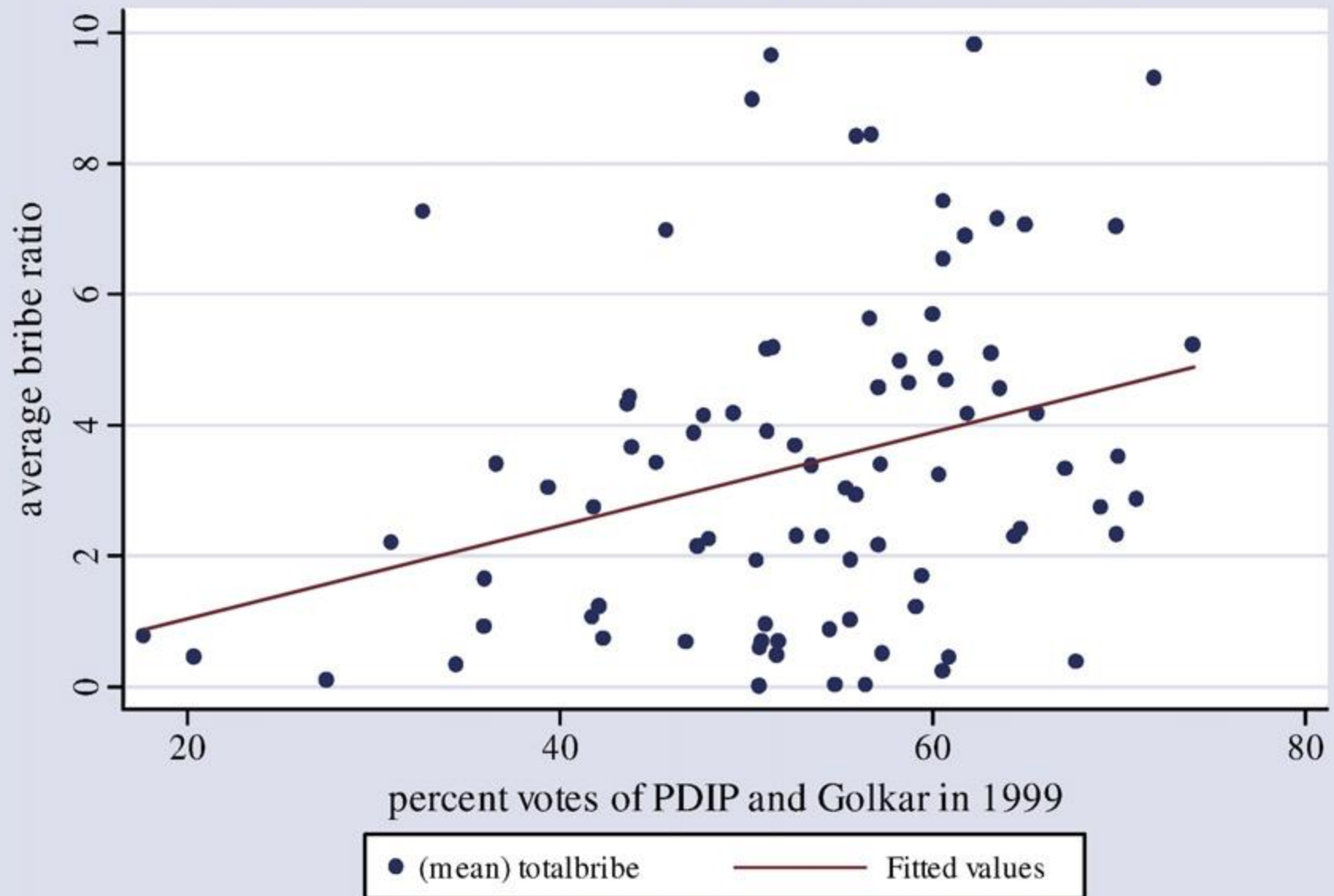
2. What does the empirical evidence look like across countries?

- If we go beyond the case-study approach, what does the evidence look like more systematically?

- There are LOTS of scholarly articles testing the effect of decentralization in many forms on corruption and governance across countries

- For example..

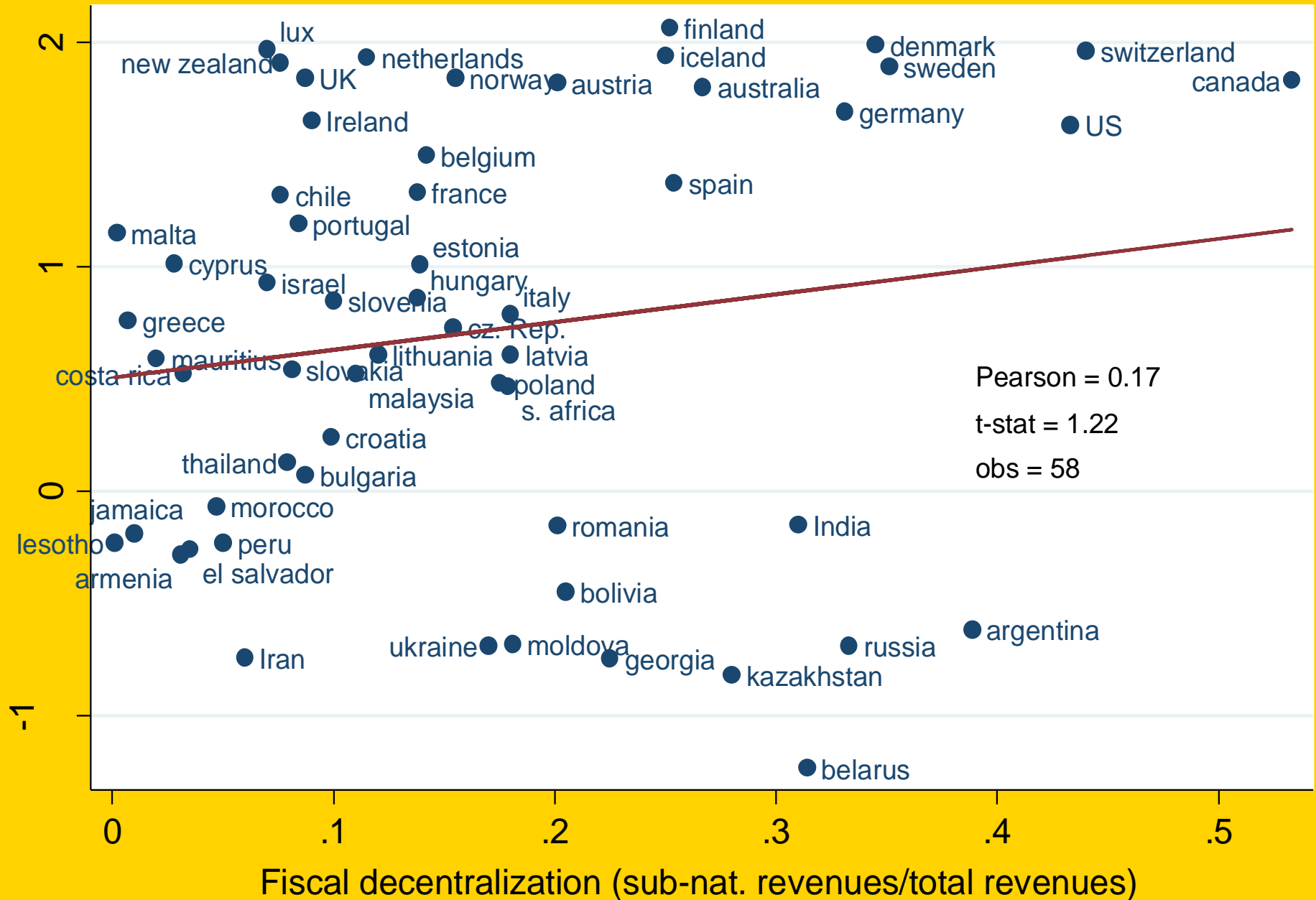# Literature on Decentralization & Corruption

- **Literature large & very divided:**

-Decentralization leads to higher corruption: Goldsmith (1999), Treisman (2000), Wu (2005), Shlefer & Vishney (1993), Tanzi (2001), Prud'homme (1995), Gerring & Thacker (2004), Fan et al. (2009), Blanchard & Schliefer (2001)

-Decentralization leads to lower corruption - Ames (1994), Barenstein and de Mello (2001), Fisman and Gatti (2002), Fan et al (2009), Panizza (2001), Enikolopov & Zhuravskaya (2007)

-Decentralization leads to lower corruption in *certain contexts* – Kyriacou & Roca (2009, 2010), Charron (2009), Bardhan (2002), Lessman & Markwardt (2010)
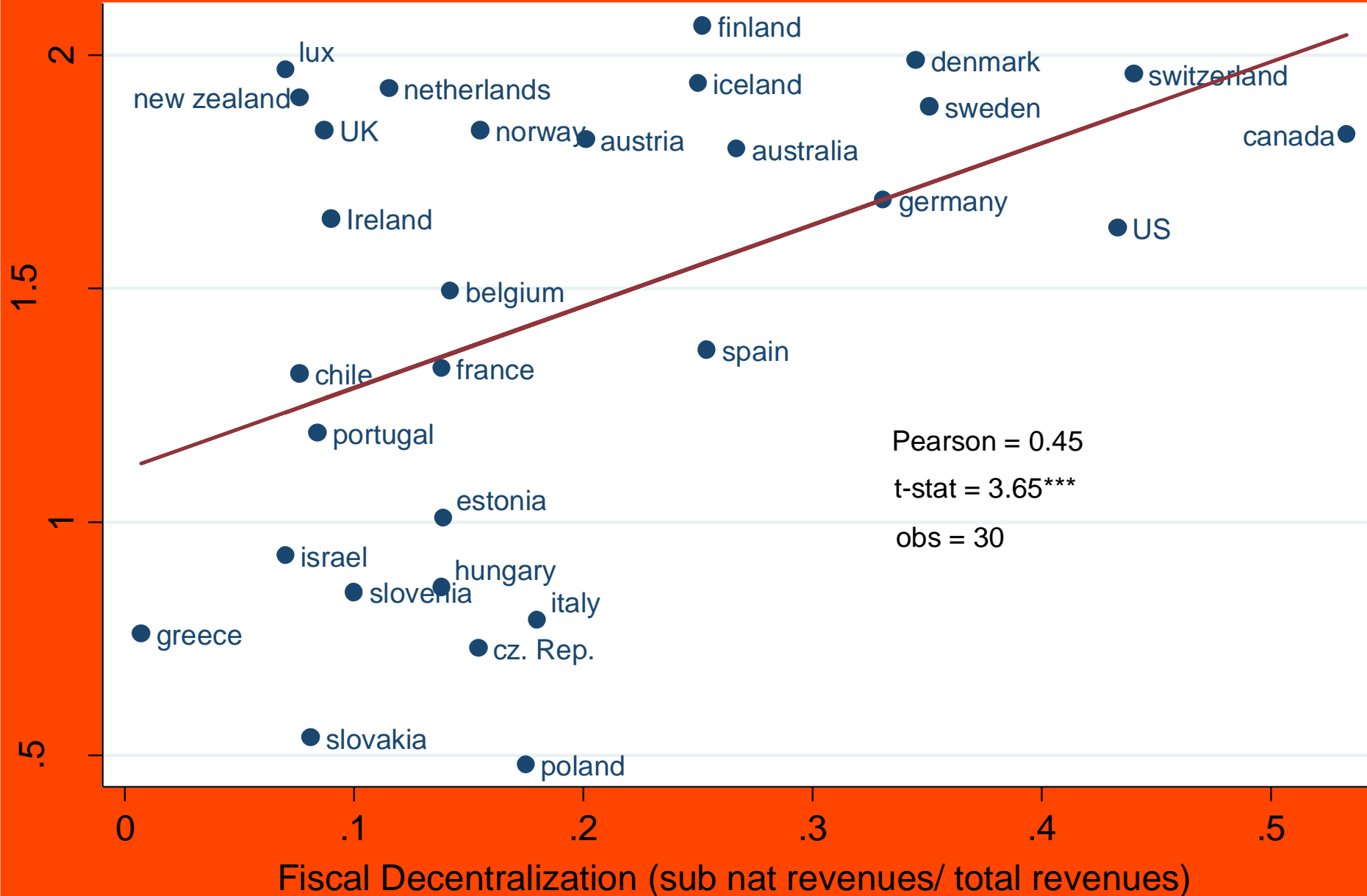
Cont.

- What we find from the x-country literature (generally speaking) is that:

1. Most measures of **Political decentralization** play no signficant role on QoG or corruption variables in cross-country analyses

2. Most measures of **Fiscal decentralization** (most often % of sub-national revenues) are associated with *lower corruption/better QoG*

3. Some measures of **adminstrative/spatial** decentralization (e.g. #of adminstrative tiers, %sub-national employees) are associated with *higher corruption/lower QoG.*

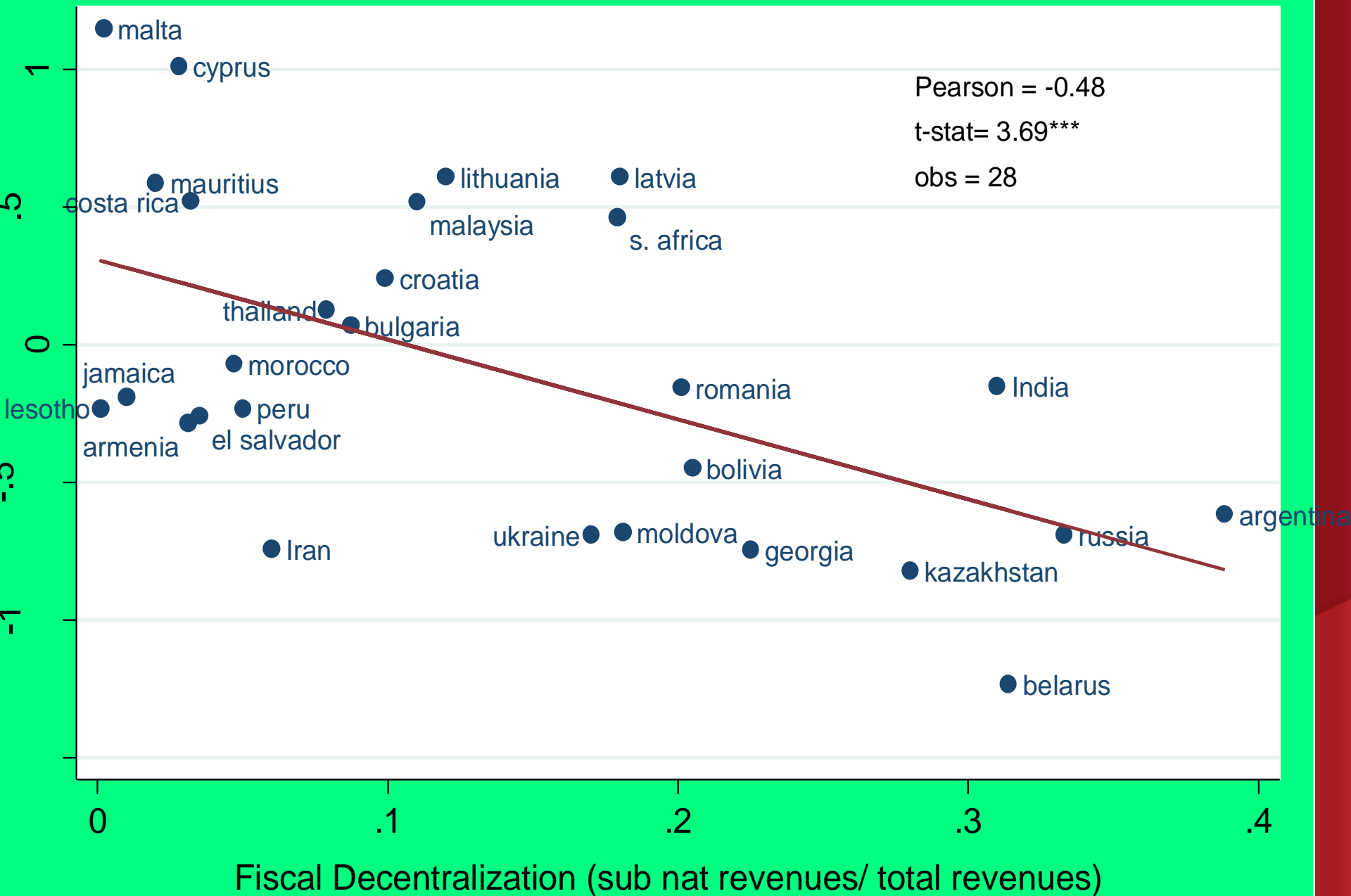4. Let's take a look at some x-country data for ourselves using WGI corruption data..

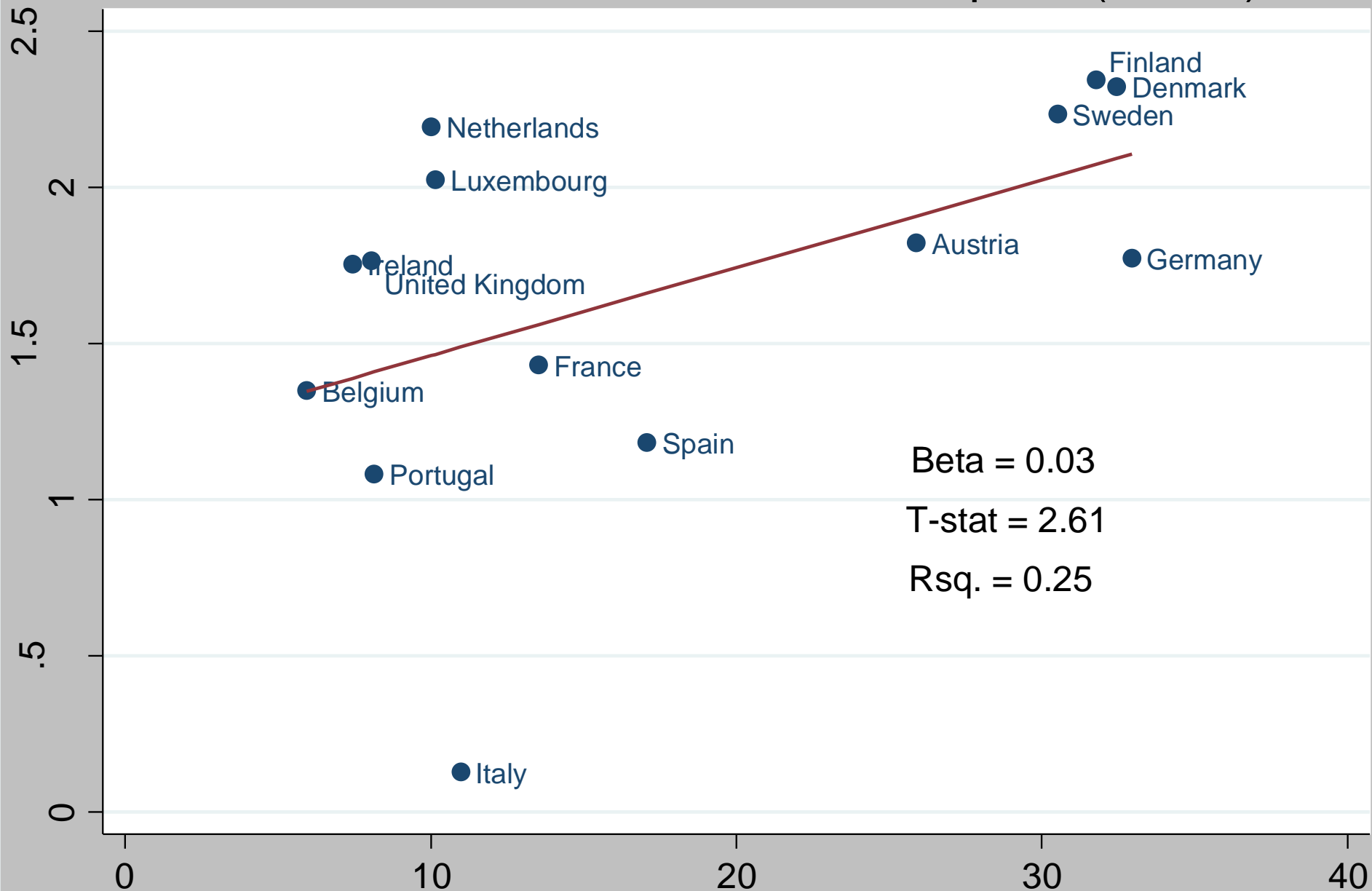# Fiscal Decentralization & QoG: 1996-2006 (from Kyriacou & Oriol)

Scatter plot with data points labeled by country. Y-axis ranges from -1 to 2. X-axis "Fiscal decentralization (sub-nat. revenues/total revenues)" ranges from 0 to .5.

Country labels include: finland, denmark, switzerland, lux, new zealand, netherlands, iceland, sweden, canada, UK, norway, austria, australia, Ireland, germany, US, belgium, chile, france, spain, portugal, malta, estonia, cyprus, hungary, israel, italy, slovenia, greece, cz. Rep., mauritius, lithuania, latvia, costa rica, slovakia, poland, malaysia, s. africa, croatia, thailand, bulgaria, jamaica, morocco, romania, India, lesotho, peru, armenia, el salvador, bolivia, argentina, ukraine, moldova, russia, Iran, georgia, kazakhstan, belarus

Pearson = 0.17

t-stat = 1.22

obs = 58

Fiscal Decentralization & QoG in OECD Countries

Fiscal Decentralization & QoG in non-OECD Countries

Pearson = -0.48

t-stat= 3.69***

obs = 28

Fiscal Decentralization (sub nat revenues/ total revenues)

Sub-National Revenues and Corruption (EU 15)

Beta = 0.03

T-stat = 2.61

Rsq. = 0.25

Sub-National Revenues and Corruption (NMS)

Slovenia

Estonia

Hungary

Slovak Republic

Czech Republic

Poland

Latvia

Lithuania

Romania

Bulgaria

Beta = -0.005

T-stat. = 0.22

Rsq. = 0.004
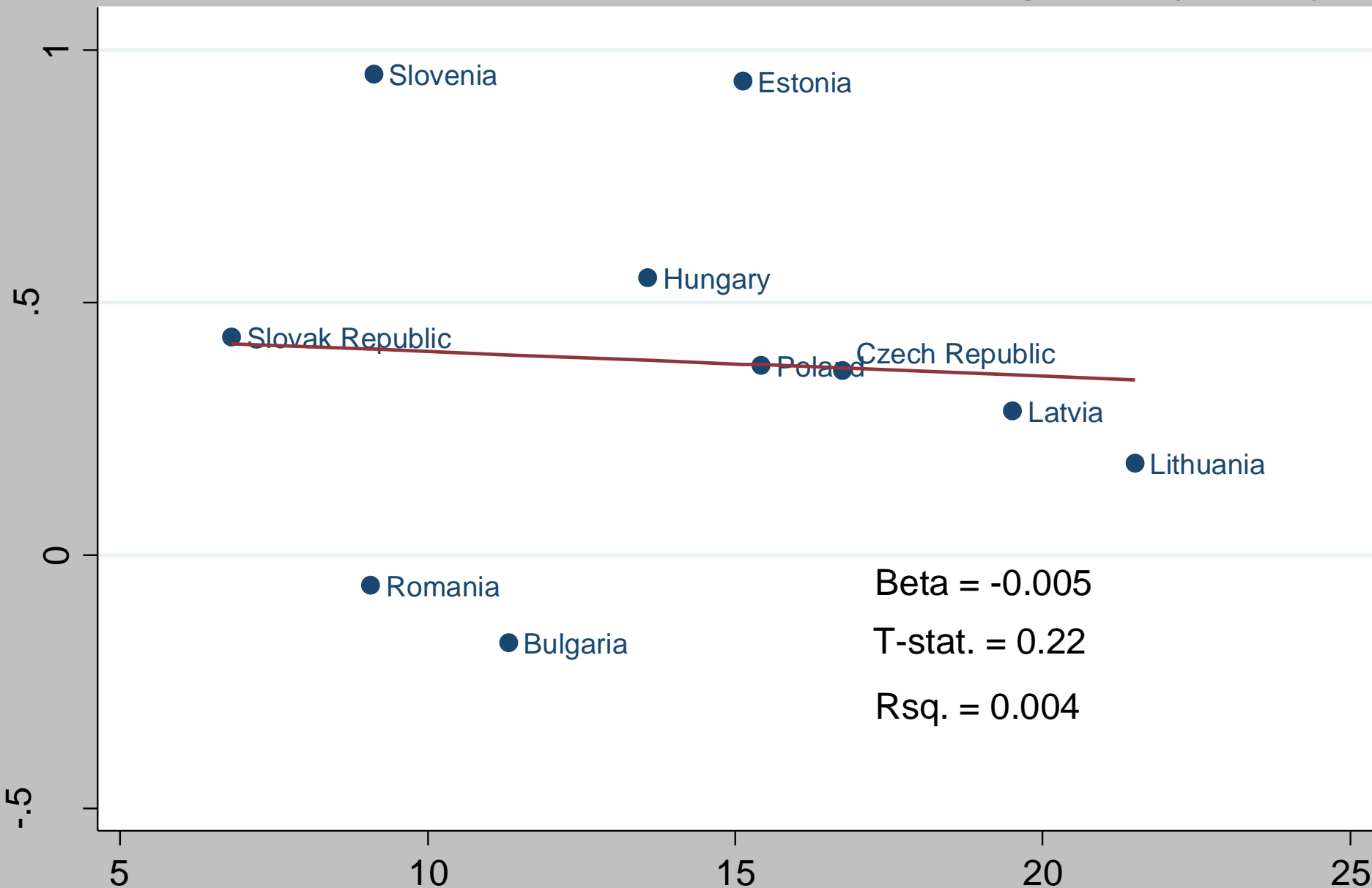
Accountability key: Interactive effects of free press & decentralization on coruption (from Lessmann & Markwardt 2010)
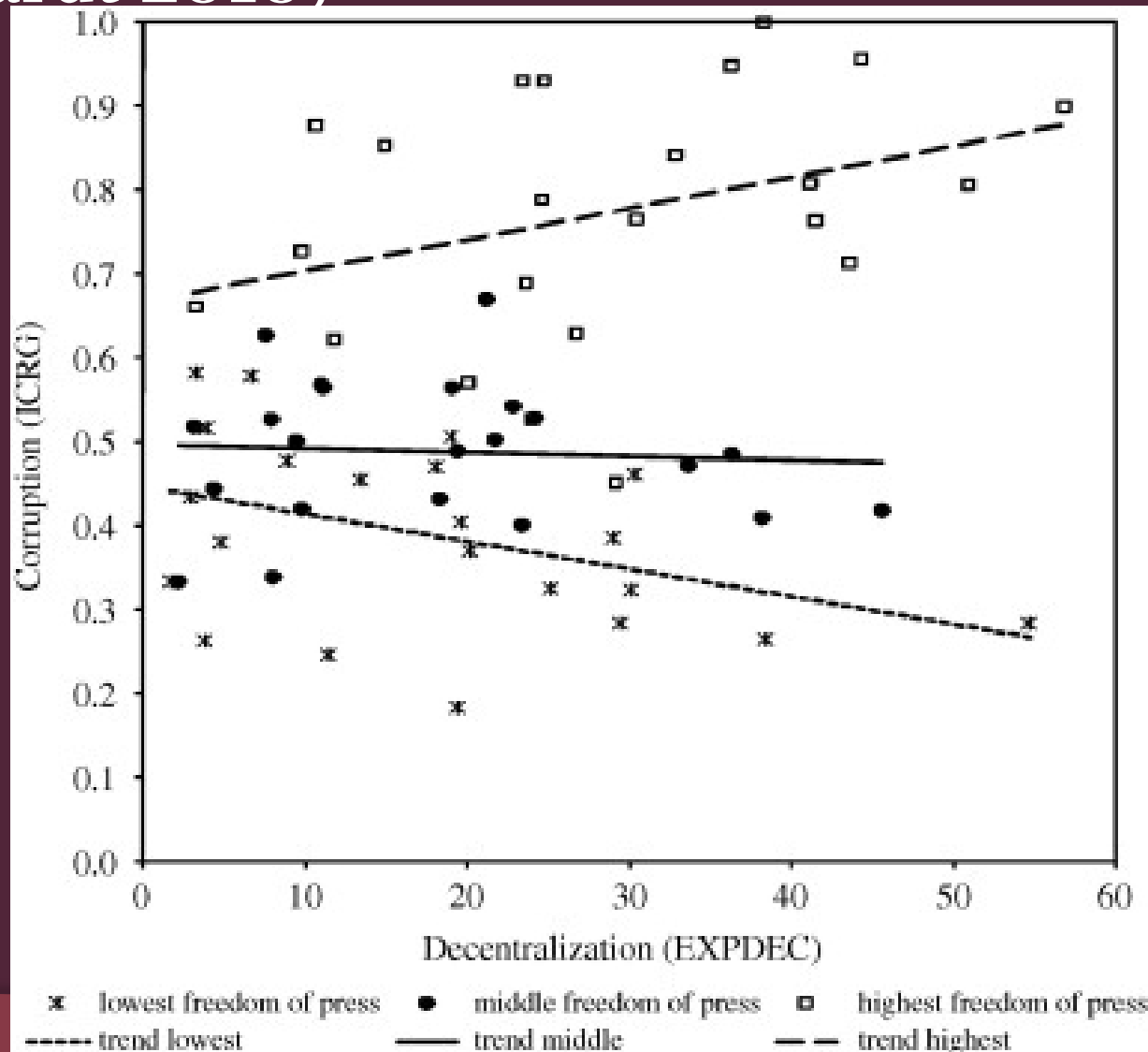
What to take from the evidence?

- Complex relationship, lots of interactions…

- Looks like decentralization is associated with less coruption among the most developed economies in the world.

- among transitioning states, the relationship does not hold – thus 'best practices'-type advice might not hold

- Some single case evidence that decentralization in transitioning states leads to larger divisions among regions – more devleoped regions benefit, while lesser developed ones more prone to capture.. Need multi-country regional data to test this ☺

GROUP	Country	WGI Score	World Rank	EU Rank	Non-EU Equivilant
	DENMARK	2.42	1	1	NEW ZEALAND
	SWEDEN	2.22	3	2	NEW ZEALAND
Group 1	FINLAND	2.19	4	3	SWITZERLAND
	LUXEMBOURG	2.17	5	4	CANADA
	NETHERLANDS	2.17	6	5	CANADA
	GERMANY	1.69	16	6	BARBADOS
	BELGIUM	1.58	17	7	CHILE
Group 2	UK	1.54	19	8	JAPAN
	FRANCE	1.51	20	9	JAPAN
	IRELAND	1.50	22	10	JAPAN
	AUSTRIA	1.44	23	11	United States
	PORTUGAL	1.09	37	12	UNITED ARAB EMIRATES
	SPAIN	1.06	41	13	QATAR
Group 3	CYPRUS	0.96	44	14	BOTSWANA
	SLOVENIA	0.93	45	15	BOTSWANA
	ESTONIA	0.91	46	16	TAIWAN, CHINA
	MALTA	0.91	47	17	TAIWAN, CHINA
	POLAND	0.51	61	18	COSTA RICA
	HUNGARY	0.34	70	19	CUBA
Group 4	CZECH REP.	0.32	71	20	VANUATU
	SLOVAK REP.	0.29	72	21	BAHRAIN
	LITHUANIA	0.29	73	22	BAHRAIN
	LATVIA	0.21	78	23	BRAZIL
	CROATIA	0.02	87	24	SOUTH AFRICA
	ITALY	-0.01	91	25	JORDAN
Group 5	GREECE	-0.15	94	26	GEORGIA
	BULGARIA	-0.17	95	27	PERU
	ROMANIA	-0.20	96	28	TUNISIA

Measuring corruption / QoG for regions across countries

The EQI

EU a good case for this type of measure...

- Avoid 'single-number bias' for a whole country...
- EU is a community of regions (ERDF, REGIO, structural funds, etc.)

- Regional difference in development wider than states at times:

- If we believe that governance explains cross-country differences, then they should also explain regional ones...
- For example..

GDP per capita, (PPP) 2012: differences in countries & regions in EU (source: Eurostat)

(minus Lux), **EU**: richest country (AT) is about 21000 wealther than porest (BG) per head.

Difference is 21200 euro per capita between Bolzano-Bozen & Campania

Gap is 23500 euro per head is even larger between Bucharest region and Nord Est
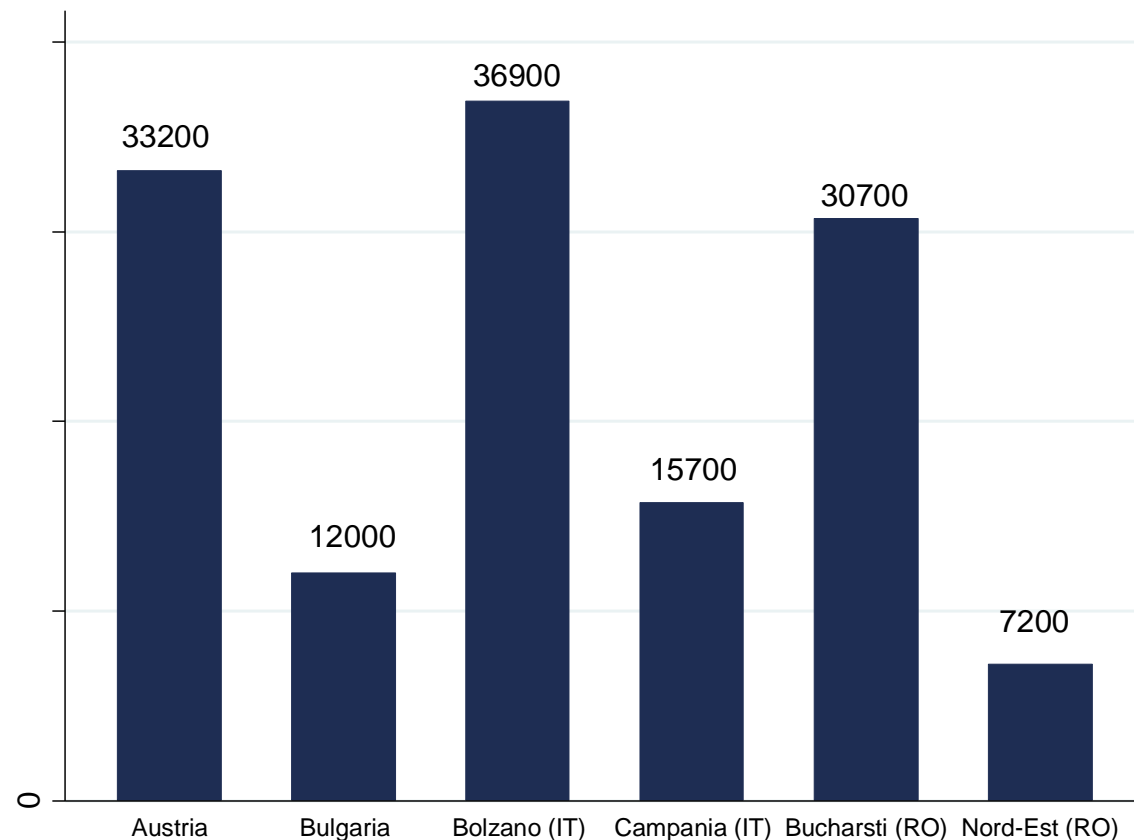
unemployment %, 2013 (source: Eurostat)

- Similar situation with unemployment

- Gap between some of EU's lowest (Germany) , & countries hit hardest from the crisis – IT and HR, is LESS then high/low regions in Belgium, Slovakia

- Brussels has 4x greater than Flanders, which is larger relative distance than SE to ES.
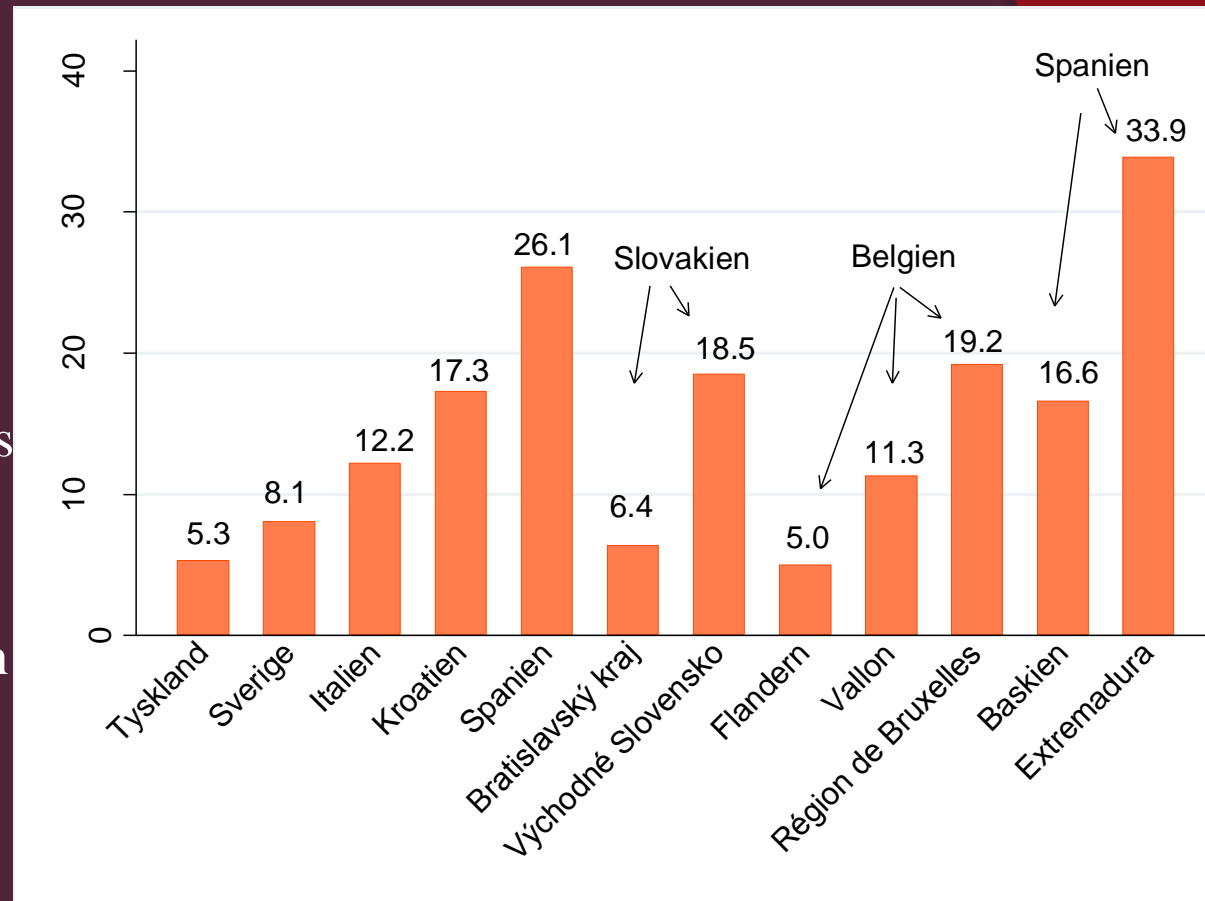
European Quality of Government Index (EQI)

- Almost all existing corruption/ QoG data at national-level

- **2010**: 1st (and only) mulit-country, sub national data on QoG to date. Funded by EU Commission (REGIO)

- We created a *QoG Composite Index* for 172 E.U. regions
- The study is based on a citizen-survey of respondents in EU
- 34,000 respondents in 18 countries (+/- 200 per region). They are the 'consumers' of QoG

- 16 QoG-focused (all translated into country languages) questions on:
  - personal experiences & perceptions
  - of the Quality, Corruption & Impartiality…
  - …on Education, Health care, and Law Enforcement

  - **2013: we build on this past research in a new round of data – based on a survey of 85,000 citizens (400 per region) for 206 regions & all EU 28 countries**
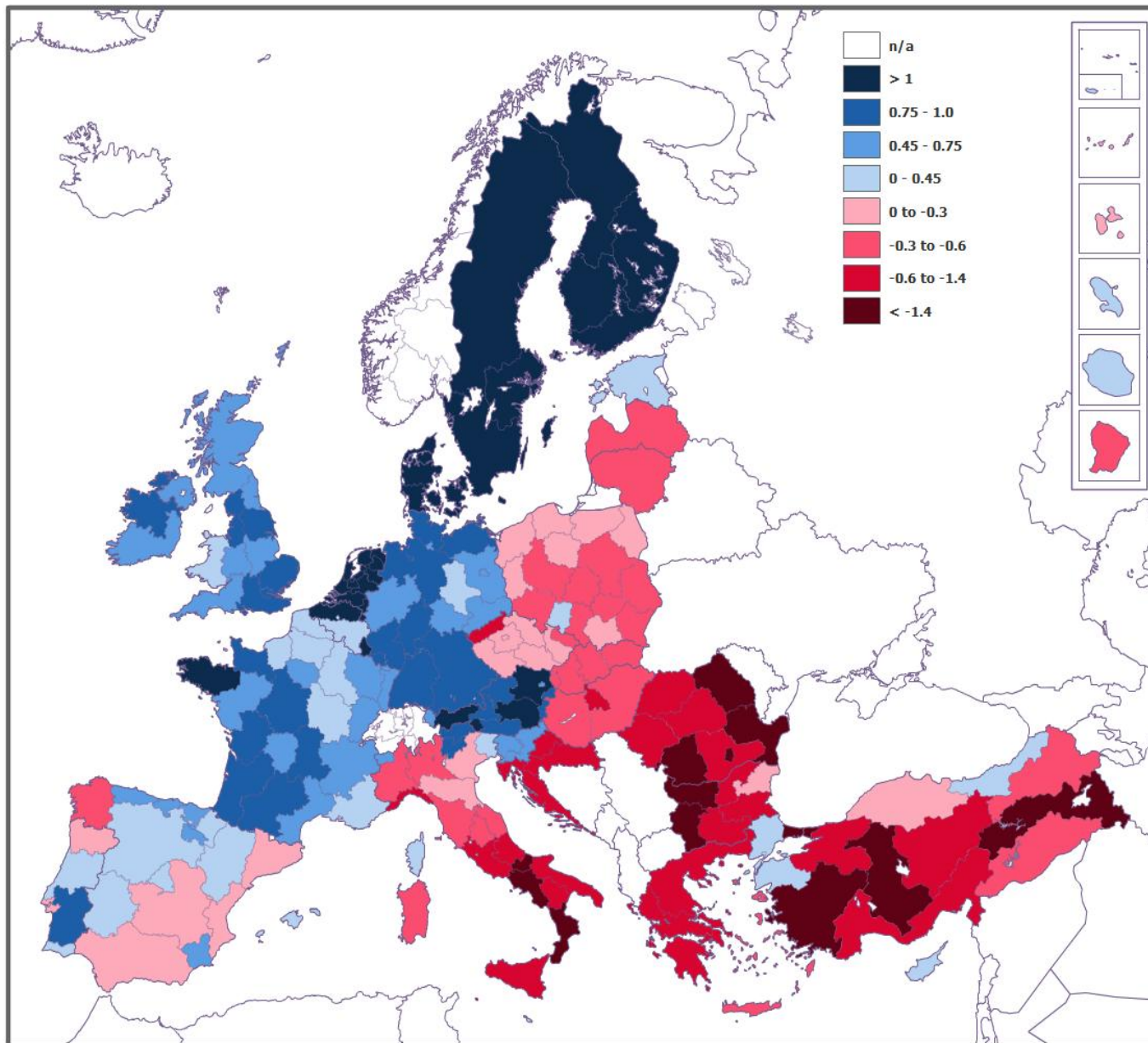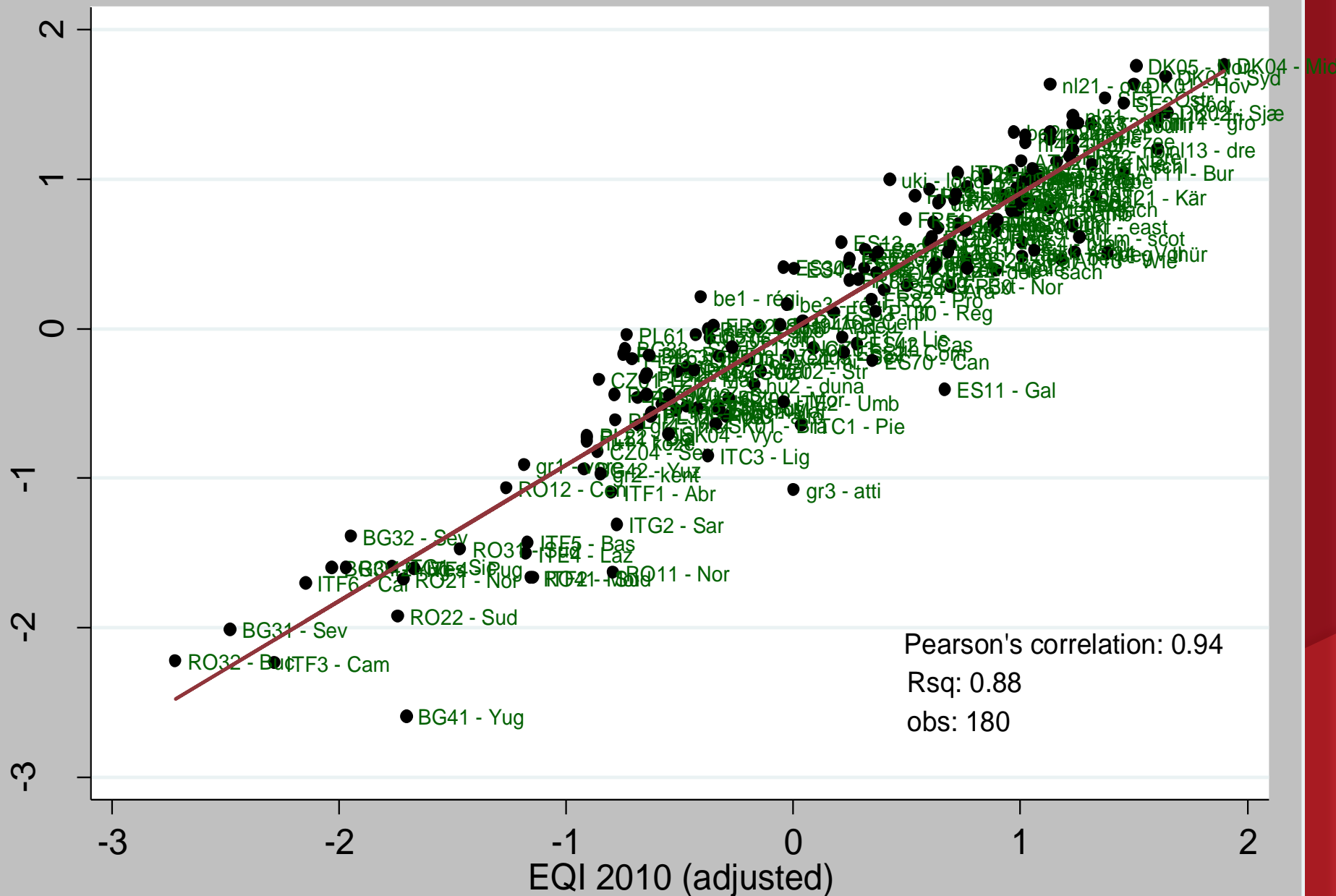
The EQI: 2010
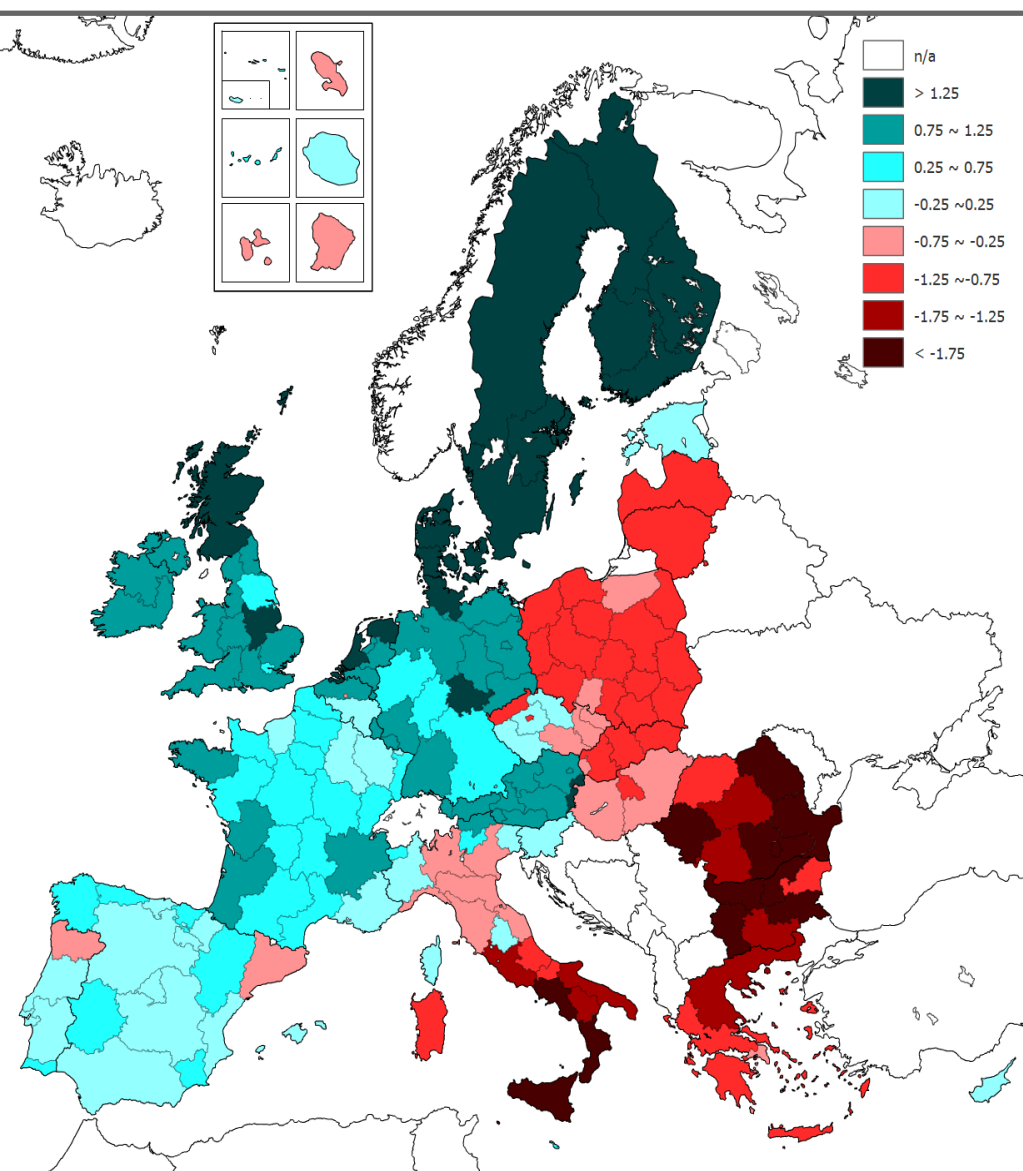
- A composite index based on 16 QoG survey questions from 2009-2010.
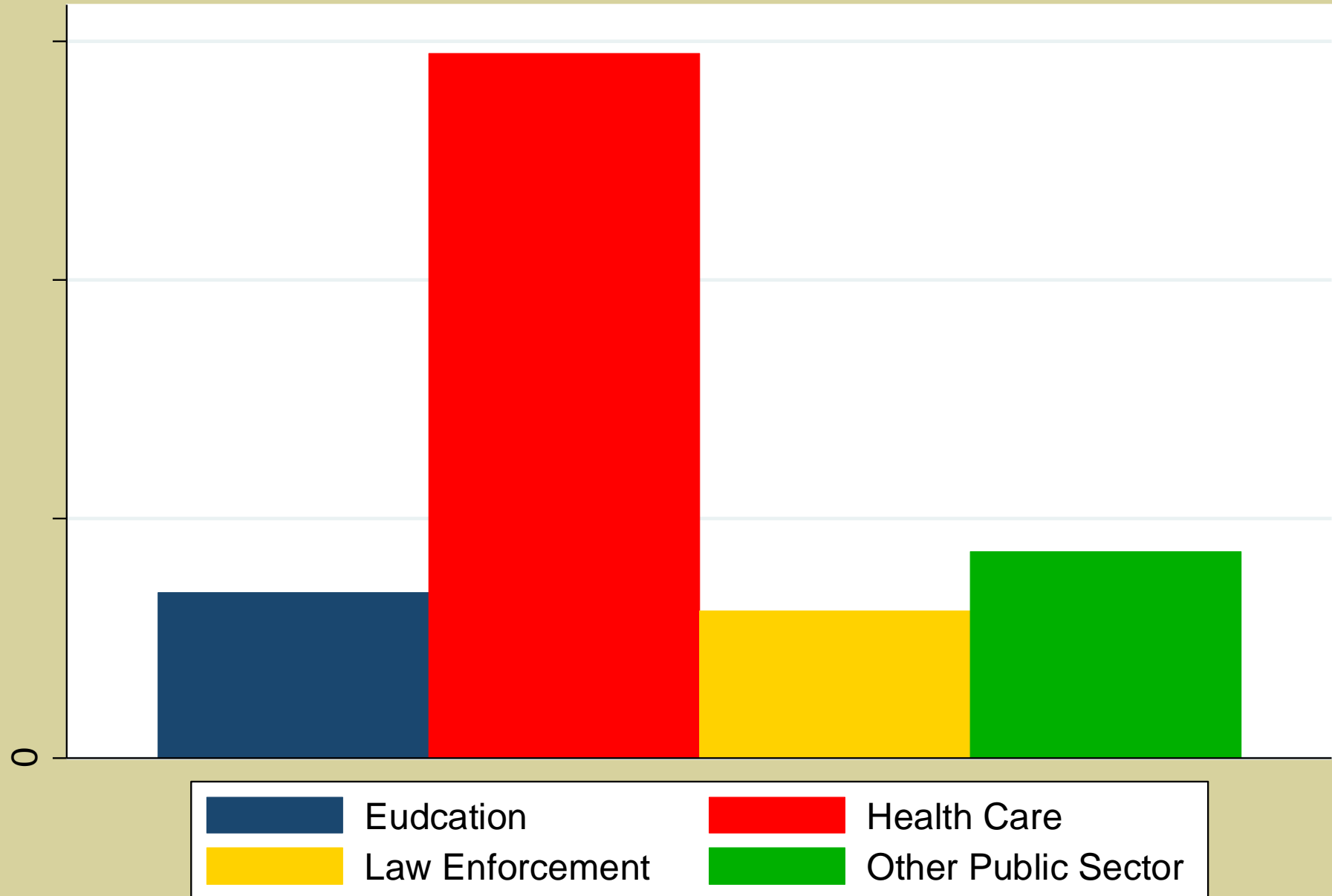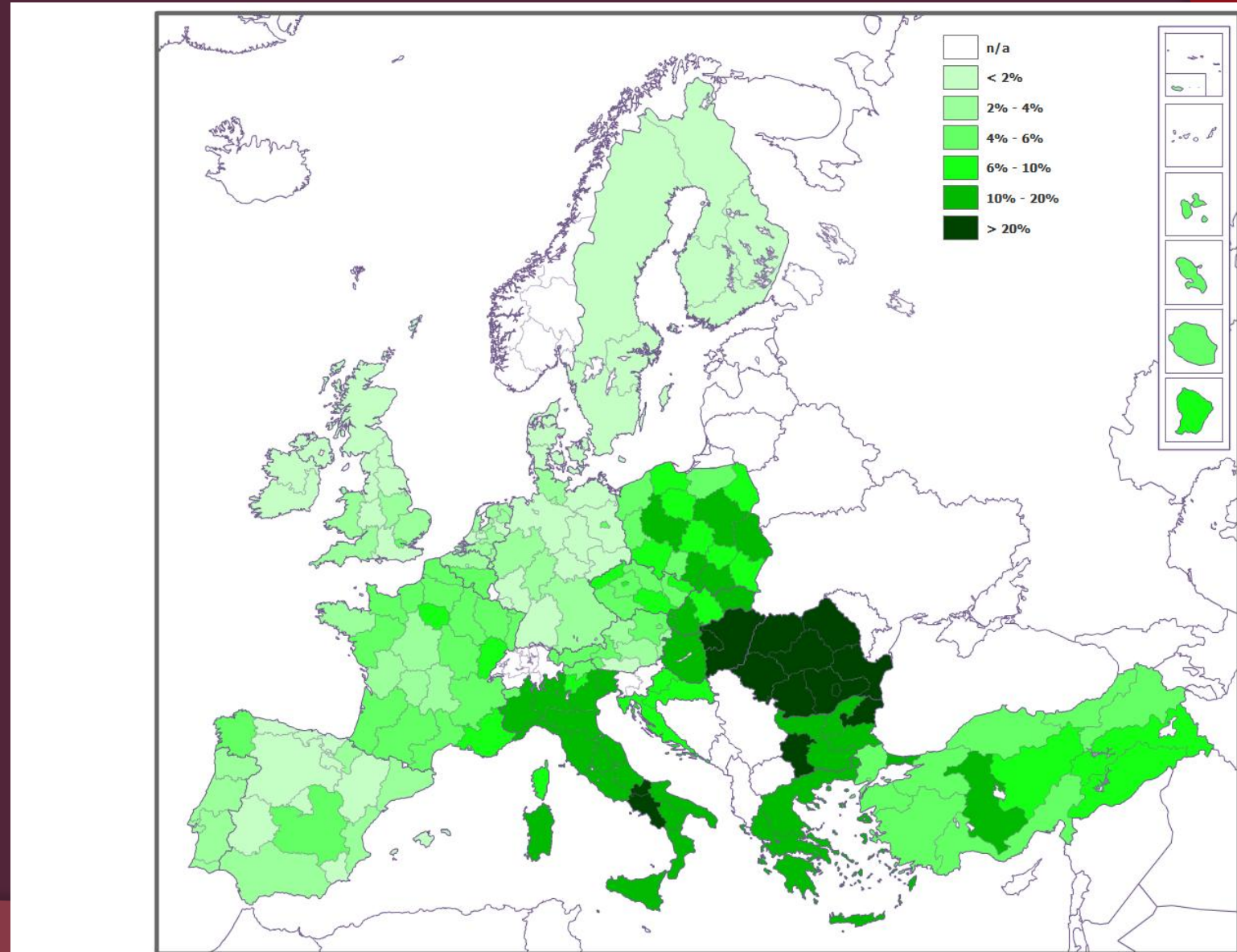
- Round 2 in 2013

EQI 2013

Legend:
- n/a
- > 1
- 0.75 – 1.0
- 0.45 – 0.75
- 0 – 0.45
- 0 to –0.3
- –0.3 to –0.6
- –0.6 to –1.4
- < –1.4

Comparison of EQI Scores for Regions in Both Surveys

Pearson's correlation: 0.94
Rsq: 0.88
obs: 180

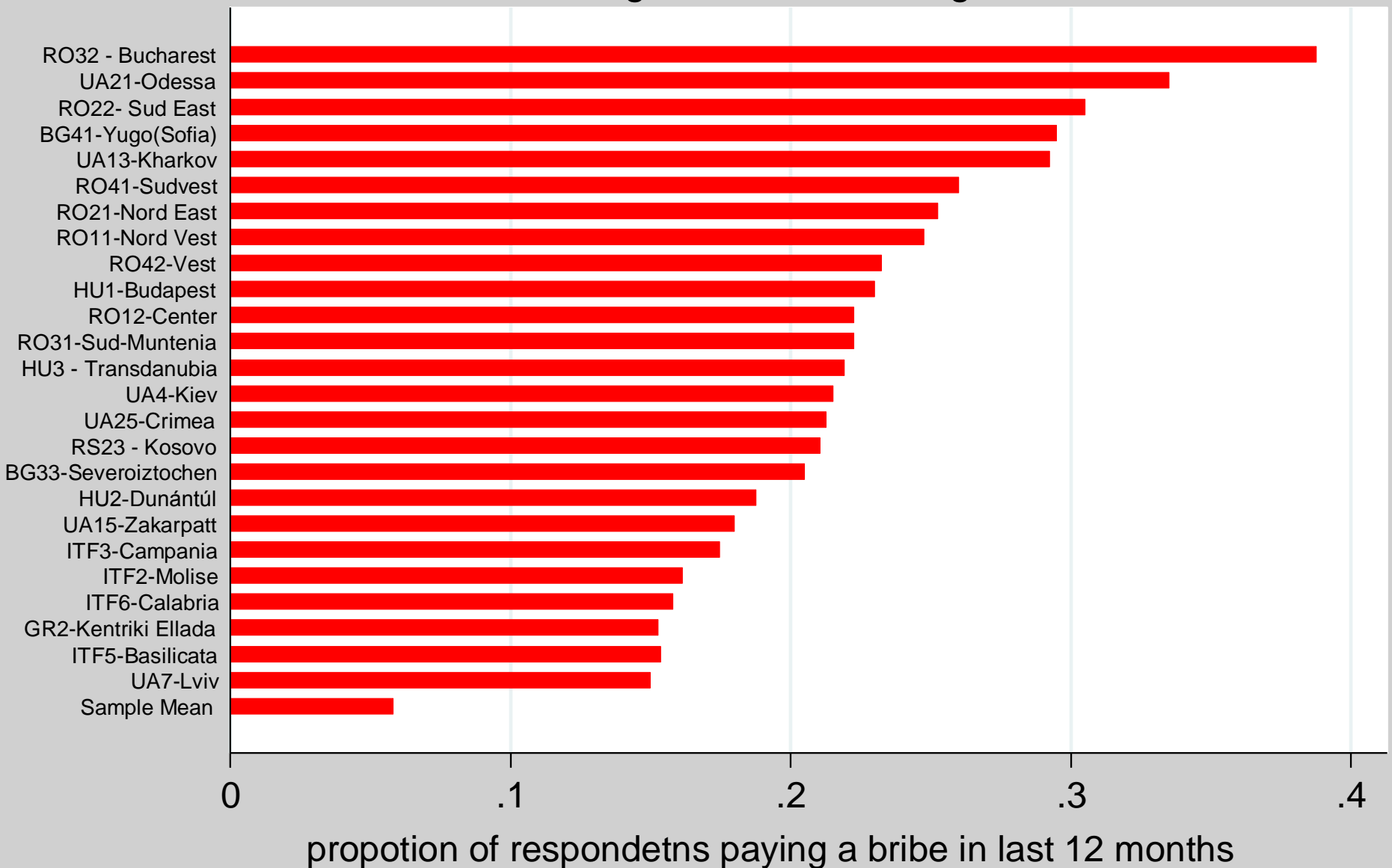EQI 2010 (adjusted)

Personal Experience with Bribery by Sector

% of respondents paying any bribe in last 12 months

Regions with most reported bribery in health care sector
all regions with 15% or greater

propotion of respondetns paying a bribe in last 12 months

Some questions we can examine with this data..

1. Do more decentralized countries have greater *regional variation* in corruption and QoG?

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Decentralization and regional QoG
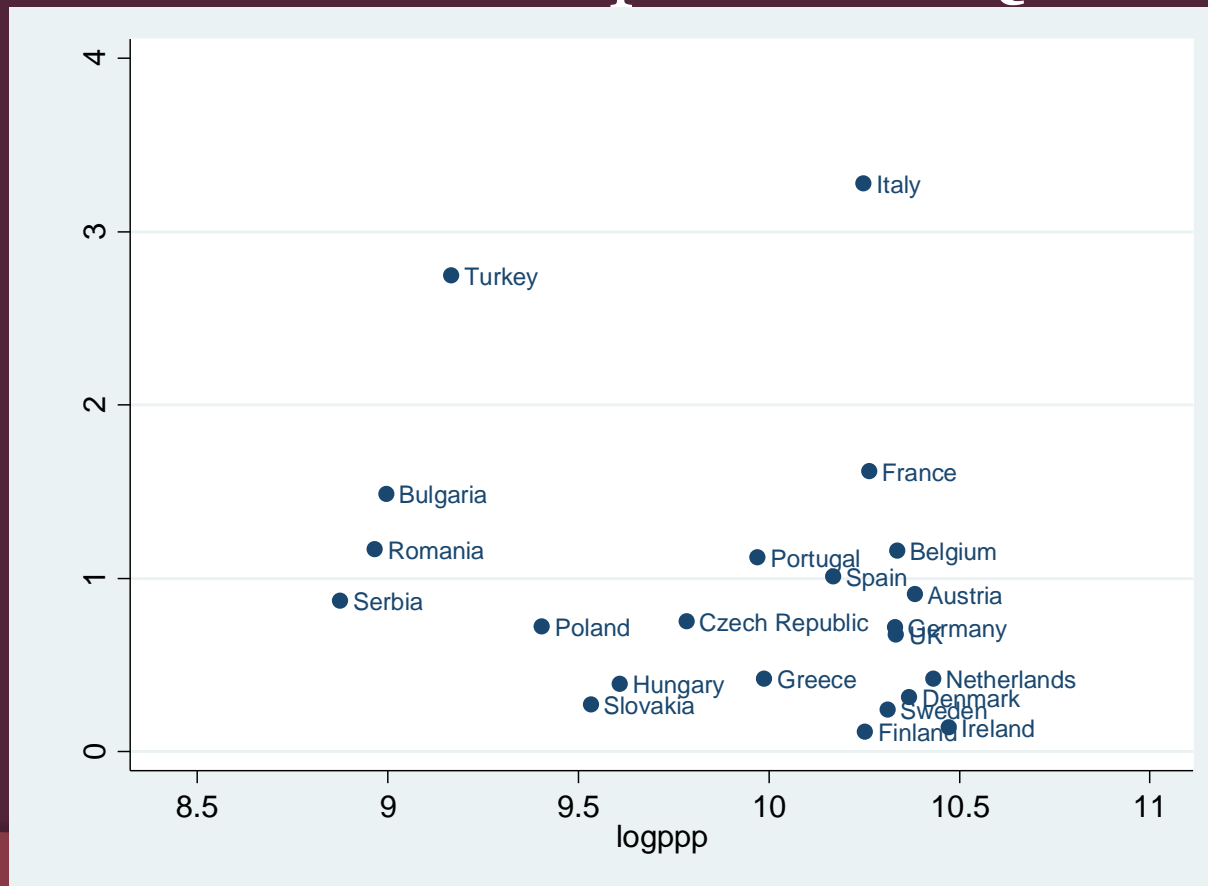
countries from most to least decentralized
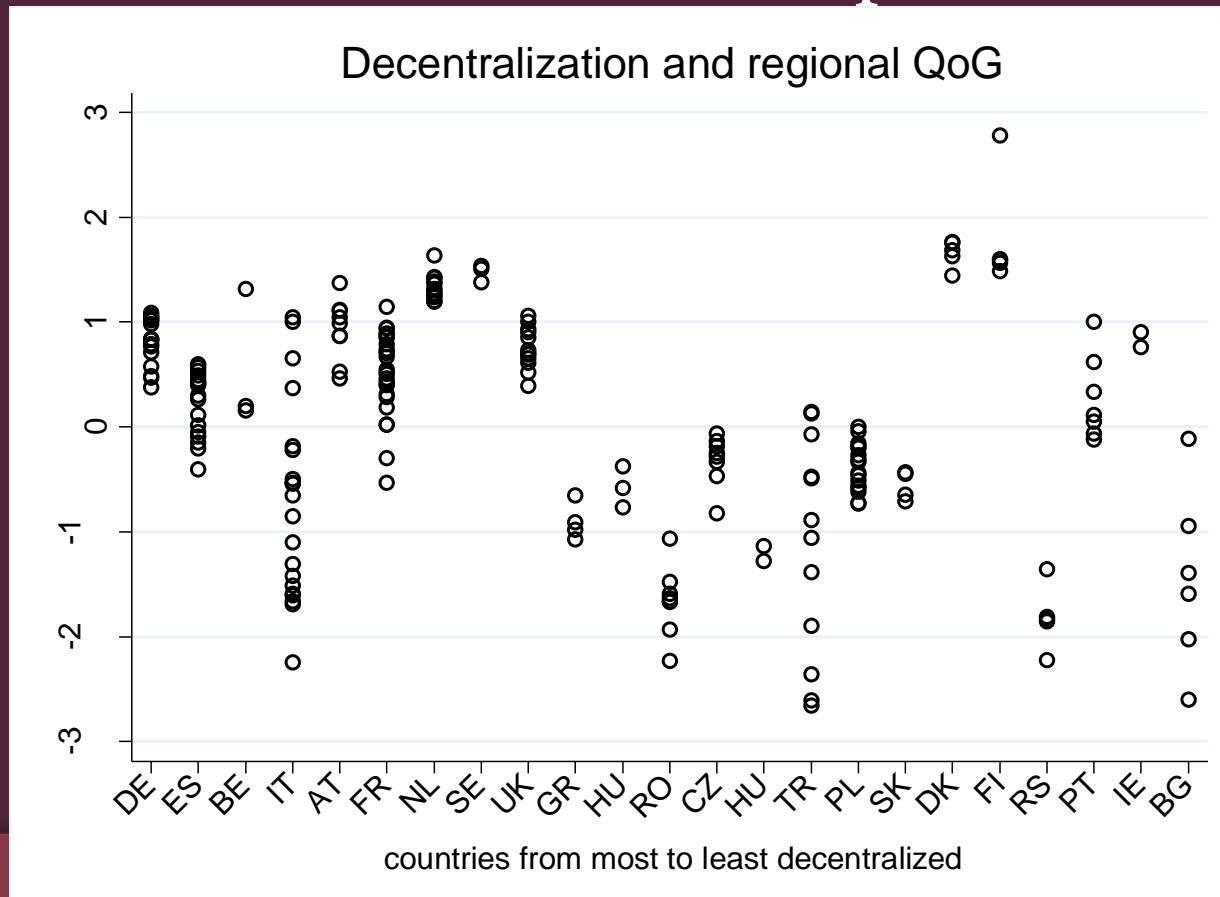
Some questions we can examine with this data..

Do wealthier/poorer countries have greater variation in corruption and QoG?

Some questions we can examine with this data..

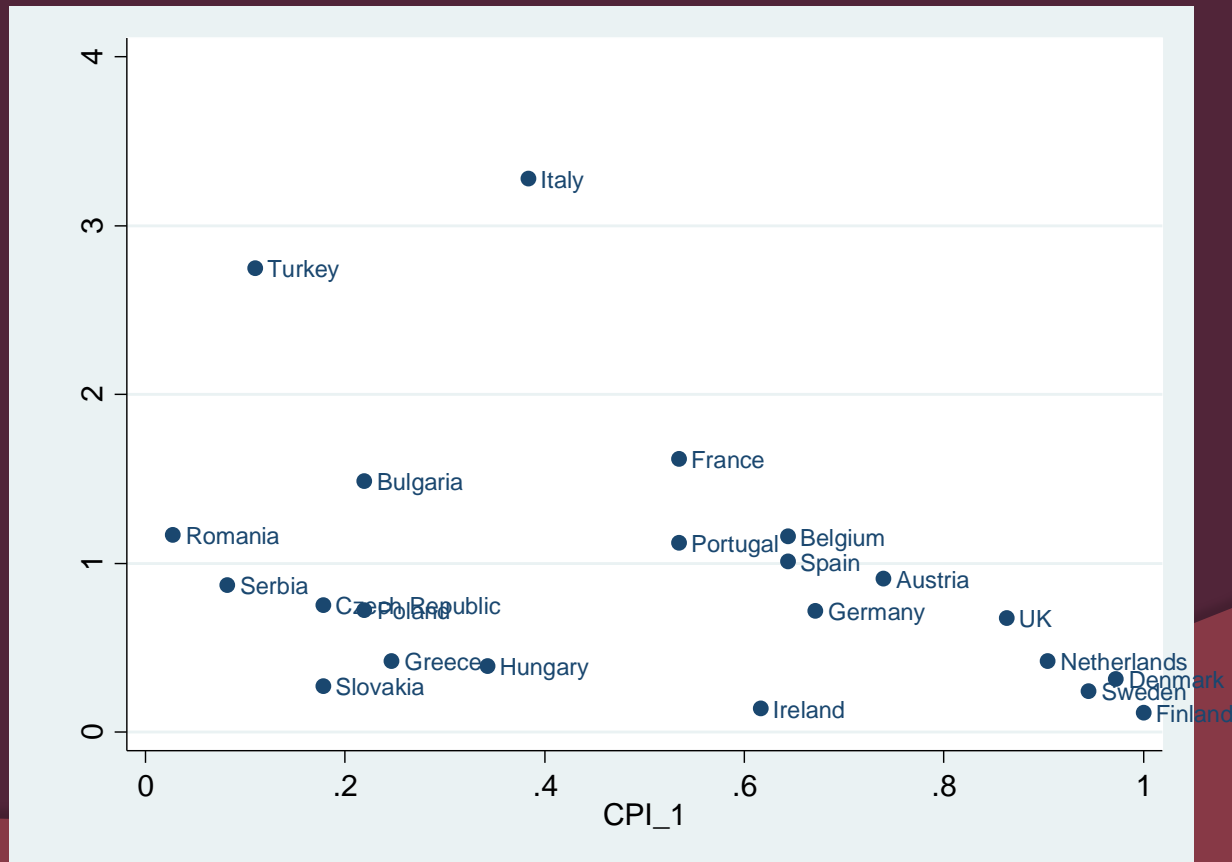1. Do wealthier/poorer countries have greater variation in corruption and QoG?

Some questions we can examine with this data..

Do more corrupt countries have greater variation in corruption and QoG?

Some questions we can examine with this data..

Do more corrupt countries have greater variation in corruption and QoG?

But, much more to do in this field!

- Better measures for both decentralization & corruption needed & for more years!

- Reverse causality - Are corrupt countries less likley to decentrilize??