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
  - definition & 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 institute 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 assistants (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](http://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, bureaucrats, firms, NGO’s, researchers, etc.
- Each with a division of labor
- For example, politicians make policy, bureaucrats 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 effects 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 worldwide..
Decentralization: The Political Context

- Since the 1980’s & especially since fall of the Berlin Wall, a key policy recommendation 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 federalism – 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
Administrative, fiscal and Political in general

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

World Bank defines the continuum like this:

**Deconcentration**
local adminstratres carry out center's policies

**Delegation**
center still responsible, but local adminstratres have some autonomy 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

How might we measure this?
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?
3. Administrative/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 countries..
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 procurement 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

**Dentalization 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 wealthier countries do (Tanzi 1995, 2000; Prud’homme 1995)

   - less competent, skilled workers overall – best and brightest go to the capital and less competent 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 Ferguson, 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 recomендations and decentralized rapidly.
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. Indigenous 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

- 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)
Study on the the Employment Assurance Scheme (EAS) in 2 localities in rural West Bengal – monitored by a ‘beneficiary 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

percent votes of PDIP and Golkar in 1999

- (mean) totalbribe
- Fitted values

average bribe ratio

20 40 60 80

0 2 4 6 8 10
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:


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

1. Most measures of **Political decentralization** play no significant 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 **administrative/spatial decentralization** (e.g. # of administrative 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)

Pearson = 0.17

Obs = 58
Fiscal Decentralization & QoG in OECD Countries

Fiscal Decentralization (sub nat revenues/ total revenues)

Pearson = 0.45

t-stat = 3.65***

obs = 30
Fiscal Decentralization & QoG in non-OECD Countries

Pearson = -0.48

**t-stat** = 3.69***

obs = 28
Sub-National Revenues and Corruption (EU 15)

Beta = 0.03
T-stat = 2.61
Rsq. = 0.25
Sub-National Revenues and Corruption (NMS)

- Bulgaria
- Czech Republic
- Estonia
- Hungary
- Latvia
- Lithuania
- Poland
- Romania
- Slovak Republic

Beta = -0.005
T-stat. = 0.22
Rsq. = 0.004
Accountability key: Interactive effects of free press & decentralization on corruption (from Lessmann & Markwardt 2010)
What to take from the evidence?

- Complex relationship, lots of interactions...
- Looks like decentralization is associated with less corruption 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 developed regions benefit, while lesser developed ones more prone to capture. Need multi-country regional data to test this 😊
### Measuring corruption / QoG for regions across countries

<table>
<thead>
<tr>
<th>GROUP</th>
<th>Country</th>
<th>WGI Score</th>
<th>World Rank</th>
<th>EU Rank</th>
<th>Non-EU Equivalent</th>
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<td>-0.20</td>
<td>96</td>
<td>28</td>
<td>TUNISIA</td>
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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 wealthier than poorest (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

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP per capita (PPP)</th>
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<td>Austria</td>
<td>33200</td>
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<tr>
<td>Bulgaria</td>
<td>12000</td>
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<td>Bolzano (IT)</td>
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<td>Campania (IT)</td>
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<td>Bucharest (RO)</td>
<td>30700</td>
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<tr>
<td>Nord-Est (RO)</td>
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</table>
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 than high/low regions in Belgium, Slovakia

- Brussels has 4x greater than Flanders, which is larger relative distance than SE to ES.
Almost all existing corruption/QoG data at national-level

2010: 1st (and only) multi-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
Comparison of EQI Scores for Regions in Both Surveys

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

Sample Mean

UA7-Lviv
ITF5-Basilicata
GR2-Kentriki Ellada
ITF6-Calabria
ITF2-Molise
ITF3-Campania
UA15-Zakarpatt
HU2-Dunántúl
BG33-Severoiztochen
UA13-Kharkov
RO41-Sudvest
RO21-Nord East
RO11-Nord Vest
RO42-Vest
HU1-Budapest
RO12-Center
RO31-Sud-Muntenia
HU3 - Transdanubia
UA4-Kiev
UA25-Crimea
RS23 - Kosovo
BG41-Yugo(Sofia)
RO32 - Bucharest
UA21-Odessa
RO22- Sud East

Some questions we can examine with this data..

1. Do more decentralized countries have greater *regional variation* in corruption and QoG?
Some questions we can examine with this data..

1. Do more decentralized countries have greater \textit{regional variation} in corruption and QoG?
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?

![Graph showing correlation between CPI and regineq for various European countries.]

- Austria
- Belgium
- Bulgaria
- Czech Republic
- Denmark
- Finland
- France
- Germany
- Greece
- Hungary
- Ireland
- Italy
- Netherlands
- Poland
- Portugal
- Romania
- Serbia
- Slovakia
- Spain
- Sweden
- Turkey
- UK
- Netherlands
- Denmark
- Sweden
- Finland
But, much more to do in this field!

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

- Reverse causality - Are corrupt countries less likely to decentralize??