

Devolutionary delusions? The effect of decentralization on corruption

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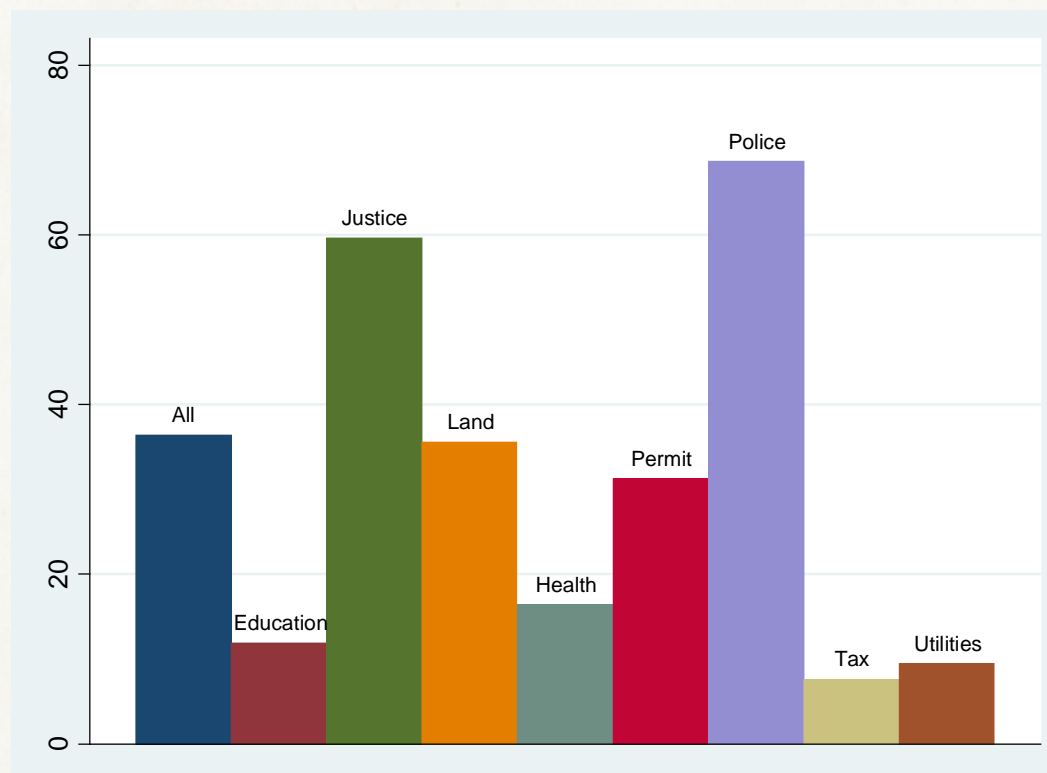
Perceptions of corruption in Bangladesh across key sectors

- 45% Political parties
- 41% Parliament / legislature
- 18 % Business
- 12% Education
- 33 % Health
- 53% Judiciary
- 64% Police

Perception of corruption



Experience with corruption (% paid a bribe) across sectors: Bangladesh. 2013. GCB-TI





Three observations

- As regarding Bangladesh, perception based measures of corruption fit well with experience based measures
 - Not always the case (media)
 - Experience data (validity). Fan and Treisman (2009)
- Experience with corruption less common in sectors such as education, health. These are the sectors that are normally decentralized.
 - Small potential gain or are they already decentralized?
- Lack of variation over time in corruption/decentralization nexus in Bangladesh requires a cross country analysis

Theoretical mechanisms

- Accountability and exit versus local capture
 - Bardhan and Mookherjee (2000)
- Co-ordination problems when more tiers
 - Schleifer and Vishni (1993)
- Moderating factors: press freedom, political competition and strength of national political parties.

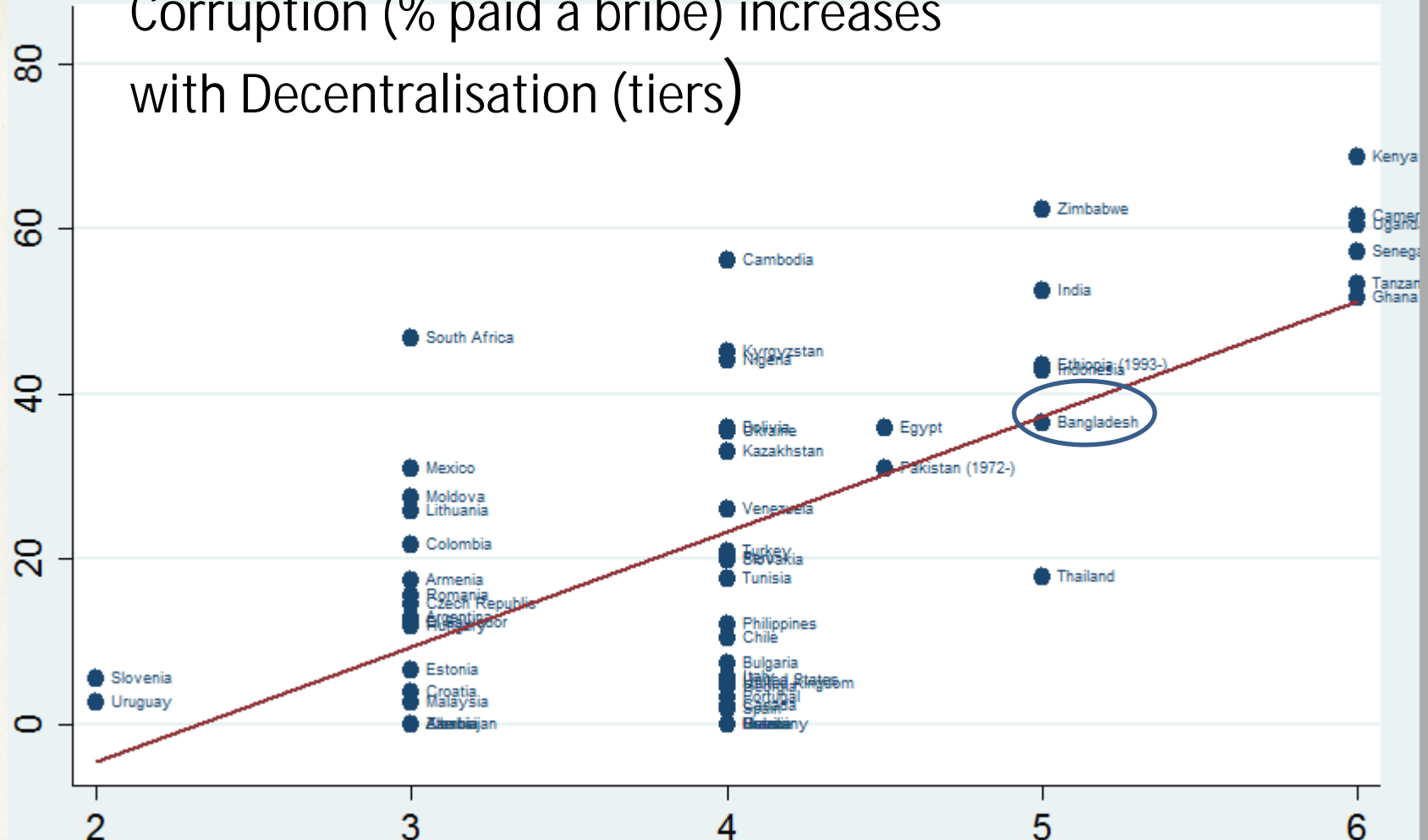
Empirical findings

- Fishman and Gatti (2001) (lower corruption with D)
- Treisman (2000) Federal structure has higher corruption
- Fan and Treisman (2009).
 - The more tiers of government and the more local personnel with pockets to fill, the greater the danger that the rents of office will be “overgrazed” (Fan and Treisman 2009:33).

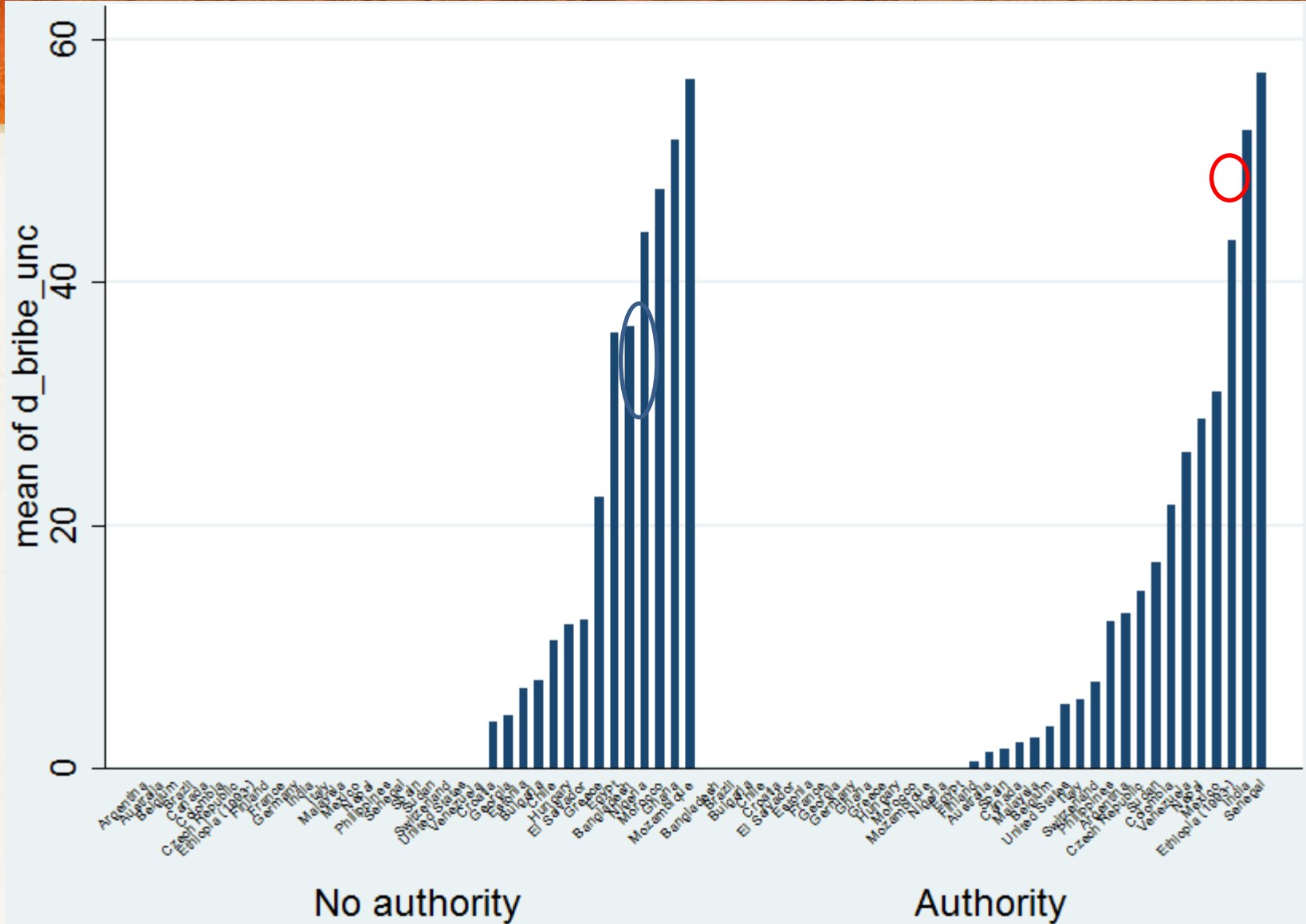
Measures of decentralization

- Decentralized agency (power):
 - DPI authority: Dummy: “subnational governments have extensive taxing, spending or regulatory authority”
- Decentralized structure
 - the number of government tiers as in Fan and Treisman 2009
 - Federation (IAEP) Dummy

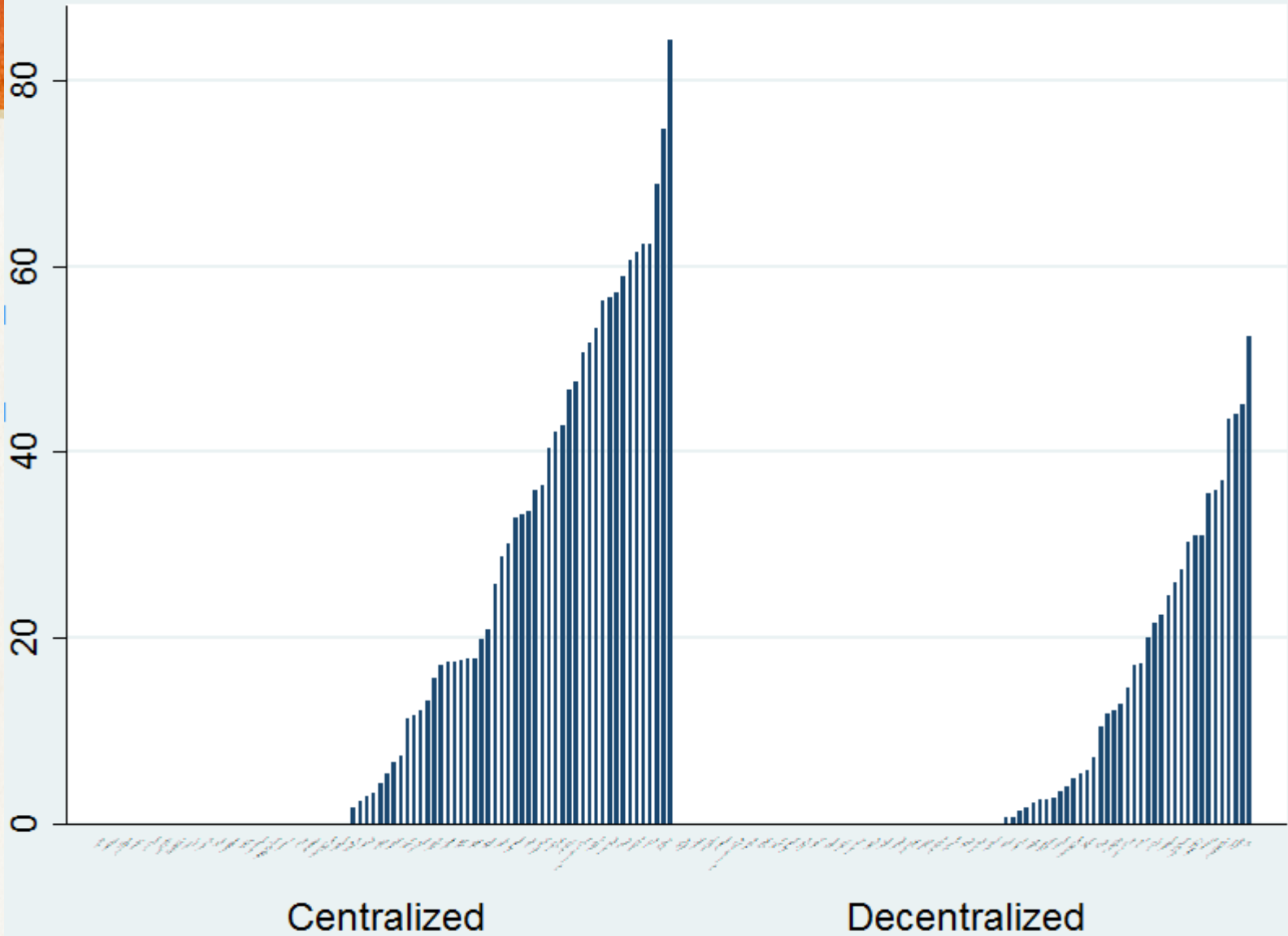
Corruption (% paid a bribe) increases with Decentralisation (tiers)



B many tiers, high corruption. but score low on power (authority)



Less corruption or no clear patterns with decentralization (power DPI)



If any pattern, more corruption in centralized countries (IAEP – federation)

But there are many other differences between the countries as well

and decentralisation is also an endogenous variable

Requires multivariate analysis controlling for endogeneity

Empirical strategy (IV)

$$Decentralization_c = \alpha_{1r} + \beta_{11} \cdot Country\ area_c + \gamma_{11}X_i + \gamma_{12}X_c + \varepsilon_{1i}$$

$$Corruption_{icr} = \alpha_{2r} + \beta_{21} \cdot Decentralization(predicted)_c + \gamma_{21}X_i + \gamma_{22}X_c + \varepsilon_{2i}$$

i- individual data
r - regional
c -country

- Results IV: decentralized agency

OLS negative effect
(corruption reduces) but not
significant

Country area significantly
related to decentralisation

Controlling for endogeneity :
Significant and larger
reduction in corruption

Table 3. Main results

	OLS	IV - 1st stage	IV - 2d stage
<i>Dependent variable</i>	<i>GCB bribe</i>	<i>DPI authority</i>	<i>GCB bribe</i>
DPI authority	-0.0639439 -1.378632		-.3346201** -2.410031
Male	.0298457*** 3.382004	.0187415** 2.057649	.0346031*** 4.021033
Income	0.0041505 1.0552	.0334554*** 2.785333	.0142338** 2.343704
Uneducated	-.0641704*** -5.598069	-0.0183014 -0.3444563	-.070699*** -3.471593
Protestants	-0.0001792 -0.3015923	0.0020595 0.5553282	0.0004506 0.3923898
Democracy	.0595954*** 3.40464	0.0975076 1.30165	.0862266*** 3.930758
Freedom of Press	.0044268* 1.799418	.0216176** 2.399309	.0103174*** 2.793429
In GDP/capita	0.0109534 0.2802555	.3488457* 2.009685	0.1176124 1.164839
Country area		3.53e-08* 1.960763	
Regional dummies	Yes	Yes	Yes
Observations	37254	37254	37254
r2	0.20148	0.5634904	0.1501166

t-values in parentheses, for robust standard errors clustered at coun
*indicates significance at the 1% level, ** at 5%, * at 10%.*

Decentralization structure - Results

- Tiers
 - OLS: more tiers more corruption as in Fan and Treisman (2009)
 - IV : Do not find any significant results
- Federation
 - OLS: Federation increases corruption
 - IV: Federation reduces corruption
 - None of these results are significant
- But results dependent on using one decentralisation measure at the time

Other results

- Male, educated, higher income individuals are more likely to report paying bribes
- Used other measures of corruption and decentralisation for robustness analysis

Conclusion

- There is a lack of robust evidences that decentralisation reduces corruption.
 - To the extent that it does, it is unlikely that decentralizing structure only, will reduce corruption.
- More studies needed, requires additional instrument and additional measures of decentralisation