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Impact of Decentralization on the Corruption Phenomenon

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1. General aspects

Decentralization is seen as an indispensable corollary of democracy, having for the organization of public administration the same weight as representative democracy has for constitutional organization. In fact, the issue of the relation between democracy and decentralization was quite often under the specialists' scrutiny. The territorial citizens' collectivities represent intermediary bodies, interposed between the individual and the central power, determining rules adapted to each geographic frame and personalizing state authority depending on the local problems. Modern society, characterized by contradictions and pluralism, implies a large variety of social behaviours and, therefore, making decisions at the central level is not sufficient, but their adaptation to the local specific is required. In the developing countries, the objectives of the decentralization process are, generally, focused on improving efficiency, equity, accessibility and quality of the services supplied, as well as of the degree to which they cover the local needs. In fact, decentralization is very clearly linked both to economic development, and to the democratic governing systems¹.

Through decentralization one aims to improve the performance of a certain service by changing the authority and responsibility between key-actors, the improvement of the informational flow for grounding decisions and assessing performance, the establishing of accountability mechanisms and of motivation modalities for all actors, to be responsible in fulfilling their duties.

2. Conditions of decentralization

Decentralization represents an administrative organization system that allows human collectivities or public services to self-administer, under the control of the state, which grants them legal personality, allows the establishing of their own authorities and endows them with the necessary resources.² At present, there is a global tendency towards re-examining the role of the different levels of governance existing in a country, for the purpose of transferring as many competences and resources to those levels that are closer to the citizen, to involve more consistently the private sector and civil society in the public decision-making process³.

This tendency, which was felt in the last decade both in the developed and in the developing countries, manifests as a combination of political, administrative, and fiscal reforms. Political decentralization (devolution) – the only real one, as the analysts consider – presupposes the transfer of tasks and afferent decisional powers to local levels of government and the implicit limitation of the central intervention

1 Andrei T., Matei A., Rosca I., 2008, *Corupția. O analiză economică și socială*. Ed. Economică, Bucharest.

2 Ioniță S., 2007, *Corupție și politici publice. Abordare teoretică și studiu de caz pe societățile în tranziție*. Teză de doctorat, Școala Națională de Studii Politice și Administrative.

3 Manor, J., 1999. "Explaining the last wave of decentralizations", in *The Political Economy of Democratic Decentralization*. World Bank, Washington DC.

capacity. Thus, decentralization constitutes an important change in the plan of the formal institutions in a state. Fiscal decentralization presupposes the creation of mechanisms for the transfer of the financial resources at the local level. Many times, it goes in parallel with political decentralization, but not always. To try to measure the political decentralization degree solely through the percentage of public resources spent at the local level is deceiving, because, many times, the local administrations simply receive instructions to execute from the center, namely, precise tasks, sometimes accompanied by resources with this well-defined destination, but this does not mean at all that their decisional power increased t.

Finally, there is a third aspect, called deconcentration: the transfer of tasks from the central institutions to organs subordinated to them, physically located outside the capital (for example, territorial directions and inspectorates of ministries, prefects' offices etc). Strictly speaking, deconcentration is not decentralization, because it refers only to a reassignment of functions within the central state administration, without affecting the local levels of governance, which are not subordinated to it. However, in practice, it indirectly affects local communities because decentralization and deconcentration most often go hand in hand, being even able to have a common legislative ground⁴.

The justification of this global tendency to bring political decision and the supply of public services "closer to the citizen", according to the principle of subsidiarity, is that in this way, politics will translate more faithfully into public action the real needs of the communities, and the services will be more efficiently supplied. In addition, many times, decentralization is promoted by its adepts also for the reason that it would reduce corruption in administration, especially due to bringing the decisional act closer to the directly affected community.

But what was taken for a long time as postulate proved to be less clear when putting into practice. Decentralization (promoted in parallel with a certain amount of administrative deconcentration of the central government) proved that it can sometimes settle local decision issues, has eased the access to the information of local nature, has made certain services more efficient and has made the citizens feel politically better represented. However, other times, it was proven itself a source of new problems: the increase of the differences between the rich and poor communities, slow coordination, fiscal indiscipline⁵. But, especially, since through decentralization the centers of political decision multiply exponentially, it has raised concerns related to the possibility of aggravating corruption by the capturing of the public institutions by the local elites.

In fact, the impact on the level of corruption is one of the most interesting aspects of the decentralization process, still insufficiently researched. The promoters of decentralization usually place the limiting of corruption among the benefits to be expected, this being for them an argument in favour of speeding up the process. Many times it is believed that the simple transfer of tasks and resources from the center to the other levels of government will settle the issue. But reality has proven more complicated – many times, decentralization seems to be accompanied by an increase of the cases of corruption, at least as indicated by anecdotic depositions, as well as by an increase of the public concern towards this phenomenon. Some

4 Ioniță S., 2007, *Corupție și politici publice. Abordare teoretică și studiu de caz pe societățile în tranziție. Teză de doctorat, Școala Națională de Studii Politice și Administrative.*

5 Tanzi, V., 2001. *Pitfalls on the Road to Fiscal Decentralization*. Working paper no. 19, CarnegieEndowment for International Peace, Washington DC.

recent comparative studies even reached the conclusion that, in total, more decentralization means, in fact, more corruption⁶.

3. Decentralization and corruption

There are many studies that argue that the promise of decentralization to bring more responsibility and transparency to the political process is difficult to fulfill. If the local officials come more often in contact with the citizens, this does not necessarily mean that they will better represent their interests, as usually argued. On the contrary: in particularistic environments, or where a defective public decision-making process is predominant, in fact, the personalization of interaction is even more encouraged, and the professionalism and neutrality of the public services can be reduced⁷. The personalization of these relations thus constitutes a good terrain for corruption, since the officials end up being more careful to the individual redistribution needs of narrow territorial coalitions, than to the general public interest. Prud'homme⁸ lists several reasons why this is happening:

- the influence of the local groups of interests increases, while in particularistic societies, these groups control to a large extent the local public life; the higher degree of influence on the political life by the local elite in traditional communities, including the vote attendance and the results of the vote, support this idea;
- empirically it is noticed the fact that the local elected tend to have, in general, longer terms, being re-elected more often, when the decentralization degree is higher;
- the pot of the local political game is higher when the control of the resources is decentralized;
- the possibility to control through media disclosures and moral pressure from the public decreases, because the political actors are now much more numerous, and the public's attention is a limited resource;
- the possibility to monitor of the central independent agencies decreases. This last point is not a trivial one at all: an analysis on a grant program for local communities destined for road building, assigned by the Indonesian government to the local authorities, indicates that the audit of the central institutions – even only the previously notified possibility of a full audit – discourage fund embezzlement more than the involvement mechanisms of the local community can do with respect to monitoring the use of the funds, which is a central concept of participative democracy, often encouraged by the international assistance institutions⁹. Treisman (1999) supports the above conclusions: he performs a statistical analysis on 85 states, from which derives the fact that federal states are perceived as being more corrupt than the average. This happens because, generally:

- they are larger;
- they tend to have authorities for the control and application of the law placed on several layers, both centrally and locally, hence easier to subject to “asymmetric pressures”; in addition, the jurisdictions overlapping in applying the law create a motivation for “excessive feeding” in extracting undue benefits;

6 Treisman, D., 1999. "Decentralization and Corruption: Why are Federal States Perceived to be More Corrupt." *Paper prepared for the presentation at the Annual Meeting of the American Political Science Association*.

7 Tanzi, V., 1995. "Fiscal Federalism and Decentralization: A Review of Some Efficiency and Macroeconomic Aspects", *Annual World Bank Conference on Development Economics*, pp. 295-316.

8 Prud'homme, R., 1994. *On the Dangers of Decentralization*. World Bank policy research paper 1252.

9 Olken, B.A., 2005. Monitoring Corruption: Evidence from a Field Experiment in Indonesia. NBER working paper no. 11753.

- they tend to have an upper parliament chamber with veto powers over decisions, which is elected on regional basis (which increases the probability that the local politicians will develop special relations with these representatives of theirs at the center).

Political decentralization seems to be a factor of corruption in the economic reform process in Russia, but not in China¹⁰. The authors comparatively analyze the role of local authorities in the two cases and reach the conclusion that, in China, it was a beneficial role in the industrial restructuring process, while in Russia it was a generally negative one. Over-taxation, plus abusive and uncoordinated regulations introduced out of local initiative would be at least partly responsible for the degradation of the economic environment and the proliferation of corruption in the second case. The difference between the two situations is, therefore, identified by the authors in the political component of decentralization, present in Russia, but absent in China.

There are numerous other such demonstrations, but given the complexity of the phenomena, weak points can easily be found. For instance, the conclusions of Treisman's statistical analysis can be overturned by including dummy variables, such as some of the ones he reports as explanatory factors: the size of the state, respectively (as population); or the existence of local police forces separate from the central one. If these two variables are taken out of the definition of federalism, then the correlation between it and corruption disappears¹¹. Also, the analysis on the cases of China and Russia ignores the fundamentally different role institutions with similar names play in the two countries, which have political regimes difficult to compare. In China, many trading companies are in the legal ownership of the local authority, being used including as suppliers of social services (kindergartens, schools, households). This way, they are, in fact, extensions of the local administration. The relation is completely different between the two actors in Russia, where the local and the regional administration have separated from the economic activities, the companies do not fulfill social functions, and the public authority has the interest to exploit the commercial agents in any way. Contradicting Treisman, other statistical comparative studies identify a negative correlation between the level of decentralization of a country and the perceived level of corruption. Fisman and Gatti¹² measure decentralization through the percentage of public resources spent by means of the locale budgets (fiscal decentralization), and for corruption use three sets of data, all results of perception surveys. The authors say that their results show that the decentralization of public expenses significantly correlates with a lower level of perceived corruption, even in the conditions when the influence of other factors, such as those mentioned by Treisman, is controlled. Huther and Shah¹³ (1998) have also performed a transnational statistical study and their conclusions converge with Fisman's and Gatti's: fiscal decentralization seems to be associated with a better governance, understood as citizens' political participation, transparency of the public institutions, social equity and a lower level of corruption perceived by the public. The assignment of resources tends to be better in the long term, especially in developing countries, where centralization was

10 Ioniță S., 2007, Corupție și politici publice. *Abordare teoretică și studiu de caz pe societățile în tranziție*. Teză de doctorat, Școala Națională de Studii Politice și Administrative.

11 Lambsdorff, J. Graf (1999), "The Impact of Corruption on Capital Productivity", *Working paper*, Göttingen University.

12 Fisman, R. and R. Gatti (1999), "Decentralization and Corruption: Cross-Country and Cross-State Evidence." *Unpublished Manuscript*, World Bank, Washington D.C.

13 Huther, J. and Shah, A., 1998. "A Simple Measure of Good Governance and its Application to the Debate on the Appropriate Level of Fiscal Decentralization." *World Bank Working Paper Series*, No. 1894, Washington D.C.

especially disadvantageous for the financing of the social sectors, such as education and health (where corruption, although present, usually takes more benign forms). Case studies that go deeper seem to confirm this: Wade (1997) shows that the sector of irrigations, one of the most centralized in India, is also one with a very corrupt bureaucracy, and the maintaining of the central control achieves nothing than the poor assignment of resources, the strengthening of the beneficiaries' cynicism and, finally corruption¹⁴.

So, there are at least as many counter-examples to the cases mentioned in which the transfer of the decision and resources at the local level actually increases transparency and makes the political system more accountable towards the citizen. Political competition encourages innovation and transfer of good practices, and, at least in some fields (although not in all), the citizens are truly better informed with respect to the public matters of local interest. Hence, it is possible that what seems at first as a proliferation of corruption generated by decentralization to be only an increase of the public's interest and the general familiarization degree with the political mechanism.

Crook and Manor (2000)¹⁵ studied the situation closely in India, Bangladesh and Ghana and reached the conclusion that the localization of the decision has led to the increase of concern regarding public matters, which also increased the frequency of reporting acts of corruption, hence distorted the perception measurements made through opinion surveys. In fact, the authors indicate that the total of resources controlled through obscure means by a small number of persons with influence in the administration has decreased, only that before decentralization, these persons were not very visible at the local level.

It is true that decentralization increase the number of decisional centers and makes direct monitoring more difficult. However, on the other hand, it diminishes the benefits associated to the act of corruption, by reducing the number of persons involved in a certain decision, which reduces the number of "thresholds" that must be overcome through dishonest means. Analyzing all these factors, Wildasin (1995)¹⁶ concludes that the local officials who have well established duties are less likely to engage in acts of grand corruption, unlike the large, nontransparent central bureaucracy. He even launches the idea that decentralization in general reduces the level of corruption, unlike deconcentration, which can increase it.

In short, there is a long list of factors that might act on the relation between corruption and decentralization, in both directions. On the one hand, decentralization may lead to a reduction of corruption because:

- the locally elected know better than the central ones the real needs of the community, hence, it is less probable for them to act simply as mandatories for duties indicated from the center, whose utility they doubt (fertile ground for cynicisms and corruption);
- inversely, in certain conditions, citizens know more about the decision-making process and they get more involved;
- competition occurs between the local administrations: through the quality of the package of taxes and services supplied (in principle, the citizens being thus able to move in order to opt for the package they

14 Ioniță S., 2007, *Corupție și politici publice. Abordare teoretică și studiu de caz pe societățile în tranziție*. Teză de doctorat, Școala Națională de Studii Politice și Administrative.

15 Crook, R and J. Manor, 2000. *Democratic Decentralization*. OED Working paper no. 11, World Bank, Washington DC.

16 Wildasin, D, 1995. "Comment of Fiscal Federalism and Decentralization", *Annual World Bank Conference on Development Economics*, pp. 323-328.

agree with the most); through the imagine of local governance more or less clean, moral pressure is created for the most corrupt administrations to act in order to remedy the situation;

- promoted in judicious combination with deconcentration (but, most often, to the detriment of the latter), decentralization may lead to the limitation of the action power of the bureaucratic extensions of the central government in the territory – usually, the most opaque and non-responsive part of the central administration.

On the other hand, decentralization may lead to the proliferation of corruption because:

- where the cost of information and civic participation are high, and tradition in this sense is weak, the citizens may know more of what is happening at the center than at the local level; the few existing civic competences focus in this direction;
- the increase of the decisional centers, correlated with the inexistence or weakness of the horizontal control mechanisms between the public institutions (horizontal accountability), may encourage discretionary behaviour and the breaching of the law by the local political elites;
- where there are several levels of intermediary governance between the center and the local communities (regions, districts etc.) an adequate balance of power is difficult to achieve between all administrative levels of the state, such as the intermediary ones to not abusively exercise the newly obtained powers to the detriment of the local administration at the basis (the actual local authority);
- where a chamber of the national parliament is elected on explicitly territorial principles (to represent regions, districts etc.), and these circumscriptions coincide with strong intermediary levels of governance, there are high chances that obscure interest coalitions form between the regional leaders and the central representatives.

The fundamental issue posed by “adequate” decentralization (devolution) in the political plane is, therefore, that a level of governance too close to the citizen may be more easily confiscated by illegitimate influences. More than two centuries ago, James Madison clearly expressed this idea¹⁷:

The smaller a society is, the fewer will probably be the distinct factions and groups of interests that make it up; the fewer these groups are, the more frequent a majority of the same faction will be found; and the smaller the number of individuals making up a majority, the easier it will be for them to coordinate in order to put into application their oppression plans. Enlarge the sphere and include a higher diversity of factions and interest groups; in this way, you make it less probable that a majority unites around a common cause and breaches the rights of other citizens; or, if such a cause exists, it will be more difficult for those joining it to discover their own strength and to act together. (Federalist Papers, no. 10).

In continuing these observations of Madison, recent studies show how, for instance, decentralization of the decision to the local authorities in India has strengthened the traditional power structure of an insufficiently modernized society (Bardhan and Mockerjee, 2002)¹⁸. Thus, the local elites obtained a formal instrument through which they institutionalized their until then informal domination over the community, gaining, in

17 Ioniță S., 2007, Corupție și politici publice. *Abordare teoretică și studiu de caz pe societățile în tranziție*. Teză de doctorat, Școala Națională de Studii Politice și Administrative.

18 Bardhan, P. and D. Mockerjee, 2002. *Relative Capture of Local and Central Governments: An Essay in the Political Economy of Decentralization*. Paper C99-109, Center for International Development Economics Research, Univ of California, Berkeley.

addition, supplementary resources they can control in order to strengthen patronage and social control networks. These unwanted evolutions at the local level must, however, be put in balance with the other tendency, just as damaging, of the central bureaucracy, to create obscure assignment mechanisms by means of which considerable public resources are misappropriate for the benefit of several well-connected groups or individuals. Probably the worst thing that can happen, in fact, in a society, is for the two tendencies to potentate – and not cancel – each other. And the interesting thing to know in this case is when and why this is happening. Bardhan and Mockerjee are concerned especially with the complex movement of these contradicting tendencies in particular circumstances (different states in India). Not at all surprising, the connection they find between decentralization and corruption is an ambiguous one.

The idea must not surprise. In order for the potential benefits of decentralization to be achieved in practice, a reasonable level of transparency and accountability is necessary from the locally elected, together with a reasonable level of interest and competence of the citizens. Civic involvement, even at a minimal level, presupposes the payment of certain costs of information and coordination of the public action. According to Putnam, certain institutional arrangements are better than others, because they reduce these costs. The state-towns in northern Italy, unlike the communities in the south, have developed in the 11th and 12th centuries, promotion mechanisms of a strong civic accountability which proved winning in the long term, which explains the differences in the quality of the governance perpetuated until today.

In general, it is a matter of establishing contractual-type of relations between the leaders and the citizens, the relatively free and equal access to the public information and decision and the transparency in using common resources.

4. Decentralization and corruption in Romania¹⁹

The decentralization process represents a direct effect of globalisation in the public sector. Several specialised papers and studies have already approached the connection between decentralization and corruption. Without ignoring Rose-Ackerman's contributions and other outstanding contributions, the core ideas of our brief analysis take into consideration a recent study presented in The Policy Research Working Paper Series, by Anwar Shah (2006) [24]. For Romania, Andrei, T. (2007) achieved a relevant study [25].

In Romania, public administration reform in the area of decentralization and devolution includes three major elements: continuing decentralization by transfer of competences and administrative and financial responsibilities from central to local public administration authorities; continuing the devolution process by delegation of responsibilities in the territory, depending on the needs on local level, within the same administrative structure (the devolved services are subordinated to the ministry that delegated the responsibility); transforming the devolved services in territory, depending on citizens' needs into decentralised services under local authorities' responsibility. It is unanimously recognised the fact that the decentralization process and corruption could determine significant negative effects on economic and social level, on medium and long term.

¹⁹ "Globalisation of Corruption" and Development of the Binom "Corruption-Public Integrity" in the Context of Romania Integration into the European Union

Andrei, T. (2007) achieves a study aimed to determine some characteristics of corruption in local public administration. The research was achieved on a representative sample of mayors of Romanian localities during November – December 2005.

In order to create the sample, a cluster-type technique was used, the volume of the sample representing 9% from the total population of mayors. All mayors from seven counties were interviewed, the counties were randomly extracted. The error for estimating the parameters at the reference population level is plus/minus 1.2%.

The questionnaire comprised questions on measuring the mayors' opinion about actual issues concerning public administration reform, namely: civil service management, civil servants' in-service training, local public administration reform by continuing the decentralization process, ensuring the training of elected officials on topics specific for local public administration, corruption, changes in the technical body from administration under the pressure of the political factor, quality of communication in the reform process etc. We shall use the database from the prospect of analysing the characteristics of corruption phenomenon in local public administration and identifying some characteristics of the decentralization process. A logistic model will be defined for corruption analysis. The analysis on the database aims to identify the mayors' position related to corruption in local public administration, thus estimating the amplitude and causes.

Within the framework of the study, based on the data recorded for the sample, the corruption phenomenon is signalled especially by the mayors that consider citizens to be directly involved in relevant decision-making on community level. Thus, Pearson correlation coefficient between the two variables is 0.315, significant for a threshold of 1%. This characteristic emphasises a direct cause for occurrence and maintaining of corruption phenomenon, namely lack of transparency in decision-making in public institutions from local public administration.

In the context of decentralization, the study states: "corruption together with other factors contributes directly to low quality for service provision by a local public administration. The study defines the derivate variable: "Extent in which local public administration achieves its core functions" (Q5), as average of four variables, defining core functions: a) administrating and managing the public goods and funds at local level (Q1); b) ensuring basic services on local level (health, social security, education, culture, military etc.) (Q2); c) prognosis and economic-social development (Q3); and d) organisation (Q4). In order to quantify the mayors' opinion related to the extent in which local public administration achieves its core functions, a scale of ordinal measure was defined with the following items: 1- very low extent, 2- low extent, 3 – great extent, 4- very great extent. Table 4 presents the characteristics of the four primary variables and derivate variable.

In the current study about decentralization, the mayors' vision is that local public administrations can fulfil their core functions only on a low extent; the less favourable situation is the low capacity of prognosis and economic-social development at local level, and ensuring basic public services. The low capacity of local administrations in basic service provision is determined directly by inadequate administration and

management of public goods and funds on local level (Pearson coefficient is 0.549) and low organisational capacity (0.563).

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