

## LOCAL GOVERNANCE AND CORRUPTION

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*This paper attempts to examine, from the Romanian perspective, the degree to which decentralization process and improvement of local governance contributes to the reduction of corruption in the short and medium term. Through the methodology that is used the paper is consistent with the international trend that endeavors to analyze the impact of corruption on economic and social processes at the local level. In addition, recent research on corruption issues has focused upon the measurement of the level of corruption level and on its impact on the growing rate of the GDP (Mauro [1995]<sup>1</sup>, Abed and Davoodi<sup>2</sup>), Krueger [1974]<sup>3</sup>), on the impact upon some of the national economical sectors (Tanzi [1998]<sup>4</sup>, Shang-Jin Wei [2001]<sup>5</sup>), or on the decentralization processes (Shah [2006]<sup>6</sup>).*

<sup>1</sup> Mauro P., *Corruption and growth*, Quarterly Journal of Economics, Vol. 110, n<sup>o</sup> 3, 1995.

<sup>2</sup> Abed, G., Davoodi, H., *Corruption, Structural Reforms, and Economic Performance in the Transition Economies*, IMF, Working Paper No 00/132, 2000.

<sup>3</sup> Krueger A., *The political economy of rent-seeking society*, American Economic Review, vol. 64. N<sup>o</sup> 3, June 1974

<sup>4</sup> Tanzi, V., *Corruption Around the World: Causes, Consequences, Scope and Cures*, IMF, 1998.

<sup>5</sup> Shang-Jin Wei, *Corruption in economic development: grease or sand?* Economic Survey of Europe, n<sup>o</sup> 2, United Nation, 2001.

<sup>6</sup> Shah, A., *Corruption and Decentralized Public Governance*, World Bank Policy Research Working Paper, 3824/2006

In Romania, studies were undertaken in order to identify corruption mechanisms at the local level or to measure its impact over the development of some of national economic sectors (Profiroiu, Andrei [2005]<sup>7</sup>, Andrei [2002]<sup>8</sup>). At the local level, the decentralization process and corruption could generate significant negative impacts in the economic and social segments.

As in every country that undertakes a transitional process, corruption affected in a major way the economic performance in Romania. According to Transparency International – Romania, corruption had a high level in the period after the revolution from 1989. The indicator value from that period was in the 2.5 and 3.2 interval. In 2005 from 159 countries<sup>9</sup> where the corruption indicator was calculated, 117 countries scored less than 5, these being the poorest countries in the world. In this hierarchy, Romania scored 3.0, progressing from preceding years when it registered a 2.8 respectively a 2.9 score. Among the countries that recently joined European Union, Slovenia and Estonia scored above 5. Hungary scored 5.0, Lithuania 4.8, Czech Republic and Slovakia 4.3. Bulgaria, our eternal point of reference, had a superior score than Romania. A lower score than Romania was registered by Russia, Macedonia, Serbia and Montenegro, Albania, Moldavia, Ukraine and Georgia.

According to the European Commission, “in decentralization and local administration domain the warnings from last year Country Report are still actual; the competences transfer to local authorities did not take place in concordance with the resources transfer.”<sup>10</sup>

### **1. Registered data at the local public administration level**

In order to determine some corruption characteristics of the local public administration and to analyze some essential parts of the reform process, in 2005 a research pool for statistical survey of local public administration was created. This research included a representative sample of local mayors. The sampling techniques utilized two phases: a volume of 9% of the researched population. The parameter error at the representative population level is 1.2%.

The questionnaire was scrutinized to analyze the opinions of mayors in regard to issues related to public administration reform: civil service management, continuing education of civil servants, local public administration reform through continuing decentralization process, training of the local elected officials on specific topics related to local public administration, corruption, changes in the technical structure of administration under political pressure, communication quality in undertaking the reform process, etc. In the following the data base will be explored from the perspective of analyzing the characteristics of the corruption phenomenon at the local public administration level.

### **2. Corruption causes**

For all countries undertaking the transitional process, corruption was one of the phenomenon that has negative effects on the development of a free market. Among the factors that directly contributed to the expansion of corruption the most important ones include: lack of the organizational culture, change resistance from administration apparatus, public administration dependence on the political changes, etc. A significant number of mayors mentioned the existence of corruption at the local public administration level. Therefore, the results obtained from analyzing answers from the question “**Do you consider corruption a real problem of Romanian public administration?**” are presented in the following table:

<sup>7</sup> Profiroiu, M.,s.a., *Public Administration Reform in Romania*, IER, Research Report, 2005

<sup>8</sup> Andrei, T., “The cost of integration in NATO for aspiring countries - a quantitative model”, NATO (Brussels), Working Paper, 2002.

<sup>9</sup> Vezi [www.transparency.org](http://www.transparency.org)

<sup>10</sup> 2004, Regular Report on Romania’s progress towards accession, p 17

**Table 1**

Answer choice	Results (%)
Yes	66.0
No	30.4
No answer	3.6
Total	100.0

A significant number of mayors consider corruption as being one of the major problems of Romanian public administration. In considering the causes of this phenomenon six elements were taken into account: legal framework (a), civil servants pay system (b), civil servants morality (c), pressure from business sector (d) politics (e) and citizen behavior (f). For these variables a five item scale was defined: 1-do not influence (the corruption from system), 2-influence to a low degree, 3-influence to a moderate degree, 4-influence is important, 5-influence is high. The results obtained from analyzing the answers are presented in the following table:

**Table 2**

Variable	Mean	Std. Deviation
a	3.69	1.150
b	4.62	0.617
c	3.33	1.126
d	3.31	1.150
e	3.37	1.371
f	2.99	1.085

These results prove the following:

**1. Legal framework** – still permits in a large degree the occurrence and expansion of corruption at public administration level. In light of this situation the author recommends the revision of the actual legislation (Law 215/1998, 213/, 326/, OUG 45/2003, etc.) that governs local public administration activities. Moreover, these legislative changes are in line with European Union integration process requirements and World Bank PAL program requirements related to the local public administration.

**2. The remuneration system** represents a major factor in the occurrence and development of corruption in the system, according to the respondents' opinion. The mean of this variable is far from the highest value (4.62), while the standard deviation is the smallest (0,617), proving a strong convergence of the respondents. This fact is more than obvious while the level of wages is not in concordance with the sector responsibilities and the changes in leading positions at the local public administration level are significant related to the changes in the political spectrum. Equally important, this aspect is generated by the lack of sustainable strategy regarding the remuneration system.

**3. Civil servants' ethics** – represents an aspect that has an important role in generating the corruption, according to mayors' opinion. This situation can be explained by the following: reduced development of an organizational culture and existence of a behavior that is not in line with the current society norms, that is registered at the level of the large scale of employees from the public administration; the remuneration system from the local and public administration sector, etc.

**4. Pressure from the business sector** – has an important stake in generating corruption. For an economy in transition the business' interest in doing business with the local public administration institutions is huge due to the advantages that are offered: prices that can be negotiated, permissible contracts, guaranteed market, etc;

**5. Pressure from the political system** – is also a determinant factor. Therefore, about 50% from respondents appreciated that the political influence is high and very high in generating corruption. Explanations can be offered by a severe instability of the civil service, especially on command positions, on electoral cycles and by operating of political clientele, especially in the distribution of the financial resources at the local level

**6. Citizens' behavior** – has a moderate influence comparing with other factors, therefore could be considered rather an effect than a cause for corruption.

### 3. Corruption and local governance

In analyzing the relationship between local governance, the decentralization process, and corruption, one should keep in mind that a transparent and coherent decentralization process determines a decrease in the corruption level and an improvement of the use of public funds. Several studies conducted by the World Bank document this fact (Olowu [1993]<sup>11</sup>, Fiszbein [1997]<sup>12</sup>). Nevertheless, a wrongly conceived and implemented decentralization process represents a factor that will lead most of the time to an increase in the corruption level within a country undertaking a transition process. In order to reduce the level of corruption in the decentralization process a series of components should be introduced for generating transparency and increasing citizens' participation in the decision-making process at the local level.

This analysis, using as a departure point the gathered data from the researched, states that the corruption phenomenon was exposed by the mayors who consider that citizens should be directly involved in the decision-making process at the community level. Consequently, correlation coefficient Pearson amongst the two variables is 0.315 significant for 1% significance level. This characteristic highlights a direct cause that leads to the occurrence and perpetuation of corruption, namely the lack of transparency regarding the decision-making process within local public administration institutions.

In Romania the proportion between mayors who hold a baccalaureate degree and those who hold a bachelor degree (or higher) is equal. The distribution of answers for the question regarding corruption among the respondents belonging to the two categories regarding academic background (high school and bachelor or higher) are relatively the same. Therefore, chi-square value ( $\chi^2$ ) whose value is 34.96 supports this statement. *These results prove that corruption phenomenon is perceived in the same measure by the majority of mayors, regardless their academic background education level. The problem in combating corruption is not about understanding and perceiving the corruption phenomenon, but about enforcing efficient methods meant to eradicate it.*

**Table 3**

		Academic background			Total
		High school	University studies	No answer	
Corruption is a real problem of the public administration	Yes	64,7	67,9	52,9	65,3
	No	32,8	31,2	17,6	31,0
	No answer	2,5	0,9	29,4	3,7
Total		100,0	100,0	100,0	100,0

<sup>11</sup> Olowu, D., *Roots and Remedies of Government Corruption in Africa*, Corruption and Reform, 7/1993, p. 227-236.

<sup>12</sup> Fiszbein, A., *Emergence of Local Capacity: Lessons from Colombia*, World Development, 25/1997, p. 1029-1043.

Corruption and other factors contribute directly to the poor quality of the services offered to the citizens by the local public administration. In this study the following variable “*Measure in which local public administration fulfils its basic functions*” (Q5) is a mean of four variables considered as essential towards its functioning: a) administration and management of goods and public funds at the local level (Q1); b) provision of the basic services at the local level (health, social assistance, education, culture, defense, etc) (Q2); c) forecasts and socio-economical development (Q3) and d) organization (Q4). In order to quantify the mayors’ opinion reported to the degree in which the local public administration fulfils each single function, an ordinal scale was defined, comprising the following items: 1-very low degree, 2-low degree, 3-high degree, 4-very high degree. The characteristics of the four primary variables are presented in the following table.

**Table 4**

Variable	Mean	Std. Deviation	Correlation Matrix on Primary Variables			
			Q1	Q2	Q3	Q4
Q1	2,79	0,701	1	0.549*	0.317*	0.521*
Q2	2,38	0,755		1	0.534*	0.563*
Q3	2,27	0,798			1	0.515*
Q4	2,70	0,779				1
Q5	2,53	0,600	-	-	-	-

\* Significant value for 1% confidence level

Mayors believe that given the current level of decentralization within the Romanian public administration, local authorities can fulfill their basic functions only up to a certain degree. The most unfavorable situation is the low capacity of prediction and economic-social development at the local level and providing basic public services at the level of the localities. The reduced capacity of local administration in providing basic services is directly determined by inappropriate administration and management of the goods and public funds at the local level (Pearson coefficient is 0.549) and organizational capacity is low (0.563). *By implementing the decentralization process in a coherent and transparent manner the prerequisites for the strengthening of local public administration in providing its basic functions are met.*

The reform process with regard to the staff, civil servants, and locally elected officials is one of the important factors in the reduction of the corruption level. The author argues that this dimension of the reform has not generated the expected outcomes. In the questionnaire three questions that are essential for the understanding of this process were inserted: “Do you consider that public administration is undertaking a thorough reform process?” (QR1), „To what extent the actual changes on public administration level correspond to your expectations?” (QR2), „Do you consider that public administration reform is oriented in the right direction?” (QR3). For the three variables a scale with 4 response choices was defined: 1- the most unfavorable situation, and 4 – the most favorable situation. After analyzing data the following synthetic data were obtained. They are presented in the table below:

**Table 5**

	Mean	Standard dev.	QR1	QR2	QR3
QR1	2,5099	0,71610	1.000	0.631*	0.417*
QR2	2,4545	0,71472		1.000	0.417*
QR3	3,5640	1,08933			1.000

\* Correlation is significant at the 0.01 level (2-tailed)

The following comments can be highlighted based on the analysis of the data: half of the mayors have an unfavorable opinion about the changes taking place in public administration; in general, changes in public administration meet only up to a moderate degree the mayors' expectations; variables interdependences, measured by Pearson coefficient, are significant.

Possible explanations for this situation include: a series of reform measures, that are currently in the implementation stage, do not have yet significant effects on the local level, as the reform process takes time; the political message regarding the fight against corruption sent by the national government is not accompanied by an information campaign and by the training of local officials with regard to concrete reform components; the local officials were not involved in the process of drafting the anti-corruption strategy, etc. *We consider that lack of a promotion campaign for the reform measures at the local public administration level explain a reduced correlation between mayors' expectations and perceived changes. The lack of a promotion campaign for reform measures at the local level slows down the process of reform implementation.*

Based on the three initial variables a new variable that quantifies mayors' opinion on the reform process at public administration level is defined. This variable is defined based on the mean of the three initial variables from the questionnaire:  $QR - (QR1 + QR2 + QR3)/3$

#### 4. The use of a logistic model for analyzing corruption

For analyzing corruption a simple dichotomist logistical model has been used. It estimates the probability that a mayor will consider corruption one of the important problems local public administration is confronted with. For the dependent variable a two options variable was considered, which is defined:  $y_1 = 1$  if a mayor considers corruption as a real problem for the Romanian public administration, and  $y_1 = 0$  if a mayor is complacent in this situation. Part of the model the following independent variables were considered: existence at the city hall level of a person directly responsible for the implementation of reform measures (*PR*), mayor's academic background level (*NI*), the remuneration system for civil servants (*SS*), political system pressure (*PP*). The characteristics of the logistic model are presented in the following table:

**Table 6**

	B	S.E.	Wald	Sig.
<i>PR</i>	0,291	0,158	3,382	0,06
<i>NI</i>	-0,235	0,144	2,676	0,10
<i>SS</i>	-0,989	0,178	30,791	0,00
<i>PP</i>	-0,680	0,172	15,709	0,00
<i>Constant</i>	11,548	1,593	52,576	0,00

The logistical model is defined in this case by the following causal formula:

$$P(y_i = 1) = \frac{1}{1 + \exp(-(11,548 + 0,291PR - 0,235NI - 0,989SS - 0,680PP))}$$

The high statistical score ( $\chi^2 = 253.2$ ) proves that the estimated logistical model is valid. Moreover, the model parameters are significantly different from zero. The significance level ( $\alpha$ ) for each parameter is presented in the above table. The estimation signals that correspond to the independent variables show to what extent the probability to respond affirmative to the question on corruption is increasing function by a certain variable from the model. Therefore, probability is an increasing function reported to the *PR* variable and decreasing function reported to the mayor's academic background (*NI*), the remuneration system civil servants (*SS*), and pressure from the political system (*PP*).

## 5. Conclusions

The outcomes of this type of research are twofold: descriptive analysis, on the one hand, and the logistical model, on the other hand. Based on these outcomes several venues regarding the reduction of the corruption level in local public administration can be explored in the future. The most relevant ones include: a) intensify the reform process at the local public administration level with regard to three important components: civil service reform, the decentralization process, and the enhancement of the public policy formulation process. These dimensions are compatible with the requirements implied by the process of adhesion to the European Union. In order to meet these requirements specific tasks should be assigned to civil servants working for the city hall. At the county level a task group with a clear focus on the modernization of the local public administration should be created, thus the reform process will become more clear and coherent; b) Elaborate a long term strategy and a specific law regarding the remuneration of civil servants; c) Intensify the continuing training courses for locally elected officials; d) Reduce the fluctuation of the staff working for city halls as a result of political changes every four years; e) Continuing training courses for mayors, etc.

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