The Distortionary Effects of Power Sharing on Political Corruption and Accountability: Evidence from Kenya

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Motivation

- Increase in power sharing agreements/coalition governments across most countries

  - Often involve splitting executive and legislative institutions
  - Little evidence on the attribution of performance across political parties

  - **Objective**: How do opposition parties performance?

Key Research Question

- How does power sharing of ministerial and anti-corruption institutions affect

  - Misappropriation of public funds
  - Likelihood of facing legislative sanctions

- **Empirical challenges**
  - Measuring corruption (Kaufmann and Kraay, 2008; Sequeira, 2012)
  - Endogeneity of allocating institutions across parties (Shvetsova, 2003; Humphreys, 2008)
  - Lack of data on sanctions that can be matched to acts of corruption and specific institutions

Theoretical Debate: Are opposition parties harmful?

- **Public choice literature**: Opposition parties are more corrupt due to high discount rate/short-term horizon (Hobolt and Fisher, 2010; Bejar et al. 2011).

- **Accountability literature**: Opposition parties are less corrupt due to signalling effects and less experience in government (Bratton and Logan, 2015; Plescia and Kritzinger, 2017).

Preview of results

- Opposition-governed ministries
  - are more corrupt
  - receive fewer sanctions

- **Mechanism**: Rent accumulation effect

  - Electoral incentives seem to drive opportunistic behaviour

Institutional Setting in Kenya

- Power sharing agreement established in 2008
- Equal split of ministerial portfolios for the term 2008-2012
- Funds largely under the discretion of the minister
- Independent annual audits by Office of Auditor General (OAG)
- Reports submitted to PAC that in turn holds politicians accountable
- Sanctions include: taking no-action, summons, warnings or prosecutions

Empirical Approach

Measuring Corruption

- Rely on audit reports from the OAG (Ferraz and Finan: 2011, 2008).

- Quantify the total amount of misappropriated funds, highly disaggregated indicators.

- Examples include unvouched expenditure, excess expenditure, pending bills, imprests, procurements

- Active corruption (irregularities that directly profit politicians)

- Passive corruption (financial mismanagement)

Research Design

- **Identification Concerns**:
  - Endogeneity in the allocation of ministries (not randomly allocated)

  - Unobserved politician and ministry attributes that might influence both allocation and corruption.

Identification Strategy:Difference-in-differences

- Several ministries did not experience a change in the political party that had governed them since 2002, making them a plausible control for those that changed and were allocated to the opposition in 2008.

- **Treatment group** : Opposition governed ministries
- **Control group** : Incumbent governed ministries
- **Unit of analysis** : Ministry, 2008-2012
- **Standard Errors**: Bootstrap procedure

Key Identification Assumptions

- Allocation process is exogeneous to prevailing corruption levels
  - Parallel trend assumption

- Covariate balance in key indicators associated with allocation process
  - Budgetary Indicators: (revenue, public expenditure, size of workforce)
  - Politician-level characteristics (age, education, gender)
  - Electoral characteristics (incumbency rates, margin of victory, vote share)

Figure 1: Evidence of significant corruption

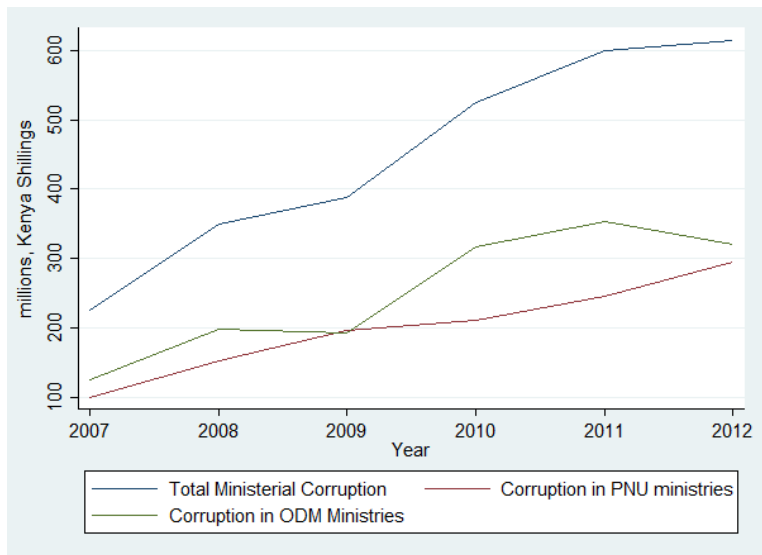Figure: Corruption Patterns within the Coalition
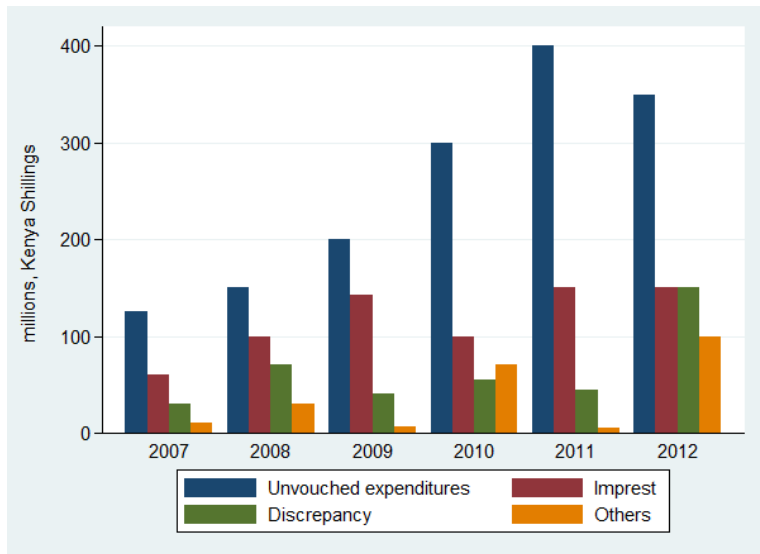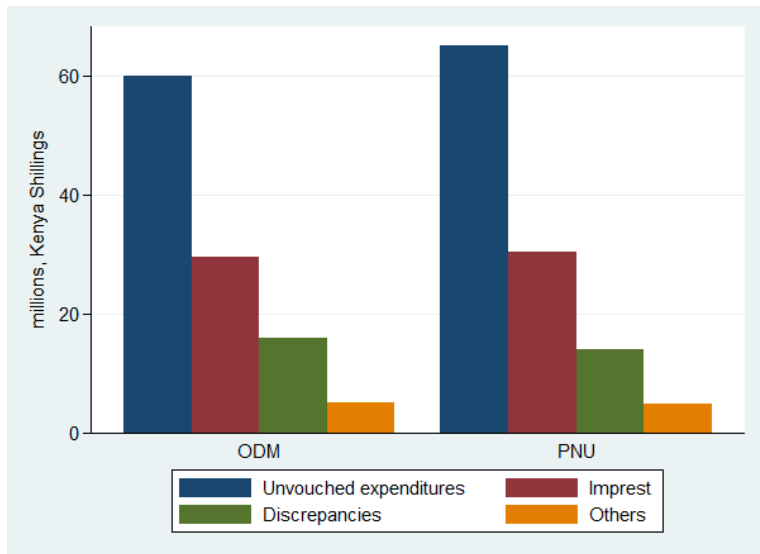
Figure: Forms of Corruption within the Coalition

Figure 3: Corruption type by party control

Figure: Forms of Corruption within the Coalition

Econometric Results

- **Result 1:** Opposition ministries are more corrupt than incumbent-controlled ministries

    - Corruption levels higher by 20 percent

- Potential Mechanisms
    - Negative self-selection of politicians
    - Rent accumulation effect

- **Result 2:** Higher corruption due to re-election incentives
    - Higher levels of active forms of corruption

Theoretical debate: Are opposition parties harmful?

- PAC conducts an election in the 1st and 3th year

- Explore 2010 switch in the composition of the PAC from incumbent to opposition affiliated chairperson

- Compare the nature of sanctions
    - during periods of (non)-alignment
    - for politicians with re-election motives

Estimation and Main Findings

- **Endogeneity concern**

  - Elections leading to the switch might be endogenous to the level of corruption (reverse causality)

  - Take advantage of a constitutional clause

- Econometric Specification

$$y_{i,t} = \alpha_i + \alpha_t + \beta_1 Party_t + \beta_2 Term_i + \beta_3 (Party_t * Term_i) + \epsilon_{i,t}$$

- **Result 3:** Evidence in favour of partisan bias in sanctions

- **Result 4:** Politicians with re-election motives are less likely to be warned, fired or prosecuted

Concerns regarding audit reports

- Low capacity to detect corruption
  - Adequately funded and staffed (716/974 auditors); merit recruitment; partnership with professional accounting bodies
- Independence of the OAG
  - Constitutional mandate; security of tenure
- Systematic differences in auditing across ministries
  - Standardized auditing and reporting procedure following IAS

Concerns regarding audit reports

- Incumbent politicians are better in hiding corruption
  - Compare corruption between old and new politicians
- Are auditors corrupt
  - Favourable reports during electoral year
  - Favourable reports if co-ethnic with Auditor General

Conclusion

- Increase in power sharing arrangements; less evidence on the performance of opposition parties

  1. Trade-off between political legitimacy and accountability

  2. Insulate anti-corruption agencies from partisan interest

Thank you for your attention

Table 1

Table: Covariate balance test for treated and control ministries

	Treated Ministries (1)	Control Ministries (2)	Difference in means test p-value (3)
Revenue	38.19	40.21	0.72
	(2.49)	(1.54)	(0.23)
Public expenditure	0.295	0.25	-1.52
	(0.03)	(0.01)	(0.93)
Employment size	220.00	217.00	0.3
	(3.33)	(2.06)	(0.79)
Age	48	49.5	-1.5
	(3.43)	(2.05)	(0.51)
Years of education	14.50	15.00	-0.5
	(3.43)	(2.05)	(0.51)
Gender	0.8	0.7	0.1
	(3.43)	(2.05)	(0.51)
Incumbency rates	0.53	0.45	0.08
	(0.47)	(0.63)	(0.13)
Margin of victory (2007)	0.83	0.78	0.05
	(2.93)	(2.23)	(0.38)
Vote share in 2007	0.56	0.58	-0.02
	(2.93)	(2.23)	(0.38)

Table 2

Table: Difference in Difference Estimates: Political Parties - Corruption hypothesis

	Total unaccounted funds	Total Uncounted funds	Active corruption	Passive corruption
	(1)	(2)	(3)	(4)
Post × Treat	0.201**	0.205**	0.055	0.31
	(0.092)	(0.103)	(0.044)	(0.24)
Controls	No	Yes	Yes	Yes
Ministry fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Observations	200	200	200	200
Mean of dependent variable	0.457	0.480	0.550	0.541
R-squared	0.48	0.54	0.42	0.48

Table 3

Table: Assessing the Parallel Trend Assumption

Dependent variable: Total unaccounted funds as a share of total audited funds	
	(1)
Treat X Year = 2007	0.523
	(0.411)
Controls	Yes
Ministry fixed effects	Yes
Year fixed effects	Yes
Observations	85
Mean of dependent variable	0.512
R-squared	0.21