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 2: Act of Corruption

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 1\textsuperscript{st} and 3\textsuperscript{th} 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**

  \[ y_{i,t} = \alpha_i + \alpha_t + \beta_1 Party_t + \beta_2 Term_i + \beta_3 (Party_t \ast Term_i) + \epsilon_{i,t} \]

- **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**

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

<table>
<thead>
<tr>
<th></th>
<th>Total unaccounted funds</th>
<th>Total Uncounted funds</th>
<th>Active corruption</th>
<th>Passive corruption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post x Treat</td>
<td>0.201**</td>
<td>0.205**</td>
<td>0.055</td>
<td>0.31</td>
</tr>
<tr>
<td></td>
<td>(0.092)</td>
<td>(0.103)</td>
<td>(0.044)</td>
<td>(0.24)</td>
</tr>
<tr>
<td>Controls</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Ministry fixed effects</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Year fixed effects</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Observations</td>
<td>200</td>
<td>200</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>Mean of dependent variable</td>
<td>0.457</td>
<td>0.480</td>
<td>0.550</td>
<td>0.541</td>
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<tr>
<td>R-squared</td>
<td>0.48</td>
<td>0.54</td>
<td>0.42</td>
<td>0.48</td>
</tr>
</tbody>
</table>
## Table: Assessing the Parallel Trend Assumption

<table>
<thead>
<tr>
<th>Dependent variable: Total unaccounted funds as a share of total audited funds</th>
<th>(1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treat X Year = 2007</td>
<td>0.523</td>
</tr>
<tr>
<td></td>
<td>(0.411)</td>
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<tr>
<td>Controls</td>
<td>Yes</td>
</tr>
<tr>
<td>Ministry fixed effects</td>
<td>Yes</td>
</tr>
<tr>
<td>Year fixed effects</td>
<td>Yes</td>
</tr>
<tr>
<td>Observations</td>
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</tr>
<tr>
<td>Mean of dependent variable</td>
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</tr>
<tr>
<td>R-squared</td>
<td>0.21</td>
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