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Haydanka, Yevheniy

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THE REGIONAL DIMENSION OF CORRUPTION RISKS IN THE CZECH REPUBLIC IN THE LIGHT OF DECENTRALIZATION

Yevheniy Haydanka^{1*}

¹Tnava University - Tnava, Slovak Republic  <https://orcid.org/0000-0001-8112-2090> ✉ yevheniy.haydanka@truni.sk

Abstract: *The article elucidates the relationship between decentralization and corruption risks in the Czech Republic. Economic inequality in the regions inevitably leads to corruption risks. The unemployment rate and the wage level determined the fragmentation of the Czech regions. Most Czech regions (8 out of 14) have an average unemployment rate (of 3-5%). The capital Prague (44 thousand korunas), as well as the Central Bohemian Region (35 thousand korunas), significantly differ from the rest of the Czech regions in wage level (within 31-32 thousand korunas). If the Czech regions are similar in the unemployment rate, there is a noticeable stratification between the capital and other regions. The findings of an expert survey among civil servants and deputies of regional Assemblies identified corruption and anti-corruption measures in the regions. The sphere of public administration is the most corrupt. Partially corrupt is the provision of administrative services. The greatest corruption risks result from the employees' influence on funding sources (grants, subsidies and grants). On a 10-point scale, the average corruption in the regions is 5,8. More research prospects derive from studying corruption risks at the regional rather than national levels and expanding the geographical framework of the transition countries under research.*

Keywords: *Corruption Risks; Decentralization; Regionalization; Unemployment Rate; Wage Level*

INTRODUCTION

Decades of socio-economic transformations in post-socialist countries still yield diverse outcomes. Thirty years after the “socialist commonwealth” collapsed, some countries stood out due to the best economic development dynamics or demonstrated significant problems that hindered that development. The central government’s ability to ensure real, local fiscal autonomy and the attending corruption risks were criteria for successful post-socialist reforms. On the one hand, significant institutional corruption hindered the formation of transparent budgets and credit systems, thus slowing down economic growth in the country. On the other hand, restricting measuring corruption exclusively to the national level does not offer an objective picture of corruption risks. Each region has inherent economic processes. Therefore, decentralization directly impacts the level and spread of corruption risks as a model of fiscal autonomy of regions.

Regarding economic transformation, the Czech Republic was a leader among other post-socialist countries. Strengthening regional autonomy in forming financial and budgetary systems reinforced its progress. Despite the positive economic growth dynamics, the country failed to solve corruption-related problems after joining the European Union (EU). Corruption risks attended to a top-down delegation of managerial competencies and the expansion of economic freedom in the regions. Post-socialist countries had been corruption-prone, which negatively

affected local fiscal policy efficiency. Studying corruption in the regions will provide a more objective picture of the real state of corruption risks associated with microeconomic indicators than a thorough analysis of the country and various ratings.

LITERATURE REVIEW

Theoretical Framework

In the late 1990s, countries with transitive economies prioritized decentralization reform. Before the countries with the steadiest economies joined the European Union in 2004, the World Bank had continually encouraged deepening decentralization and supporting regions (World Development Report 1999). In its turn, the transitivity of the economy has influenced the course of the decentralization reform. Unstable economic structures, the central government's reluctance to implement decentralization, and a high level of corruption in post-socialist countries (the late 1990s - early 2000s) resulted in three indispensable components of decentralization: (1) delegation of administrative authorities from the center to the regions, (2) prompt and high-quality provision of administrative services in service centers, and (3) effective (profitable) business management in local communities (Bardhan 2002).

Each decentralization component is corruption-prone. In the case of administrative powers delegation, the post-socialist leaders tended to avoid delegating their powers to local authorities, e.g., in the Czech Republic, decentralization reform became a matter of hot political debate during the 1990s. The central government was reluctant to decentralize the administrative system for various reasons, like internal political conflicts between supporters of subsidiarity (Vaclav Havel) and the centralized management model (Vaclav Klaus), the government's understanding of the decentralization reform as redundant compared to the need to stabilize the economy, fears of the historical separatism in certain regions (Yoder 2003, 275-279). Also worth mentioning is the inequality of economic resource distribution between the capital city of Prague and other regions, which is likely to result in lobbying for the capital's interests at the Government level and, respectively, mass discontent in the regions. On the other hand, the local authorities supported decentralization since the regional elite became aware of the real opportunities to improve their political positions (or the personal power of individual local politicians). The regional political elite in the Czech Republic became institutionally stronger after the first elections to the Regional Assemblies in 2000.

Eventually, the delegation of powers to the regions will lead to transferring a considerable amount of authority in the field of financial and budgetary policy from the center. The Regions can achieve financial autonomy only after regional authorities get broad competence in matters of expenditures and revenues, enabling the formation of an effective taxation system or facilitating a favorable environment for business activities. Regarding corruption risks, the tax system transparency, control (audit) of the financial activities (reporting) of regional authorities, and lobbying of the interests of local business circles at the regional political level come to the fore. Despite the decentralization reform in the Czech Republic, supporting small and medium-sized businesses have always been the government's priority. To get financial support from European funds, the government develops seven-year strategies considering the peculiarities and differentiation of Czech regions (Strategy 2021-2027).

The level of competition between the regions regarding the production of goods and provision is vital for the success of the decentralization reform. The broad regional financial and budgetary autonomy balances the quality of goods and services the state provides, and the amount of tax business companies pay (Breton 1998). A transparent tax system and clear game rules are always at the heart of any competition. The local political elite must compromise with business structures to eliminate corruption risks, for such consensus consolidates economic transformations at the political level.

Decades-long decentralization reform in post-socialist countries has proven its complexity and broader scope beyond merely economic transformations. On the other hand, the economic component accounts for the need to implement decentralization. National economies cannot develop irrespective of global economic processes. However, several waves of global financial crises did not seriously affect the overall stability of financial systems in the regions (Ehtisham and Brosio 2015). Under effective fiscal decentralization, the negative impact of global economic processes decreases.

Notably, decentralization is neither search for a balanced tax policy in the regions nor prospects for local governments to control revenues and expenses in their budgets. The effective funding system in the Central European countries rests on four components, namely (1) the decentralization-fit administrative and territorial division of the country (following the territorial reform of the country, based on the interests of local communities), (2) effective horizontal relations between different levels of the region or within the community (based on the autonomy of each level), and (3) independence of the government from financial revenues from the regions, and, on the contrary, the institutional ability of local governments to conduct financial and budgetary policy autonomous from the state, and the share of the local communities' finances in the national GDP (income and expenses) (Swianiewicz 2014).

The Czech Republic went through a difficult transitional period of economic development and suffered from various manifestations of a fairly high corruption level. The transition period and institutional foundations for fiscal decentralization have led to multiple corruption risks. We should also highlight the issue of the "moral choice" of politicians (managers) in the conditions of transitivity (Martinkovič 2016, 39). The negative outcome of corruption is primarily the low efficiency of fiscal decentralization, which hampers economic growth (Martinez-Vazquez and McNab, 2003, 1606-1607). Due to several factors, the higher the corruption levels at the central level, the more likely the corruption threats at the local one: (a) the decisive impact of local elites (including business circles) on decision-making, (b) broad authorities of local councils in fiscal and budget policy, and (c) the eventual "blurring" of the line between a local official (bureaucrat) and a traditional politician (Martinez-Vazquez and McNab 2003, 1606).

The direct negative impact of corruption is the biased allocation of public investment and the irrational provision of grants and subsidies. Small and medium-sized enterprises of various forms of ownership find it hard to operate, for corrupt practices deteriorate the competitive environment, prevent enterprises from accessing financial sources and, as a result, negatively affect the dynamics of national economic growth. In transition countries or countries implementing decentralization reform, corruption in public administration directly affects the

structure of taxes. For example, government corruption increases the segment of indirect tax revenues (Tanzi and Davoodi 2000, 21-22; Hajdini, Collaku, and Merovci 2023).

We share the opinion of Vito Tanzi and Hamid Davodi (2000, 22) that it seems threatening to constantly pursue an increase in public investment in modern economies. In transitive countries with a high level of corruption, increasing government investment will contribute to a negative “corruption background”. In addition, decentralization considerably expands fiscal and budgetary autonomy in the regions, leading to additional unforeseen corruption risks. Interestingly, there is one more aspect to the correlation between the corruption level and the degree of public administration decentralization. Modern methods measure the corruption level globally, paying little attention to the regional peculiarities of corruption risks. Czech scholars Veronika Linhartová and Jolana Volejníková (2015) proposed a comprehensive approach to empirical calculations of corruption in the Czech regions. Furthermore, it is important to emphasize the necessity of considering corruption risks within the Czech Republic, specifically focusing on the country’s various regions.

MATERIAL AND METHODS

Given the much research into various aspects of decentralization’s impact on the spread of corruption risks, conducting another applied case study of the Czech Republic seems appropriate. Our main objective is to determine the fragmentation of the Czech regions under decentralization by the level of corruption. The outlined objective defines the priority directions of the present research:

(1) Explaining the correlation between the corruption level and decentralization processes. Normative and empirical decentralization significantly differ. In practice, decentralization reform in post-socialist countries brought about multiple institutional problems, such as the government’s reluctance to delegate powers to the regions, the oligarchization of local elites, the imperfect legal basis of decentralization, and economic differentiation in the development of the regions. As a result, these factors aggravated both the old (the post-socialist past-related) and new (related to the ambiguity of decentralization) corruption risks.

(2) Analyzing the unemployment rate and average wages in the regions of the Czech Republic to identify corruption risks. Since 2000, decentralization has been completed in the Czech Republic. The thirteen regions and the capital city of Prague show a drastic economic differentiation (Prague, the Central Bohemian Region, and the rest of the country). We determine the degree of corruption threats in the Czech Republic based on the unemployment rate figures and the average wages.

(3) Interpreting the level of corruption risks in the Czech regions. Experts can provide an objective picture of corruption in the regions. In this case, it is the persons involved in regional administration. Public officials and deputies of regional assemblies in the Czech Republic identify public administration as potentially the most corruption-prone area. Accordingly, both the country and regions should devise an anti-corruption strategy.

According to the defined objective and research tasks, we attempted to explain the phenomenon of “regional corruption” in the modern Czech Republic. Comparative analysis of the unemployment rate and wages identifies potential corruption threats in all 14 Czech regions

(Regions - Czech. *Kraje*) (methodology by Bechir Bouzid, Caroline van Rijckeghem, and Beatrice Weder). The second methodological stage was to conduct an expert survey among civil servants and deputies of regional Assemblies (Czech - *Zastupitelstvakraje*). An expert survey on corruption issues was conducted from May 31 to June 25, 2021, in all regions of the Czech Republic.

RESULTS AND DISCUSSION

Welfare and Corruption Risks in the Czech Regions

Various corruption-related economic indicators, such as the correlation between unemployment figures and corruption threats, add to the fragmentation of the regions in the Czech Republic (Bouzid 2016). We should discuss the biased resource allocation that diminishes competition in production and the labor market. Transparency International's World Corruption Monitoring Experts define major corruption manifestations in economic growth and the inequality spread: (a) the destructive impact of corruption on the positive dynamics of economic growth and business environment efficiency, (b) the significant role of corruption in social and economic inequality and income distribution, and (c) the negative impact of corruption on the public administration transparency (Transparency International 2014).

Corruption tends to affect economic growth negatively. Firstly, the corruption level and the pace of economic growth are interrelated, or more precisely, the more widespread the corruption, the less the economic growth. For example, at the empirical level, a 1% decrease in corruption leads to an increase in GDP by 1-1.3% (Abed and Hamid 2000). Secondly, corruption directly affects the degree of inequality in society, significantly reducing competition and rational mechanisms for allocating resources and profits. The higher the corruption level, the worse the well-being of most citizens. Respectively, it will lead to such phenomena as growing unemployment and poverty. However, each region has peculiarities, so we will attempt to determine the Czech regions' fragmentation by the unemployment rate among working-age people (Figure 1).

Corruption also results in the citizens' income-related issue of inequality. Changing the "rules of the game" in allocating available resources to circumvent the regulatory requirements deepens economic inequality. Corruption substantially reduces citizens' entrepreneurial activity and slows the dynamic economic behavior of the population, thus decreasing the level of welfare at both individual and group levels. Large corrupt practices at the highest state level are the most complex phenomenon induced by the existing political environment. Another aspect of corruption directly related to citizens' income is the interdependence between the wage rate and, in fact, corruption. We will showcase this on the example of civil servants. The economic "panacea" in the fight against corruption is raising the official income of civil servants. The higher and more transparent the salary of civil servants, the fewer the corruption risks. Simultaneously, this trivial rule is not always applicable. Caroline Van Rijckeghem and Beatrice Weder (2001) argue that reducing corruption risks is achievable in the case of a radical rather than a minor pay rise for civil servants. The wage rate determines not only the welfare of citizens but also potential corruption risks.



Figure 1: The Unemployment Rate in the Regions of the Czech Republic among the Age Group of 15-64 (in %, as of 31.05.2020) (Source: Authors' depiction, based on the Czech Statistical Office data using the model map from *Informační web územníhoplánování*)

Figure 2 shows the fragmentation of the Czech regions by the wage rate.



Figure 2: The Average Gross Wage Value in the Regions of the Czech Republic (in the Czech korunas, the first quarter of 2021) (Source: Authors' depiction, based on the Czech Statistical Office)

Unemployment and wage rate are important economic indicators that underlie the corruption channels. The fragmentation of the regions of the Czech Republic is particularly conspicuous when we compare the current unemployment figures and wage rates. The unemployment rate in the Czech Republic displays that there are no systemic problems. The unemployment figures range from 2 to 5%, compared to the national average, where unemployment among the working population is 3.85. Thus, despite the differences in the unemployment rate, the country's regions are typical, with no serious deviations.

Expert Opinion on Corruption and Anti-Corruption in the Czech Regions

From May 31 to June 25, 2021, we conducted an expert sociological survey of the local political elite in the regions of the Czech Republic to discuss corruption problems. It is worth highlighting several features of this survey.

Firstly, the Covid-19 pandemic allowed us to conduct it exclusively remotely. We utilized a specialized online platform, "Survio", as a methodological tool. Each respondent was guaranteed absolute anonymity.

Secondly, the survey is qualitative (expert), not quantitative. We endeavored to embrace all regional deputies. Its random sample includes 740 deputies of regional Assemblies (*Zastupitelstevokraje*), elected in the last regional elections in October 2020 and the elections to the Prague Assembly in October 2018.

In the first stage, respondents were suggested to identify factors that reduce corruption at the national (within the Czech Republic) and regional (within the specific region represented by the respondent) levels. The questionnaire was formulated to emphasize the overall Czech intention to reduce corruption and emphasize its anti-corruption progress. Respondents voted for all the proposed options, although amongst the most common factors that significantly reduced corruption, they mentioned "corruption scandals with politicians", "the Czech Republic's accession to the European Union", the "civil service reform" and "law enforcement activities" options proved less popular. In contrast, only two experts voted for the "decentralization of power" option. That is, decentralization is hardly seen as a reform that contributed to the decline of corruption throughout the country or in a particular region. Corruption-reducing factors are either external (the influence of the EU and the introduction of the anti-corruption strategy in line with European standards and requirements) or internal (political scandals, which were abundant in the Czech Republic). We should mention the scandals around Prime Minister Stanislav Gross in 2005, those close to the Government of Petr Nečas in 2013, or "corruption motives" during Prime Minister Andrej Babiš's term in 2017-2018.

Respondents were further asked to identify the areas of the most corruption-prone public servants' activities. Each respondent had to choose at least three answers. Eventually, there was not a single option that the respondents had not chosen. The respondents saw corruption risks in the potential impact of public servants on the terms of funding (grants, subventions, and subsidies). The corrupt-prone activities of public servants also included unauthorized disclosure of information (e.g., bidders) and bonuses. The least corruption-prone activities included civil servants' changing conditions for granting benefits and their impact on

the audit results. Consequently, all fields of public servants' activities were chosen (mostly control powers of civil servants).

Further, the survey asked to identify a range of effective anti-corruption tools. From the viewpoint of half of the respondents, improving anti-corruption legislation proved to be the most effective anti-corruption tool. Another third of respondents supported restricting direct contact between citizens and officials due to e-government. Only two respondents favored "increasing the punishment for corruption of officials" and "taking preventive measures to prevent corruption in government and among the population". These measures of direct anti-corruption work with civil servants (increasing their responsibility for corrupt practices or preventive measures) are ineffective. Notably, none of the respondents supported raising payments to civil servants as a financial tool to reduce corruption risks.

Finally, respondents were asked to estimate the overall corruption level in their region. Two-thirds of the respondents mainly estimated corruption levels as neither high nor low. Only a few respondents described their regions as having a "very high level of corruption" and "no corruption". The respondents proceeded with quantifying the corruption level in their region, where 0 meant no corruption, and 10 was the highest corruption value. None of the respondents chose polar values of 0 or 10, corruption being mostly rated 4-5 or 8. The average corruption value at the regional level is 5.8. Quantitatively, respondents estimated the average level of corruption to be slightly over the conventional 50%.

CONCLUSION

Corruption has long hampered economic growth in the regions and aggravated economic inequality through unemployment and wage differentiation. As we can see, the decentralization reform contributes to the regions' institutional autonomy in fiscal policy matters and leads to multiple corruption risks. Primarily, it concerns regional authorities' bureaucratization, biased allocation of state transfers, declining competition in small and medium-sized businesses, increasing indirect tax revenues, and state subsidies to the regions.

In the Czech Republic, regions differ in unemployment figures and wage rates. In terms of the former, most of the Czech regions belong to the group of "moderate" regions with 3-5% unemployment. In the latter case, there is a cleavage between the capital Prague, the Central Bohemian Region, and the rest of the regions. Bechir Bouzid, Caroline van Rijckeghem, and Beatrice Weder argue that the existing corruption risks in the regions of the Czech Republic are immanent in a transit country and do not pose any institutional threats.

The major economic indicators seriously affect the spread of corruption risks. Prague noticeably surpasses other regions regarding the unemployment rate (average indicator) and gross wages (absolutely the best indicator), with the highest number of corruption crimes. On the other hand, the Vysocina region, with the lowest number of corruption crimes, illustrates one of the lowest unemployment rates and low gross wages. Having analyzed the expert survey questionnaires received, we can draw three main conclusions on corruption risks in the regions of the Czech Republic.

Firstly, the theme of corruption is relevant at the regional level, yet the deputies of the regional Assemblies seemed hesitant to discuss those issues. Secondly, during the 1990s, the

then-post-socialist Czech Republic prioritized the country's EU integration. EU accession in the mid-2000s, among other things, reduced corruption in the entire country and particular regions. Thirdly, the local political elite estimates the corruption level in the regions as "average".

In the future, it is deemed appropriate to further explore corruption in transition countries by shifting the focus from the national level and analyzing corruption threats at the regional level. This approach will offer a more objective understanding of the reasons behind the emergence and proliferation of corruption risks throughout the country.

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This article does not contain any studies with human participants performed by any authors.

Statement on the Welfare of Animals:

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Informed Consent:

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