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Summary

Many developing democracies suffer from corrupt practices that incentivize elected and non-elected leaders to serve interests other than the public, hindering economic development and eroding trust in government.

In countries known to have high levels of corruption, researchers investigated two types of corruption: nepotism, or favoritism toward family members, and clientelism, where public goods are doled out as a favor for political support.

In Colombia, researchers found that family ties to non-elected bureaucrats are common, that nepotism distorts public employment outcomes, and that standard anti-nepotism policies are ineffective at preventing their negative influence.

In Mexico, researchers developed a theory that political opposition can have negative consequences on public goods provision in clientelistic contexts, and they tested this theory using historical data from a land allocation program. The findings supported the theory: politicians in office who faced more political opposition strategically increased the cost of public goods provision, allocating land to rural residents that was further away from desirable municipality headquarters.

Altogether, these findings point to the multifaceted ways in which private incentives of politicians and bureaucrats can distort state capacity building and their potentially deleterious effects on economic development, democratization, and governance.

Serving the Family and the Party: How Corruption Threatens State Capacity Building in Developing Democracies

Empirical evidence from Colombia and Mexico

Background

Advanced democracies operate on principles of merit, fairness, and justice. In general, public-sector jobs are offered to the most qualified candidates, and public goods like roads, waste management, and school improvements are carried out fairly and in the service of the public. However, many developing democracies suffer from corrupt practices that hinder their ability to provide the best possible services to their citizens or dole them out fairly.

One common challenge is nepotism. Even though the practice of favoring family members is illegal in most countries, recent surveys and reports suggest that nepotism is still widespread, especially in low- to middle-income countries where family ties are strong, and institutions are relatively weak. Although much research has explored the role and impact of nepotism in politics, little evidence exists on the role of nepotism exercised by non-elected government leaders, such as public sector managers and supervisors, who hold significant influence in these contexts.

Another challenge to strong democratic functioning is clientelism, where a certain group of supporters benefits at the expense of the public. Clientelism often manifests itself as government officials using public goods as a favor for political support.

Both clientelism and nepotism distort the incentives of politicians and non-elected bureaucrats, tilting them away from the public interest and toward the interests of the family or political group. These practices are known to hinder economic development and erode trust in government. Understanding the extent of these practices, how they function, and their impact is critical to designing policies that can effectively root them out.

The research described in this brief took place in Colombia and Mexico, two countries that experience high levels of corruption. In Colombia, researcher Juan Felipe Riaño used administrative data for the entire Colombian public sector from 2011 to 2017 to measure the extent, functioning, and consequences of bureaucratic nepotism in the country, namely:

- How widespread are close family connections between bureaucrats, and how is their presence related to public sector performance?
- How does nepotism function in this context? Is it driven by favoritism (i.e., corrupt practices) or by family members being able to better screen those they know well?
- What are the consequences of nepotism?
- Why has anti-nepotism legislation been so ineffective in preventing bureaucratic nepotism?

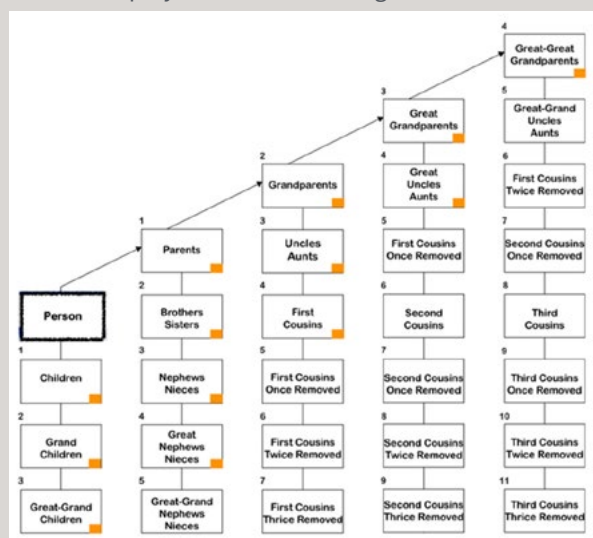
In Mexico, researchers explored the sources of state capacity under clientelism. Riaño and his co-authors predicted that in places where the opposition has a comparative advantage in its ability to provide public goods, an increase in political competition could incentivize clientelistic incumbents to reduce investments in public services as a way to sabotage their opposition. They then tested this theory in the context of a land allocation program that took place in Mexico from 1910 to 1992, particularly its dynamics before and after 1960 when the reigning political party—the Institutional Revolutionary Party (PRI)—was under threat of its incumbency.

The Context

Colombia is one of the longest-standing democracies in Latin America but faces challenges of wealth inequality, a history of violence and human rights abuses, and high levels of corruption.¹ Transparency International’s 2022 Corruption Perception index gave Colombia a score of 39 on a scale of 0 (“highly corrupt”) to 100 (“highly clean”).² Nepotism is illegal in Colombia and the punishment for appointing family members to public positions is severe. After loopholes were discovered in the 1991 anti-nepotism law, the law was strengthened in 2015 to apply to all public sector workers, including temporary contractors.

Mexico became an electoral democracy in 2000, despite having dubious elections since the Mexican Revolution in 1920. Today, Mexico faces many governance challenges, particularly drug cartel-related organized crime and violence, corruption among government officials, and human rights abuses by state and non-state actors.³ The country ranks even worse on Transparency International’s corruption index, with a score of 31 out of 100 and a rank of 126 out of 180 countries.⁴ The research from Mexico highlighted in this brief takes place in the context of a land allocation program that took place between 1910 and 1992. The research looks at the decisions of the governing party to allocate land when faced with solid political opposition after the 1960s.

Figure 1: Table of consanguinity showing the degree of relationship by blood and marriage



This figure presents a table of consanguinity between different family relationships. The number next to each box indicates the degree of relationship relative to a given person highlighted in the gold box. For example, parents and children of this generic person are at one degree of consanguinity while first cousins and great uncles and aunts are at four. The relationships considered illegal according to the anti-nepotism legislation in Colombia are highlighted in orange. The degree of affinity through spouses is considered the same as the consanguineal level a couple was joined, so that, for example, the degree of affinity of a husband to his sister-in-law is two.

1 “Colombia: Country Profile.” Freedom House. Retrieved May 15, 2023 at: <https://freedomhouse.org/country/colombia>

2 “Corruption Perceptions Index: Colombia.” Transparency International. Retrieved May 15, 2023 at: <https://www.transparency.org/en/cpi/2022/index/col>

3 “Mexico: Country Profile.” Freedom House. Retrieved May 15, 2023 at: <https://freedomhouse.org/country/mexico>

4 “Corruption Perceptions Index: Mexico.” Transparency International. Retrieved May 15, 2023 at: <https://www.transparency.org/en/cpi/2022/index/mex>

The Research

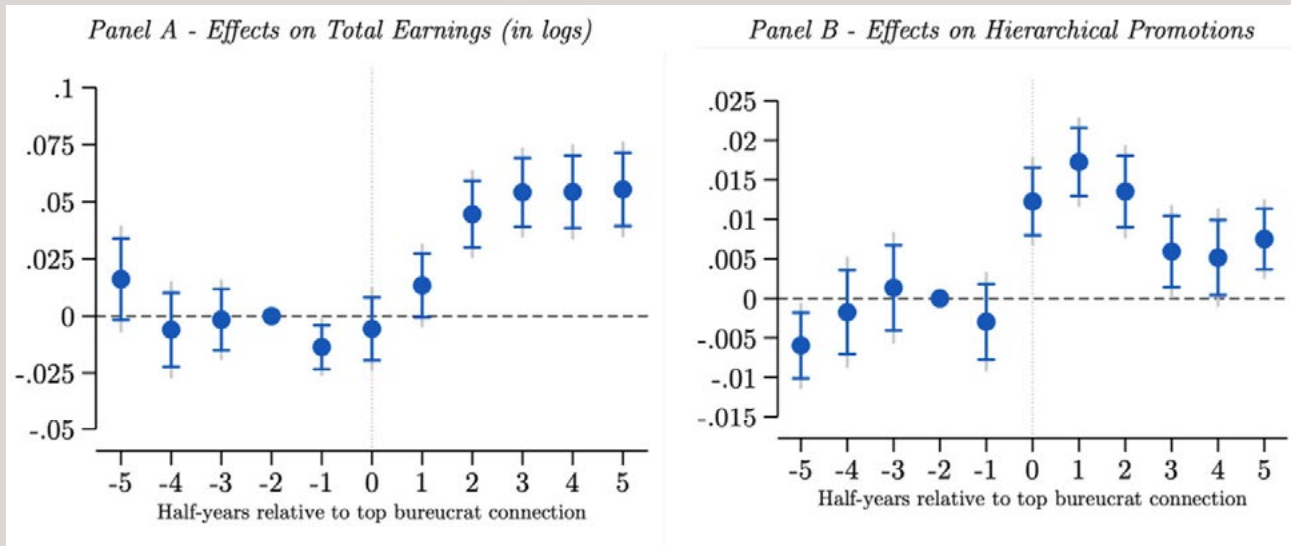
Researchers conducted two studies in Colombia and Mexico to shed light on factors that enable governments to provide for their citizens in countries with developing democracies and economies. The studies investigated the following questions:

1. How much nepotism exists in the public sector, how does it function, and what are the consequences of it? How did stronger anti-nepotism law affect it?

The researchers used administrative data for the entire Colombian public sector from 2011 to 2017 to examine the following:

- **The extent of the problem:** The research team collected and combined detailed biographical information, employer-employee records, and the mandatory but confidential disclosure of first-degree family ties—both blood and marriage ties—of every worker in the public administration. With this data, the researcher recreated the career paths of more than 1.1 million civil servants and their extended family networks spanning more than 2.4 million individuals.
- **How it functions:** The researcher looked at variations in family connections generated by the managerial turnover of top non-elected bureaucrats. Then they compared the career progression and compensation of workers before and after one of their relatives became a top bureaucrat. This strategy allowed them to isolate the effects of family connections on career advancement, as opposed to other confounding factors, such as family background, innate ability, and public sector motivation.

Figure 2: Event study plotting the effects of having a family connection to a public sector manager or supervisor



This figure displays the coefficients and 99% and 95% confidence intervals from the event study of ever getting a family connection to a top bureaucrat (i.e., to a public sector manager or advisor) when looking at total earnings and hierarchical promotions as outcomes. Standard errors are clustered at the dyadic family-agency level. The reference period is the year before the first family connection to a top bureaucrat (-2 half-years in the graph). Each figure is based on 6,390,117 panel observations coming from 722,366 bureaucrats and 34,887 connection events to top bureaucrats.

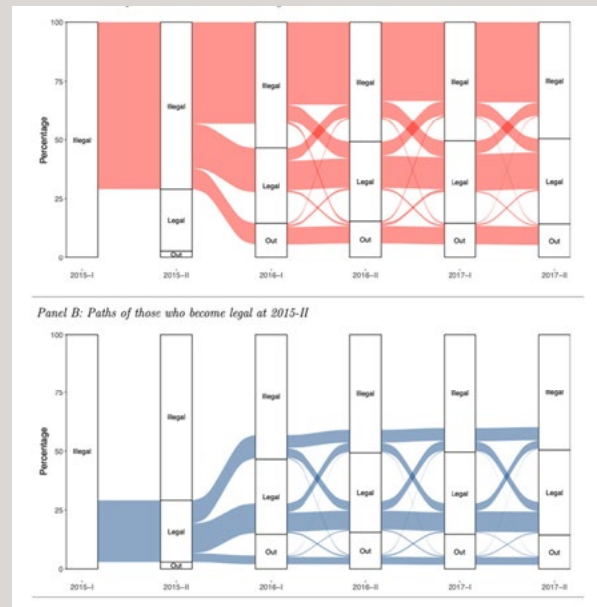
- **The consequences:** To understand the potential effects of nepotism on the quality of the promoted workforce, the author examined correlations in the number of family connections within all institutions and the overall performance of these agencies. In addition, the author estimated the differences in pre-promotion characteristics between promoted and passed-over bureaucrats when connected to top non-elected bureaucrats.
- **The effect of anti-nepotism reform:** The reform enacted in 2015 banned the appointment of family members up to four degrees of blood and marriage ties (see Figure 1). The authors estimated the impact on the number of family connections before and after this reform and the strategic response of bureaucrats to its implementation.

2. How do political incentives affect choices of how to build bureaucratic state capacity for political parties in power?

Researchers developed a theory of state capacity building in clientelistic contexts. The theory predicts that strong political competition can lead those in power to increase the cost of providing public goods for incoming political parties, sabotaging the opposition’s prospects of gaining power.

The researchers then tested this theory by looking at data from a time in Mexican history when the long-reigning PRI was threatened by a decade of economic crisis and social protests. During that time, there was a land redistribution program in which the government allocated plots of land, or *ejidos*, to the rural population. It was more expensive to get goods and services out to far-flung rural communities, and well-known that communities closer to municipal headquarters got more and better public services. The authors used historical data to test whether the PRI increased the distance of allocated *ejidos* from their municipal headquarters (increasing the cost of providing public goods to the opposition) as a way to sabotage political parties that were potentially coming into power. To test this hypothesis, they used a “difference-in-difference” identification strategy which compared changes over time in the distance of newly allocated *ejidos* from municipal headquarters across areas with varying levels of political opposition.

Figure 3: Recidivism and reshuffling in the public administration after anti-nepotism policy



This figure shows the shares and flows over time of middle- and lower-tier bureaucrats who were part of an illegal connection in the first semester of 2015-I. Using this sample, the figure follows bureaucrats over time through three mutually exclusive states: “illegal,” “legal,” or “out.” The first state “illegal” is reached if bureaucrats stay put or become connected to another top bureaucrat at four degrees of consanguinity or less in the next period. In contrast, the “legal” status is reached when bureaucrats move to another public sector agency where no family connection to a top bureaucrat exists to such a degree. Finally, bureaucrats get to the “out” state when they leave the public administration by either moving to the private sector or unemployment. Both panels show in hollow bars the fraction (i.e., the stock) of bureaucrats at each state labeled in the column. In colors, the figure presents the flow of bureaucrats from one state to another.

Results

Family connections are pervasive in the Colombian public administration, with 38 percent of civil servants having a relative in the public sector. Additionally, 18 percent have a family connection to a manager or supervisor, and 11 percent work with a family member within the same agency. On average, these connections exist among close family members between two and three degrees of blood and marriage ties (see Figure 1). These close family connections seem to be negatively related to overall measures of institutional performance, with a one standard deviation increase in close family connections corresponding to a 0.24 standard deviation decrease in agency aggregate performance.

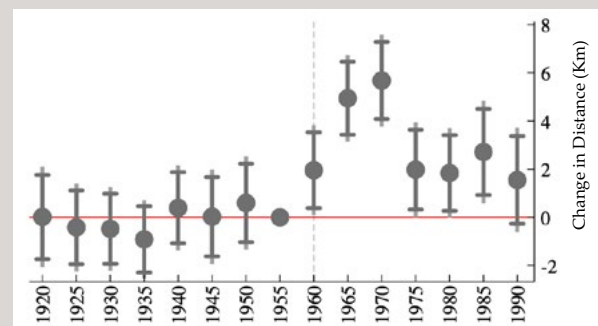
Family connections have a significant impact on the career prospects of middle- and lower-tier bureaucrats. Workers are 40 percent more likely to be hierarchically promoted and receive a 2 percent to 5 percent higher salary when they are connected to a top bureaucrat. These benefits are usually based on temporary promotions. Moreover, they are primarily concentrated among extended family networks that are more difficult for regulatory agencies to identify and not currently audited, such as those 3 to 5 degrees apart in terms of blood ties.

Public sector managers are more likely to overlook qualifications when promoting family members. On average, promoted workers tend to have more education, public sector experience, and fewer misconduct records than non-promoted workers. However, those differences in education, experience, and conduct become statistically insignificant when promotees are related to top non-elected bureaucrats.

The anti-nepotism reform in 2015, which banned the appointment of family members up to four degrees of blood ties, found that the reform reduced the number of illegal connections by almost 15 percent, but this policy change did not improve the quality of the workforce or stop nepotism. Forty percent of mid-tier and low-tier bureaucrats who were part of illegal connections before the reform kept their same jobs, and 30 percent did not leave the public administration but simply reshuffled posts across public sector agencies. For those who initially complied with the reform and left the public sector, around 10 percent returned to be part of nepotistic networks. Furthermore, top bureaucrats strategically responded to this reform by using wage increases as a favor to family members instead of promotions, which were not explicitly restricted in the anti-nepotism legislation.

In Mexico, politicians in office who faced more political opposition strategically increased the cost of public goods provision. In this case, they allocated land to rural residents that was further away from desirable municipality headquarters, in effect sabotaging their incoming opposition members who had a comparative advantage in public good provision. Before 1960, when the PRI's political power was not challenged, there was no detectable difference in the allocation of *ejidos* between municipalities with expected political competition and those without it. However, starting in the 1960s, there was an increase in the *ejido* distance in municipalities with greater political opposition compared to those with less competition (see Figure 4). In particular, *ejido* distance to municipality headquarters increased 17 percent after 1960 in more contested

Figure 4: The effect of political competition on the cost of public good provision in Mexico



This graph displays the 99 and 95 confidence intervals for the difference in Euclidean distance between allocated *ejidos* and municipal headquarters, before and after the year 1960. This year marked the beginning of sustained political opposition against the PRI. The coefficients used in this analysis were obtained from a regression that considered the distance of allocated *ejidos* from their municipal headquarters, municipality fixed effects, quinquennium fixed effects, and the interaction of the standardized opposition vote share with the full set of quinquennium dummies (shown in the graph). The coefficient without confidence intervals represents the quinquennium of 1955, which was omitted from the analysis.

municipalities. Crucially, this result is not driven by the amount of land available for redistribution or the stock of land already distributed at different distances from the municipality heads.

Policy Implications

Overall, these findings point to the multifaceted ways in which private incentives of politicians and bureaucrats can distort state capacity building and their potentially deleterious effects on economic development, democratization, and governance.

These results can inform reforms aimed at tackling nepotism and other forms of corruption within public administrations, for example:

- When designing anti-nepotism legislation, it is crucial to consider how public sector employees may respond to the new laws and find loopholes. This includes paying attention to temporary contracts and appointments that may be used to reward, reallocate, or compensate relatives after the anti-nepotism law is enacted.
- Addressing nepotism both in political discretion and in bureaucratic influence is necessary to make significant strides toward eradicating corruption, especially in LMICs.
- Enforcement of the law may require investing in data collection and automated technologies to detect and audit bureaucratic nepotism and other forms of corruption. These investments could also improve the quality of the public sector workforce.

The findings from Mexico contrast with the conventional theory that stronger political competition leads to better functioning and more equitable governance. In particular, these findings suggest that:

- In areas where clientelism is prevalent, more electoral competition can deter state capacity building and, by doing so, may impede economic development.
- If modifying the cost of providing goods is no longer available as a strategy for incumbents, then the party engaging in clientelism may be forced to change its tactics and start offering public goods or services to maintain electoral support when competition becomes strong enough.

ABOUT THE FEATURED RESEARCHER



Juan Felipe Riaño is a 2022–2023 King Center Postdoctoral Fellow.

His research agenda focuses on understanding the determinants of state capacity in developing countries, and the long-term impact of conflict and historical institutions on economic development.

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Fellow 2022–2023

This brief is based on the following papers and articles:

Fergusson, Leopoldo, Horacio Larreguy, and Juan Felipe Riaño. "Political competition and state capacity: Evidence from a land allocation program in Mexico." *The Economic Journal* 132, no. 648: 2815-2834. 2022

Riaño, Juan Felipe. "Bureaucratic nepotism." Available at SSRN 3995589 (2021)

Riaño, Juan Felipe. "Bureaucratic nepotism: Evidence from Colombia." *VoxDev*. April 24, 2023
<https://voxdev.org/topic/public-economics/bureaucratic-nepotism-evidence-colombia>