

Addressing corruption together

by Robert Klitgaard



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Overview

How can providers and recipients of development assistance work together to tackle corruption as a development challenge? This paper provides data, examples and frameworks that may help the members of the OECD Development Assistance Committee (DAC), donors beyond the DAC and recipients of development assistance to design and manage even better projects and programmes.

This report begins with a real life example of a very corrupt country taking strong and successful steps to reduce corruption. The example provides an existence theorem: at least in one setting (the Philippines), policy changes reduced corruption and enhanced development. Second, the example provides hints about learning and problem solving. Soon after President Aquino assumed power, top policy makers convened to develop an anti-corruption strategy. They evaluated data on the challenges facing the Philippines compared to those in other countries. They worked through a case study of success from another country with a different context, not to copy but to inspire. They also considered theoretical models of corruption, which helped them reframe corruption as a problem of systems rather than just individuals; of incentives rather than just codes of ethics; and of an n-person Prisoners' Dilemma¹ rather than an inevitable feature of Filipino culture. As part of the process, they applied what they had learnt to the particular challenges facing the Philippines, discussing together objectives and alternatives, diagnoses of their issues, sequencing and collaborating. In the end, they developed policies and implementation strategies that they probably would not otherwise have been able to devise. The results so far have been remarkable.

The Philippines is not alone. Around the world, there are numerous examples of cities, ministries and countries that have reduced corruption, some even beginning from situations of systemic abuse. Their strategies are consistent with insights from economics and from theories of change. The examples and theory suggest that providers of development assistance can contribute resources, knowledge, convening power and leverage that may help recipient countries reform.

This report begins and ends with ideas about processes for addressing corruption together. The recommended process – referred to in this paper as convening – invites *development assistance providers* to share international data, case studies and theory, and invites *national leaders* from recipient countries to provide local knowledge and creative problem-solving skills.

Note

1. “The typical prisoner’s dilemma is set up in such a way that both parties choose to protect themselves at the expense of the other participant. As a result of following a purely logical thought process to help oneself, both participants find themselves in a worse state than if they had co-operated with each other in the decision-making process” (Investopedia, n.d.).

Chronic questions on anti-corruption development assistance

A number of questions are raised throughout this paper and also emerged during the presentations and discussions during the “Symposium on Anti-Corruption Development Assistance: Good Practices among Providers of Development Co-operation”, which took place in Paris on 11-12 December 2014. A non-exhaustive list of the most prominent questions is given below along with some possible answers which are discussed in more detail throughout this paper.

1. Can a country really make an important difference in fighting corruption? If so, does it have an impact on development outcomes?

The case of the Philippines under President Benigno Aquino III shows how fighting corruption can succeed in enhancing investment and growth, buoying presidential popularity and improving a country’s international ratings. Other examples of success exist, ranging from cities to ministries to countries – always partial success, sometimes reversible, but nonetheless an antidote to defeatism.

2. Corruption is a controversial and value-laden term. What does it mean, given different levels of development and ways of life? Can people agree on a definition?

Although no definition can be agreed upon, around the world, laws and even religions condemn bribery, extortion and abuse of power. In 2013, respondents to the Gallup World Poll named corruption the world’s number one problem. A broad definition has attained wide acceptance: ‘corruption is the abuse of office for illicit ends.’

3. How can one know if a country (or city or ministry) is doing better in addressing corruption? Many measures exist; most are based on perceptions. Who knows what the reality is?

Surprisingly, at the national level, a host of measures of the control of corruption, rule of law and government efficiency are highly correlated. Moreover, improvements in these measures are correlated with improvements in citizens’ self-defined well-being, as well as with objective indicators of service delivery and development outcomes.

4. Given the wide variety of acts that are called “corrupt”, what can be said about the principles involved? Doesn’t one end up in a country-specific, culture-specific, legal system-specific morass?

Corruption is a crime of calculation. Information and incentives alter patterns of corruption. Processes with strong monopoly power, wide discretion for officials and weak accountability are prone to corruption. Prisoners’ Dilemma models suggest how corrupt equilibria can arise – and be disrupted. Models of large-scale reforms from business and government suggest principles that apply to anti-corruption reforms.

5. Econometric studies of corruption and its consequences have led to agnostic results, or at least disagreements. Social experiments have been small-scale, not country-wide; they may or may not be generalisable to other countries, or even other localities within the same country. How can one know that a certain policy will have good effects, given a particular country's unique setting?

Development research in general is characterised by theory uncertainty, model uncertainty, weak data and small *N* (number of countries), for example. Across the field – from studies of cross-country growth to the effects of foreign aid – the latest research suggests that econometric models cannot overcome these characteristics to yield implications about what reforms will work in a particular context, except for those few problems where local variations in politics, culture and other policies are negligible. So, econometric models of corruption and development cannot be expected to stipulate what will work where, except to say that we should give careful attention to improving information and incentives; reducing monopoly, limiting discretion, and enhancing accountability; and tackling corrupt equilibria.

6. A crucial feature of corruption is that some (perhaps many) officials and leaders in aid-receiving countries are profiting from it. Why would they reform? What can donors do?

Over the past 30 years, many countries across the globe have moved from dictatorship to democracy, from controlled economies to open ones – reducing the power of leaders. Similar forces, from rising trade and investment to growing middle- and professional classes to the information revolution, are driving opposition to corruption. Around the world citizens are showing their outrage over corruption in the way they vote and the way they demonstrate. As a result, fighting corruption has become a political priority. Anti-corruption is good politics.

In the past, providers of development assistance have often been unwilling (or unable) to address high-level corruption, preferring instead to focus on, for example, capacity building and legal reforms. If donors can mobilise their funds and add to that their comparative advantage in data, examples from around the world and relevant theory, they can help local leaders exploit their local knowledge and problem-solving creativity.

If a recipient country is both very corrupt and unwilling to address the issue, a provider of development assistance faces several possibilities. The most difficult one would be to avoid working with the corrupt country. An alternative is to use means that are more resistant to corruption, such as working through trusted non-governmental organisations (NGOs) or “ring-fenced” projects. Alternatively, donors can finesse the issue and provide aid, on grounds of great need despite great leakage of funds. Or finally, development assistance providers can work with forces in the private sector and civil society to subvert corrupt systems. Annex C provides an example of a case study of collaboration that successfully tackled corruption even when top leaders were involved.

7. Donors have complicated goals and constraints. They have to weigh the costs and risks of addressing corruption with any purported development benefits. How should they ponder that?

Providers of development assistance face complicated pressures, as do their employees; some of these pressures militate against taking on high-level corruption. On

the other hand, as donors learn from examples of success and appreciate their comparative advantages in supporting reform, new energy for engagement may arise.

8. If a provider of development assistance wants to work with a willing recipient, what steps might be undertaken to utilise both partners' comparative advantages?

Donors can work with recipients to convene leaders in-country to consider the best data on the country's challenges, work through cases of success from other places and reframe the challenges using theories and models that go beyond the usual suspects of morals, culture and laws. The flexible funding and conditionality possessed by donors can, in this context, be another decided advantage.

1. Introduction: The example of the Philippines

In June 2010, Benigno Aquino III was elected President of the Philippines. His campaign slogan was *Kung walang korap, walang mahirap* – “When no one is corrupt, no one will be poor.” His inaugural address focused on fighting corruption:

During the campaign we said, “If no one is corrupt, no one will be poor.” That is no mere slogan for posters – it is the defining principle that will serve as the foundation of our administration.

Our foremost duty is to lift the nation from poverty through honest and effective governance...

No more influence-peddling, no more patronage politics, no more stealing. No more sirens, no more short cuts, no more bribes.¹

When Aquino took office, the Philippines did not fare well on various measures of corruption and competitiveness.

- Transparency International’s Corruption Perceptions Index 2010 gave the Philippines a score of 2.4 on a 10-point scale, ranking it 133rd out of 178 countries, tied with Azerbaijan, Bangladesh, Honduras, Nigeria, Sierra Leone, Togo, Ukraine and Zimbabwe.²
- In the 2009-10 Global Competitiveness Index compiled by the World Economic Forum, the Philippines, with a score of 3.9, ranked 87th out of 132 countries, trailing countries such as Gambia and Guatemala.³
- In 2010, the International Finance Corporation ranked the Philippines 144th of 183 countries in terms of “ease of doing business”, behind the Syrian Arab Republic, Mozambique and Paraguay (World Bank and IFC, 2009).
- Global Integrity 2010 summarised the Philippines as follows: “The overall score of the Philippines has significantly decreased, primarily driven by a widening implementation gap between its laws on the books and their actual implementation” (Global Integrity, 2011)

Several weeks after Aquino took office, an all-day Cabinet meeting was convened in Malacañang Palace. The participants were the new cabinet secretaries, as well as the heads of the Central Bank, the Customs Bureau and the Bureau of Internal Revenue. Their goal was to develop a practical strategy across the ministries and, indeed, across the public-private divide.

During that meeting, participants studied data about the extent and social costs of various kinds of corruption in the Philippines and elsewhere. In the style of a two-part business school case, they analysed the case of a country that had successfully reduced corruption, working through models of corruption and a framework for policy analysis.

They then analysed the situation of their own country. Although the Philippines was experiencing unique and complex problems of corruption, the data, case study and models became a catalyst for creative problem solving for these participants. By that evening, they had devised an outline of a national strategy, which they refined a few days later before presenting it to the President. A plan of action followed.

As President Aquino's intrepid anti-corruption campaign developed, it included identifying and punishing major offenders, forging new partnerships with business and civil society, using citizen scorecards to gauge the performance of government agencies, implementing radical reforms in bottom-up budgeting and evaluation, enhancing co-ordination across key government agencies, and more. International development assistance providers played key roles in supporting most of these initiatives.

The results have been remarkable:

- In September 2014, the World Economic Forum called the Philippines the “most improved country overall” in terms of global competitiveness over the previous four years. It is ranked 52nd, up from 87th in 2009-10 (World Economic Forum, 2014).
- The country's ranking on the Corruption Perceptions Index improved from 133rd place in 2010 to 94th in 2013 (Transparency International, 2009).
- *Doing Business 2015* ranked the Philippines 95th of 189 countries (World Bank, 2014a). This represented an improvement from the 21st percentile in 2009 to the 50th percentile.
- Citizens' satisfaction with the government and the President's popularity are unprecedented compared with other Filipino presidents at similar times in the election cycle.⁴
- Investment is up, and the Philippines' growth rate rose from 3.6% in 2011 to 7.2% in 2013 (World Bank, 2014b).

The Philippines has a long way to go. Perceptions of corruption are still widespread. In 2014, President Aquino was accused of abuse of power, even in the middle of the very campaign against abuse of power.

But progress in the Philippines has been tangible. Even in a country plagued by systemic corruption, improvement is possible, with significant political and economic benefits.

The process used by the Filipino leaders that day raises useful issues for further consideration. The cabinet ministers and other leaders considered data that helped define the governance challenges in the Philippines. They got more clarity on a series of issues, which will be the core of the discussion in the remainder of this paper:

- What is the corruption they worried about?
- What data did they consider, based on what concepts and what measures?
- The participants also analysed a success story from another country. What examples exist of reducing corruption?
- The participants also worked through various analytical models of corruption. What models?

- How can engaging with data, examples, and models abet creative problem-solving?
- And finally, what does all this mean for how providers and recipients of development assistance might address corruption together?

Section 2 considers what corruption is. Section 3 discusses measures of corruption and good governance. Section 4 describes success stories, also discussed in Annex A. Section 5 looks at the different analytical models of corruption while Section 6 explains how engaging with data, examples and models can, in general, encourage creative problem-solving. Finally, Section 7 discusses what this all means for how donors and recipients of development co-operation might address corruption together. The conclusion (Section 8) explores the idea of convening local actors with the support provided by development assistance to diagnose problems and identify solutions. These issues will be discussed with the aim of bringing together elements that have been found in success stories, big and small, all over the world. This paper hopes to gather the lessons on the elements that made a difference and that can be beneficial to other countries and leaders to bring about positive changes in anti-corruption, just as it was in the case of the Philippines and in the several others mentioned throughout this paper.

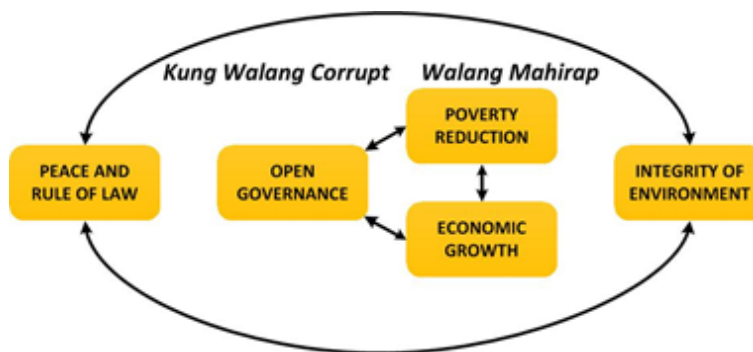
Notes

1. Official translation from www.gov.ph/2010/06/30/inaugural-address-of-president-benigno-s-aquino-iii-english-translation.
2. www.transparency.org/cpi2010/results.
3. www.weforum.org/pdf/GCR09/GCR20092010fullrankings.pdf.
4. See the Net Satisfaction Ratings of Presidents of the Philippines, May 1986 to December 2013, and the Third Quarter 2014 Social Weather Report, both available at: www.sws.org.ph.

2. What is corruption?

The Filipino expression in Figure 1 encompasses “open governance,” “integrity of environment” and “peace and rule of law”, concepts in opposition to corruption, as factors linked to reducing poverty and boosting economic growth. This figure is a segway to a discussion on how the term corruption is understood and the prominence attached to the problem by different groups. Examples are given of some international surveys and how the term is appropriated in speeches by senior political leaders in some countries.

Figure 1. **President Aqiono's plan to fight corruption**



The salience of corruption

The first point to note is how widely corruption is discussed and condemned. In late 2011, a BBC survey of more than 24 000 people in 23 countries identified corruption as “the topic most frequently discussed by the public”, ahead of poverty, unemployment and terrorism. In 2013, WIN/Gallup International surveyed almost 70 000 people in 69 countries. Corruption was deemed the world’s number one problem (both surveys are cited by Holmes, 2015: xii).

Young people in particular perceive corruption as a grave obstacle. In autumn 2014, the World Economic Forum and several collaborating institutions surveyed 1 089 people aged 18-34 in 102 countries. Seventy-two percent of respondents agreed that “corruption is holding my country back” and that “corruption is causing lost opportunities for my generation.” Only 10% agreed with the statement “corruption is a necessary part of functioning in society.” When asked “To what extent do you think the international community should pay more attention to the effects of corruption and to its prevention and control?”, 83% said “a great deal” (World Economic Forum et al., n.d.).

Research focusing on measuring well-being has also touched on corruption. In the *American Economic Review*, Benjamin et al. (2014a; 2014b; 2015) assembled from research in psychology and economics 136 different attributes of well-being. They then asked individuals for their *trade-offs* among various pairs of these attributes. Their

complicated, yet intuitive, methodology promises major progress in research on happiness and well-being, which usually involves questions about people's *levels* of overall satisfaction. For our purposes, one result of this study stands out. Among all the public goods (or policies) rated by respondents, the most important contributor to people's well-being was "freedom from corruption, injustice and abuse of power" (Table 1).

Table 1. **Public goods or policies ranked by weight in overall utility**

Public good or policy	Coefficient
Freedom from corruption, injustice and abuse of power in one's country	0.39
Being a good, moral person and living according to one's personal values	0.35
Having many options and possibilities in life and the freedom to choose among them	0.35
One's overall well-being and that of one's family	0.33
Society helping the poor and others who struggle	0.30
One's own health	0.29
Freedom of speech and people's ability to take part in the political process and community life	0.29
The morality, ethics and goodness of other people in one's country	0.29
The well-being of the people in one's country	0.29
One's own financial security	0.28
The amount of freedom in one's society	0.27

Source: Benjamin, D.J. et al. (2014b), "Beyond happiness and satisfaction: Toward well-being indices based on stated preference", *American Economic Review*, Vol. 104, No. 9, pp. 2 698-2 735, <http://dx.doi.org/10.1257/aer.104.9.2698>.

People show their opposition to corruption in many ways. Around the world, elections feature corruption as one of the top three issues, if not the most important one. For example, on 8 January 2015, Maithripala Sirisena was the surprise victor in Sri Lanka's presidential election. His campaign focused on fighting corruption and the abuse of power. A few days later, the new President formed "an interim cabinet ... to carry out reforms to fight corruption in the 100 days to a parliamentary election" (Sirilal, 2015).

Another widespread global phenomenon is popular protest against democratically elected governments, justified by the argument that the governments are corrupt and abusive. In early 2014, I asked Kasit Piromya, the former Foreign Minister of Thailand, how his Democrat Party could be opposed to democratic elections. He answered:

What has been happening in Thailand during the past ten years is similar [to what has happened in] Turkey, Tunisia, Egypt, the Russian Federation, Ukraine, Bolivarian Republic of Venezuela, etc., namely elected governments have become illiberal, abusive; using the argument of the majority voice to overcome and ignore the concept of checks and balances, rule of law, independent media and judiciary.

People from all walks of life have come out against this majoritarianism and call for drastic reform, for a more participatory and accountable democracy. The next elections should take place after the reform. The reform process needs a transitional government. (Tunisia had a technocratic one until the 2014 elections; Egypt has a military one at the time of writing; Italy has had technocratic governments).

In the end, Thailand did not get a “transitional government” – rather, a military coup in May 2014 that the generals justified in part as a step to fight corruption. Even when there have been free elections, corruption can emerge as a central issue of political legitimacy and stability.

The same relationship between corruption and political legitimacy is true in countries that lack competitive elections. Consider the People’s Republic of China (hereafter “China”) under President Xi Jinping. In 2014, he reportedly told a closed-door meeting of the Politburo that he is disregarding “life, death and reputation” to fight corruption (Zhai, 2014). He has warned that corruption threatens the survival of the Chinese Communist Party.¹ Remarkably, “tackling official corruption has become Xi’s signature issue” (Economy, 2014).

Bhutan is at the other end of the scale in terms of the size of the country. On 17 December 2014, King Jigme Khesar Namgyel Wangchuck focused his National Day Speech on the need to fight corruption:

The main aspiration of the people is that the 11th plan will succeed, and prosperity will grow all around the country. The reali[s]ation of this goal depends more than ever on the government’s commitment to good governance, which should include checks and balances, openness and transparency. The people must take individual responsibility and make a collective effort, instead of depending solely on the government.

The highest probable risk to development that I foresee is corruption. Our national development efforts will be hindered by unchecked corruption. The formulation of plans and program[me]s may be done well, aimed at the well-being of the people. An impressive amount of budget may be disbursed in line with these plans. But as the activities become too numerous, oversight and monitoring may fall short, allowing some people to be corrupt. Although a large amount of resources are spent, projects may not be accomplished as designed and the quality of the projects may suffer seriously. In the end, such activities may become a matter of regret and disillusionment for the people and an immense loss for the government and the country.

Corruption is unambiguous – there is no great or small corruption. And no one can be above the law.

One of the key costs of corruption that the King identified was ignoring corruption:

When the corrupt are not held to account, those who observe due diligence, work hard and professionally are most likely to be discouraged. We mustn’t allow the latter to lose morale by rewarding everyone indiscriminately, irrespective of his or her performance. That is why corruption must be curtailed and, more than ever before, extraordinary service must be recognised and rewarded.

What does corruption mean?

The word “corruption” has a root in the Latin *corrumpere*, to spoil (as a virgin) or destroy. Corruption classically referred to such things as “the turning of the head” of a judge: instead of being blindfolded with a fair scale, the judge turns his/her head and tips the scale toward the one who pays a bribe. John T. Noonan, author of the remarkable tome *Bribes*, says “the core of the concept of a bribe is an inducement improperly influencing the performance of a public function meant to be gratuitously exercised”

(Noonan, 1984: xi). Bribes introduce market-like payments into systems that are meant to allocate goods and positions by merit, votes or lottery (Rose-Ackerman, 1978).

Corruption can go beyond bribery to include nepotism, neglect of duty and favouritism. Corrupt acts can involve third parties outside the organisation (in transactions with clients and citizens, such as extortion and bribery) or be internal to an organisation (theft, embezzlement, some types of fraud). Corruption can occur in government, business, civil society organisations and international agencies. Each of these varieties has the dimension of scale, from episodic to systemic.

Corruption is a term of many meanings, but at the broadest level, corruption is the misuse of office for unofficial ends. Office is a position of duty, or should be; the office-holder is supposed to put the interests of the institution and the people first. In its most pernicious forms, systemic corruption creates the shells of modern institutions, full of official ranks and rules but “institutions” in inverted commas only. V.S. Naipaul, the Trinidad-born Nobel Prize winner, once noted that underdevelopment is characterised by a duplicitous emphasis on honorific titles and simultaneously the abuse of those titles: judges who love to be called “your honour” even as they accept bribes, civil servants who are uncivil and serve themselves.

Types of corruption differ in their economic consequences. The worst forms are systemic corruption in justice, property rights and banking, which undercut the basic institutions of economic advance. In contrast, modest levels of speed money for licit goods and services, or modest levels of campaign contributions, may have little effect on economic growth.

Section 3 will discuss the consequences of corruption in more detail; for now, one more conceptual aside. Different disciplines offer different “reminders” about corruption (see Box 1). Discussions about definitions of corruption can slide into something like academic turf wars.

Box 1. Different perspectives on the meaning of corruption

The economist’s perspective: Corruption is an economic crime of calculation. Bribes resemble market prices in places where markets are theoretically forbidden. Corrupt equilibria can result, with features of the Prisoners’ Dilemma. Monopoly power and discretion without accountability create risks of corruption. Changing incentives and disrupting corrupt equilibria are at the heart of corruption reform.

The political scientist’s perspective: It’s all about politics. Bribes have political functions. Foreign aid itself can be modelled as a bribe, rather than “development assistance.” Power and political will are at the heart of corruption reform.

The management scientist’s perspective: Bribes can have managerial functions, especially in rigid management systems with low pay and weak incentives. Better management is at the heart of corruption reform.

The social science methodologist’s perspective: Corruption, like every interesting concept in social science, is a latent variable, one that cannot be touched or directly measured. Concepts and measures are therefore contestable in a deep sense. Moreover, causation is fraught with conceptual and statistical challenges. Though at every turn some people will clear their throats with these reminders, corruption reform begins with better concepts, better proxy measures and better discourse, including “texts” and theoretically informed case studies of corruption getting worse or getting better.

Box 1. Different perspectives on the meaning of corruption (*cont.*)

The change theorist's perspective: Especially in countries that have suffered conflict or abuse of power, reforms must begin with a few measures that build trust and credibility. This is no time or place for a comprehensive campaign. Messages about change must be emotional, not about efficiency; they must connect with the local culture and discourse, not resemble an alien import. Change must be “owned” by locals: understood, translated and adapted to fit local conditions, even when the principles of change are general.

The anthropologist's perspective: Norms matter, and they vary across cultures. Gifts and bribes can be difficult to distinguish. Even though all cultures understand the distinction and all societies officially condemn bribery, deep cultural tendencies such as trust, individualistic-collectivistic orientations, power distance and the World Values Survey's two composite dimensions of survival/self-expression and traditional/rational are strongly correlated with measures of corruption. It is possible, but not yet proven, that reforms might be tailored to take these cultural dimensions into account, leading to better results.

The victim's perspective, part I: Corruption happens in both developed and developing countries. The international system abets corruption, sometimes causes it. Reforms must happen in both sides.

The victim's perspective, part II: Developing countries can benefit from help to reduce corruption. This can be done through the provision of data to help diagnose the types, extents and locations of corruption; principles that have proved useful in framing the problems and possible solutions, and examples of improvement.

Note

1. China's Premier Li Keqiang explained how corruption can undermine the economy as well as the moral authority of the Communist Party. “When the government controls too much, directly intervenes in microeconomic activities,” he said in February 2014, “it not only influences the ability of the market to play a decisive role in the allocation of resources, it also increases transaction costs and makes it easy for corruption to breed” (Donovan, 2014).

3. Measures of corruption, rule of law and governance

The sociologist Troy Duster described social movements this way: “No movement is as coherent and integrated as it seems from afar, and no movement is as incoherent and fractured as it seems from up close” (Duster, 1973).

His remark also applies to concepts and measures of “corruption”, “rule of law” and “governance”. Up close, the concepts and measures seem incoherent and fractured. Stepping back, though, they may appear coherent and integrated.

Incoherent and fractured up close

Up close, the concepts and measures of corruption look complex, if not chaotic.

Conceptually, Rothstein and Teorell (2012) argue it has proven impossible to reach agreement on definitions of corruption, rule of law, government efficiency, normative and procedural fairness, etc. In his criticism of “governance”, Fukuyama (2013) notes that existing definitions confuse process, capacity, outcomes and autonomy.

Empirically, up close there are signs of chaos. During the past decade, Ciudadanos al Día, a Peruvian non-profit organisation, has sponsored large-scale surveys of citizens to rate the quality of service and the corruption across Peruvian agencies, cities and hospitals. In 2013, 79% of Peruvians believed that “corruption has gained ground in the country”. Across agencies, an average of 70% of respondents believed the staff is not honest. And yet, only 4% of respondents said they were asked to pay bribes. If “corruption” does not refer to bribery, to what does it refer?¹

Analysing questions about governance-related issues (such as how long it takes to start a business or get a license) in relevant surveys,² answers given by firms do not coincide. Firms’ responses in Enterprise Surveys reveal “massive variance across firms”, which may reflect corruption and “favoured firms”. This variation seems to undercut the meaningfulness of the Doing Business country averages and rankings (Hallward-Driemeier and Pritchett, 2011).

Consider the example of Norway: macro measures of its governance are superb, indicating strong political rights and civil liberties, strong rule of law, effective bureaucracy and low corruption. Yet the five-year Norwegian Study of Power and Democracy showed that Norwegians disparage the quality of their government institutions (Haugsvær and Eckmann, 2003; Ringen, 2004). How can macro measures and micro perceptions differ so radically?

Cultural specificity. The challenges of concept and measurement are exacerbated when cultural differences are considered. For example, does the word “corruption” mean the same thing in Mauritania as in Mexico or Myanmar? Do “impartiality” and “fairness” mean the same thing in cultures characterised by differences in Hofstede’s cultural measures such as individualistic-collectivistic or power distance?³ These rhetorical questions seem to lead to only one answer: “No.”

Coherent and integrated from afar

Stepping back, much of the apparent chaos dissipates, but new puzzles arise.

Condemning corruption is virtually universal. No culture or religion endorses corruption.⁴ All governments have laws against bribery, extortion and related practices. Anthropological studies in Bangladesh, Ghana and the Philippines show that peasants understand well the difference between a gift and a bribe – and they loathe the latter.

Across cultures and countries, different measures of concepts such as corruption, rule of law, impartiality and efficiency turn out to be well-behaved in terms of statistical criteria such as coherence and stability. Importantly, most of the measures turn out to be highly correlated.

For example, at the country level the bivariate correlations among three widely used measures – Transparency International’s Corruption Perceptions Index (CPI) and the World Bank’s Rule of Law Index and Government Effectiveness Index – exceed 0.90, which is about as high as correlations between imperfect social science measures can be. The CPI is correlated 0.91 with a composite of three quality-of-government indicators of the PRS Group’s *International Country Risk Guide* (ICRG) (PRS Group, 2012).

High correlations also exist among very different country-level measures. In 2013, the International Finance Corporation’s Ease of Doing Business aggregate measure was correlated 0.83 with the World Economic Forum’s Global Competitiveness Index (GCI). Although these two measures do not directly gauge governance or corruption, they correlate highly with the CPI, the World Bank’s Worldwide Governance Indicators and the three ICRG indicators. For example, the GCI rating turns out to be correlated 0.84 with the CPI and 0.84 with the combination of three ICRG measures.

A number of researchers and groups have recently developed new measures of corruption and the quality of governance. Remarkably, they turn out to correlate highly with the existing measures, as discussed below.

Impartiality. Rothstein and Teorell (2012) have criticised existing measures of governance and corruption as theoretically ungrounded. In response, they and their colleagues developed a new measure of “impartiality” in government. It turns out to correlate over 0.86 with existing measures of good governance such as the CPI and the various World Bank Worldwide Governance Indicators.

Rule of Law Index. The World Justice Project (WJP) decomposes the rule of law into nine concepts: limited government powers; absence of corruption; order and security; fundamental rights; open government; regulatory enforcement; access to civil justice; effective criminal justice; and informal justice (Agrast et al., 2013). These 9 are in turn disaggregated into 48 “sub-factors.” The WJP carried out two surveys in countries around the world, one of the public and another of local legal experts. “All in all, the data contain more than 400 variables drawn from the assessments of over 66 000 people and 2 000 local experts in 66 countries” (Botero and Ponce, 2010: 3).

It turns out that despite their conceptual differences and a great variety of measures, the WJP’s dimensions of the rule of law are highly intercorrelated. An outside “statistical audit” of the WJP’s measures notes that the dimensions “share a single latent factor that captures 81% of the total variance. This latter result could be used as a statistical justification for aggregating further the nine dimensions into a single index by using a weighted arithmetic average” (Saisana and Saltelli, 2012: 2).

Two other new measures go beyond perceptions to more objective indicators.

Public Administration Corruption Index. Escresa and Picci (2014) painstakingly created another new measure of corruption across countries. Their Public Administration Corruption Index (PACI) is based on the geographic distribution of public officials involved in cross-border corruption. The index examines 816 cross-border corruption cases pursued between 1998 and 2012 by courts in Germany and the United States with 122 foreign countries. Various ways to compute the PACI have rank correlations between 0.80 to 0.93. The log of the authors' preferred version of the PACI turns out to be correlated over 0.85 with both the Transparency International Corruption Perceptions Index and the World Bank's Control of Corruption Index.

“Letter grades.” Chong et al. (2014) mailed letters to non-existent business addresses in 159 countries (10 per country, 2 to each of the 5 largest cities). They measured whether the letters came back to the return address in the United States and, if so, how long it took. They argued their results “provide new objective indicators of government efficiency across countries, based on a simple and universal service”.

Their new indicators turn out to be significantly correlated with 25 existing measures of the quality of government. “[I]t is ‘better’ governments – more democratic, more accountable, less corrupt – that perform better on returning letters, even if we hold per capita income constant” (Chong et al., 2014: 385). The authors observe: “Interestingly, when we conduct the principal components analysis that includes our postal variables and several other measures of quality, only the first principal component is significant. It appears that the quality of government is driven by a one factor model” (Chong et al., 2012: 5-6).

Despite the chaos from up close, national measures of corruption, good governance and competitiveness are highly correlated. These measures are capturing something at the national level that has important statistical associations: these measures correlate strongly with development outcomes.

Assessing the links between corruption and development

Some of the older scholarly literature, whose main points can still be heard today, noted that corruption might not be negatively related to development outcomes. “What is the problem about corruption?” asked Leys (1965). Following a line of reasoning reminiscent of Robert Merton or Niccolò Machiavelli, Leys' answer was that corruption is not much of a problem for development. Leys noted that corruption has its functions, sometimes even its benefits. Under awful conditions, bribery may be socially, not just privately, beneficial. A few years later, Huntington noted: “In terms of economic growth the only thing worse than a society with a rigid, over-centrali[s]ed, dishonest bureaucracy is one with a rigid, over-centrali[s]ed, honest bureaucracy” (Huntington, 1968: 386). For years it was impermissible to mention corruption in dialogues between countries. Even researchers shied away, in what Myrdal in the 1960s called “diplomacy in research” (Myrdal, 1968).⁵ Myrdal recounted the excuses used by South Asians and Westerners to avoid taking corruption seriously – excuses that are familiar today, around the world.⁶

However, by the late 1980s, informed by theory, case studies and quantitative research, corruption's many costs had become clear (Klitgaard, 1988: Chapter 2). Later research has elaborated how systemic corruption distorts incentives, undermines institutions, and redistributes wealth and power to the undeserving (see, for example, OECD, 2014; Runde et al., 2014). Corruption undercuts democracy and decentralisation;

it erodes public services and reinforces personalism (Holmberg et al., 2009; Wright, 2010). In a recent review, Evans and Heller concluded that:

1) Competent, coherent public bureaucracies are even more important than we thought they were. Without them, capability-expanding public services will not be effectively designed, to say nothing of delivered. 2) The ability of the state to pursue collective goals, rather than responding to the subjectively defined, immediate, particularistic demands of elites, is even more essential than earlier work on the developmental state suggested. (Evans and Heller, 2014: 8)

Corruption undercuts trust. “Since social trust is an important intrinsic value (personal happiness, optimism about the future) and also has a political value (support for fair institutions, minority rights, tolerance, etc.) and an economic value (its positive relation to individual earnings and aggregate economic growth), it may be that dysfunctional government institutions are the worst social ill of all” (Rothstein, 2011: 162).

New research links fighting corruption and improving government efficiency⁷ to increases in citizens’ expressed well-being.⁸ Helliwell et al. (2014) carried out an econometric analysis of a panel of 157 countries using a variety of estimation techniques:

The new results are able to show not just that people are more satisfied with their lives in countries having better governance quality, but also that actual changes in governance quality since 2005 have led to large changes in the quality of life. This provides much stronger evidence that governance quality can be changed, and that these changes have much larger effects than those flowing simply through a more productive economy. For example, the ten most-improved countries, in terms of delivery quality changes between 2005 and 2012, when compared to the ten countries with most worsened (sic) delivery quality, are estimated to have thereby increased average life evaluations by as much as would be produced by a 40% increase in per capita incomes. When we explain changes in average life evaluations over the 2005 to 2012 period, just as much was explained by changes in governance quality as by changes in GDP, even though some of the well-being benefits of better governance are delivered through increases in economic efficiency and hence GDP per capita. Our new results thus confirm that quality of governance affects lives via many channels beyond those captured by GDP per capita, and also that important improvements can be achieved within policy-relevant time horizons.” (Helliwell et al., 2014: 4)

So, aggregated national measures of corruption and governance have practical and theoretical importance. Nonetheless, from many operational perspectives, the action is in disaggregation: by indicator, region, ministry or agency, and after controlling for other variables.

Disaggregating indices

Creating country profiles

Unpacking the range of available data about corruption, governance and competitiveness can help locate the challenges a given country faces and inform policy debates. The example below is Thailand in 2013. The disaggregation shows how corruption and poor governance are key constraints on Thailand’s development.

Thailand ranked 37th in the Global Competitiveness Index (GCI) for 2013-14 (World Economic Forum, 2013).⁹

Moving beyond that aggregate indicator, Thailand does better on some of the GCI's 111 subscales of competitiveness. For example:

- In terms of the labour market (hiring/firing), Thailand ranks 31st of 144 countries, ahead of Ireland, Israel and New Zealand.
- In strength of investor protection, Thailand ranks 13th, which is higher than France, Japan and Norway.
- In gross national savings, Thailand ranks 24th, which is better than Australia, the Netherlands and the United States.
- In business impact of rules on foreign direct investment, Thailand ranks 21st, ahead of Belgium, Germany and New Zealand.
- Regarding the availability of financial services, Thailand ranks 26th, which is better than Denmark, France and Japan.

On one or another of these dimensions Thailand does better than countries with a much higher GDP per capita (see Table 2).

Table 2. **Comparisons of GDP per capita, select countries, 2012**

Country	GDP per capita (USD)
Australia	67 723
Belgium	43 686
Denmark	56 202
France	41 141
Germany	41 513
Ireland	45 818
Japan	46 736
New Zealand	38 222
Sweden	55 158
United States	49 922
Thailand	5 678

Source: World Economic Forum (2013), *The Global Competitiveness Report 2013-2014*, World Economic Forum, Geneva, which uses 2012 data for GDP per capita, not adjusted for purchasing power parity.

The median income per capita of the ten other countries in Table 2 is over USD 45 000, while Thailand's is only USD 5 678.

Why is there an enormous gap between Thailand's disaggregate and aggregate scores? Hints come from other variables in the *Global Competitiveness Report*. For example:

- Thailand ranks 101st in diversion of public funds. This is a lower ranking than countries such as Gabon, Nepal and Nicaragua.
- In terms of public trust in politicians, Thailand ranks 127th, worse than Mongolia, Nigeria and Pakistan.
- The variable called "favouritism in decisions of public officials" has Thailand in 93rd place, behind Cambodia, Malawi and Timor-Leste.

- In terms of wastefulness of public spending, Thailand ranks 107th, which is after Bangladesh, Libya and Senegal.
- In transparency of government policy making, Thailand is 93rd, worse than Ecuador, Mozambique and Uganda.
- Thailand ranks 109th in reliability of police, which falls below Liberia, Nepal and Zambia.

In one or another of the variables above, Thailand rates worse than Bangladesh, Bolivia, Burkina Faso, Côte d'Ivoire, Malawi, Mozambique, Nepal, Nicaragua, Nigeria, Pakistan, Senegal and Zambia. The median income per capita of these countries is a little over USD 1 000.

Those surveyed for the *Global Competitiveness Report* were asked, “What are the most problematic factors for doing business in this country?” For Thailand, the most important problem is corruption. The next three categories are also related to governance: government instability, policy instability and inefficient government bureaucracy. Various potential economic discouragements to business, such as tax rates and various kinds of regulations, fall at or near the bottom of the list.

At this point, it is worth looking at Thailand's ranking on other measures of corruption and governance. On Transparency International's Corruption Perceptions Index, Thailand ranked 88th out of 176 countries in 2012. This compares unfavourably with Malaysia (54) and Singapore (5). Indeed, Thailand ranks below such countries as Burkina Faso, El Salvador and Malawi.

The Legatum Institute's¹⁰ Prosperity Index benchmarks 142 countries around the world along 89 indicators. In 2012, Thailand ranked 56th out of 142 countries. But on many categories under the heading of governance, Thailand fell below the world average. When asked, “Are business and government corrupt?” 83% of Thais answered “Yes.”

Although these results are disappointing, Thailand has in its favour are macroeconomic reforms (even if incomplete), tourism, agricultural potential, the relatively quick and deep spread of telecommunications, and the potential for Thailand to become an innovation economy.

The conclusion from these disaggregated data indicates that corruption and poor governance are constraining Thailand's economic progress.

Disaggregating in other ways

Data about corruption can be disaggregated in many useful ways. Within a given country, certain types of corruption may be more widespread and harmful than other types. Surveys of citizens' perceptions of corruption and other aspects of government performance are widely used. Table 3 provides some examples.

Table 3. Collecting data about corruption

Type of corruption	Ways to gather Information
Evasion of criminal legislation	– Surveys of the public and of businesses
Manipulation of due process in making legislation and regulations	– Surveys of parliamentarians – Information from parliamentary associations
Tax evasion and customs violations	– Balance of payments analysis – Surveys of businesses – Customs data – Estimates of the shadow economy
Distortion of contract law	– Surveys of lawyers and of businesses
Theft and diversion of public funds	– Surveys of public officials – Procurement analysis – Comparison of prices
Bribery in the delivery of services	– Surveys of users of public services – Expenditure tracking exercises

“Participatory diagnosis”, the idea of bringing together different actors with a stake in a problem to work out its features and try to identify entry points for action, has also proven valuable. Properly encouraged and enabled, the very people who work in systematically corrupt institutions will help to analyse where and how corruption occurs. This may be surprising, but it is often true, as long as the focus is on corrupt systems and not on particular individuals. People can turn out to be remarkably forthcoming about how various kinds of corruption work, and how they might be prevented – even when their analyses belie a suspiciously intimate knowledge. A valuable two-volume handbook for participatory diagnosis has been prepared by the Partners Foundation for Local Development, in nine languages; it has been used by more than a score of cities in 11 countries (Fisher, 2006; PFLD personal communication).

Table 4 summarises the results of such participatory diagnosis of various kinds of corruption in La Paz, Bolivia. Workshops of officials and politicians helped generate frank analyses of sensitive policy issues, and led to a number of suggestions for remedial measures that no outsider could have concocted.

People can be asked about corruption in other ways. Initiatives such as www.ipaidabribe.com give citizens a place to report corrupt activities to each other. Other devices include hotlines for reporting corruption, using citizens’ groups and NGOs to diagnose and monitor agency performance, and using village and barrio organisations to monitor public works, involving accounting and lawyers groups (for a meta-analysis of “social accountability” mechanisms, see Fox, 2014).

Table 4. Result of diagnostic meetings with officials of the municipal government of La Paz, Bolivia

Type of corruption	Value, USD	Who is helped	Who is hurt	Causes	Cures
Tax evasion (all kinds)	20-30 million	Evaders	Recipients of city services; non-evaders; future citizens	Hard to pay; taxes too high; low penalties; no reviews of cases	Make taxes easier to pay; lower rates; raise penalties and enforce them; review cases
Tax arrangements (all kinds)	5-10 million	Corrupt taxpayers and officials	Recipients of city services; non-evaders; future citizens	Lack of computerisation; low effective penalties; no reviews; pay through municipality; low pay	Computerise; raise penalties; review cases; pay through banks; raise pay; raise incentives to collect
Extortion	0.5-1 million	Corrupt officials	Direct victims	Difficult rules, rates and procedures; hard-to-report extortion; low penalties; no reviews; low pay	Simplify rules, rates and procedures; hotline for public reports; raise penalties; review cases; pay through banks; raise pay
Speed money	0.5-1 million	Some taxpayers; corrupt city officials; substitutes for higher pay	Most taxpayers via slowdowns; reputation of city government	Difficult procedures; lack of computerisation; pay through municipality; low penalties; no surveillance; low pay	Simplify procedures; computerise; pay through banks; raise penalties; surveillance and "whistle-blowing"; raise pay
Theft (city property, parts, "boot" fees by police)	0.5-1 million	Thieves; those who do not pay vehicle taxes	Recipients of city services; trust in police	Lack of inventories; poor decentralisation; low penalties; no reviews or surveillance	Computerise inventories; decentralise responsibility; spot checks and surveillance
Procurement	0.5-3 million	Corrupt officials and winning suppliers	Recipients of city services	Lack of information on prices; no reviews; low penalties; low pay	Verify prices; review cases; raise effective penalties; raise pay of decision-making officials
"Fantasmas," late reporting to work	0.1-0.2 million	Malingers	Morale and reputation of city government	No surveillance; low penalties	Surveillance; raise penalties and enforce them

Source: Klitgaard, R. et al. (2000), *Corrupt Cities: A Practical Guide to Cure and Prevention*, ICS Press and World Bank Institute, available at: www.wds.worldbank.org/servlet/WDSContentServer/IW3P/IB/2000/10/07/000094946_00092605362082/Rendered/PDF/multi_page.pdf, based on work in 1985.

It is of course difficult for citizens, civil servants and scholars to estimate the social costs of various kinds and degrees of corruption. A widespread error committed is to equate the social costs of corruption with the size of bribes. The costs can be much greater. Corruption can create social bads that prove much more damaging than the amount of the bribe. Wade (1982) documents a classic example: corruption in a south Indian irrigation system led to the erosion of topsoil that had taken thousands of years to accrue.

Final points about concepts and measures of corruption

The difficulties of defining and measuring corruption are symptomatic of chronic challenges in the social sciences. Measuring latent variables is a prototypical problem (Gerring, 2012: 157).¹¹ That said, it turns out that at the national level, many imperfect and contestable measures are highly correlated. This result contradicts the idea that concepts of corruption and governance are hopelessly inexact and therefore beyond measurement.

Many interesting applications of measures of corruption and governance involve disaggregation. For example, we can appreciate a country's governance challenges by comparing how it stands on various dimensions related to governance as well as other aspects of competitiveness. Looking below the national level enables comparisons across cities, ministries and projects. Patterns may be discovered, and exceptions to patterns may identify high (and low) performers providing useful lessons: Which ones seem to perform best? What lessons might they contain? Which have shown improvements in performance over time and why?

As with any social indicator, one may disaggregate and analyze data about corruption in different ways:

- What scope (national, provincial, local; functional; sectoral, etc.)?
- What statistic (central tendency, spread, below or above some threshold)?
- After controlling for what other variables (e.g., trying to gauge “value added” given factors beyond control)?

Some confusion has arisen when critics mix these issues. Sometimes critics seem to forget that reporting a national mean for a certain variable (say, GDP per capita) does not mean it is not important to look also at measures of income inequality, at local and regional variations in average income, and at GDP given a variety of control variables (e.g., natural resources, rainfall, levels of education, etc.). For different practical purposes, all these measures may be useful. The same goes for measures of governance. For example, in assessing progress in fighting corruption in the Philippines' Bureau of Internal Revenue, leaders looked at regional and district data on tax revenues, controlling for population, income per capita, and types of local industries (Klitgaard 1988).

This brings us to a final observation. As in the case of the cabinet ministers in the Philippines, looking at data can be a valuable part of a process of engagement and problem-solving. Data can help policy makers discern how corruption and poor governance may be holding a country back. This recognition may lead decision makers to another question: “What can really be done about corruption?”

Notes

1. Boza (2013), a founder of Ciudadanos al Día, hypothesises that what Peruvians mean by corruption is not limited to bribery. When government employees use their monopoly power and discretion to avoid providing proper public services, she says, this is perceived as an “abuse of power” and “dishonesty”, and then equated to corruption. “When a public entity offers a service monopolistically and is the only entity that can make the changes to offer the service in better conditions, not to do so is to use inadequately the power that this institution has received to offer the service. And this improper use of power is perceived by citizens as evidence of dishonesty. It is dishonest for a public servant to have accepted a job that he does not know how to fulfill or does not want to fulfill. And this dishonesty on the part of the public servant,

in the mind of the citizen who is not thinking of a legal or penal concept, is an act of corruption” (author’s translation).

2. World Bank Enterprise Survey (www.enterprisesurveys.org) and World Bank Doing Business Survey (www.doingbusiness.org/rankings).
3. <http://geert-hofstede.com>.
4. For example, the Malaysian sociologist Syed Hussein Alatas (1968) argued strenuously against the Western idea that non-Westerners accept corruption for cultural reasons. His book provided copious evidence of concern about the abuse of public office in Muslim and Chinese cultural traditions.
5. “The taboo on research on corruption is, indeed, one of the most flagrant examples of this general bias ...[which] is basically to be explained in terms of a certain condescension on the part of Westerners” (Myrdal, 1968: 938).
6. Corruption “is rationalised, when challenged, by certain sweeping assertions: that there is corruption in all countries (this notion, eagerly advanced by students indigenous to the region, neglects the relative prevalence of corruption in South Asia and its specific effects in that social setting); that corruption is natural in South Asian countries because of deeply ingrained institutions and attitudes carried over from colonial and pre-colonial times (this primarily Western contention should, of course, provide an approach to research and a set of hypotheses, not an excuse for ignoring the problem); that corruption is needed to oil the intricate machinery of business and politics in South Asian countries and is, perhaps, not a liability given the conditions prevailing there (again, this mainly Western hypothesis about the functioning of the economic and social system should underline, rather than obviate, the need for research): that there is not as much corruption as implied by the public outcry in the South Asian countries (this claim needs to be substantiated, and if it is true, the causes and effects of the outcry should be investigated). These excuses, irrelevant and transparently thin as they are, are more often expressed in conversation than in print.” (Myrdal, in Heidenheimer and Johnston, 2001: 266-267).
7. The measure used was the country’s average on four measures from the World Bank’s Worldwide Governance Indicators: government effectiveness, regulatory quality, rule of law, control of corruption.
8. The data come from the annual Gallup World Polls and represent the country’s mean response to this question: “Please imagine a ladder, with steps numbered from 0 at the bottom to 10 at the top. The top of the ladder represents the best possible life for you and the bottom of the ladder represents the worst possible life for you. On which step of the ladder would you say you personally feel you stand at this time?”
9. As noted above, a country’s overall ranking on the Global Competitiveness Index is highly correlated with its scores on the Corruption Perceptions Index, the World Bank’s governance measures, the overall ranking on the International Finance Corporation’s Doing Business, and other measures of corruption and governance.
10. www.prosperity.com/#/!/?aspxerrorpath=%2Fdefault.aspx.
11. Gerring specifically discusses measures of corruption on pp. 184-191. Dreher et al. (2007) develop a latent variable for corruption through 1997.

4. Examples of success in the fight against corruption

Fortunately, around the world we can find inspiring examples of cities and towns, ministries and agencies, and countries making progress in the fight against corruption. “Success” means significant reductions in corruption and red tape, followed by increases in investment and improvement in public services. Success is always incomplete, and the risk of corruption re-emerging is always a threat.

The success stories range from classic cases such as Singapore and Hong Kong, China (Klitgaard, 1988) to more recent examples of progress such as Colombia, Georgia, Indonesia, Malaysia, the Philippines, Qatar and Rwanda. A number of cities have also made impressive progress against corruption. Case studies exist for Bogotá and Medellín, Colombia; Campo Elias, Venezuela; Naga City, the Philippines; and La Paz, Bolivia (Devlin and Chaskel, 2010a, 2010b; González de Asís, 2000; Puatu, 2012; Klitgaard et al., 2000).¹ Craiova, Romania and Martin, Slovak Republic, won the United Nations Public Service Awards in 2011 for their reforms against corruption.² (Annex A gives other examples cited by experts interviewed for this paper.) None of these successes is perfect; progress means improvement, not eradication. For example, Qatar and Rwanda have been praised for reducing corruption but criticised for favouritism and a lack of transparency (Mungiu-Pippidi et al., 2014).³ In some cases (La Paz), subsequent administrations reversed many of the anti-corruption policies, which led to the re-emergence of corruption (Klitgaard et al., 2000). Like inflation, success by one government or central bank in halting it does not guarantee that another administration’s policies will not rekindle it.

The following examples give brief sketches of the experience of three countries with high levels of perceived corruption that were able to make significant progress.

Colombia

In 1997, Colombia was third to last on Transparency International’s Corruption Perceptions Index, 50th of 52 countries, with a score of 2.23 on a 10-point scale. In 1998, the new administration of Andrés Pastrana made “good government” the first priority in the four-point Plan Colombia. The leadership of the new Presidential Program in the Fight against Corruption (PPLC) was physically based in the President’s building; it emphasised co-ordination and implementation.

Immediately, the new administration created an elite anti-corruption group – including the prosecutor, the Director of the PPLC and the Minister of the Interior – that pursued senior transgressors, including governors, mayors and parliamentarians, including some Pastrana allies. An inter-institutional group for investigation focused on big cases, which heretofore had often disappeared between the cracks.

A variety of e-government and transparency measures enabled people to see and understand procedures and, for example, the criteria and results of procurement. Training to improve the service culture in the public sector was provided to 4 200 employees and

360 designated facilitators in various agencies. A strong presidential commitment to monitoring and evaluation was praised internationally.

A programme called *Columbiémos* linked and empowered local watchdog organisations called *veedurías*, focusing at first on health. A National Alliance against Corruption involved civil society and the business community. A series of “integrity pacts” were implemented with the private sector. Business groups helped create a map of risks in areas such as procurement, leading eventually to the collapse of a system of corruption in road building.

Donors played a pivotal role with generous support.

By 2005, Colombia had moved from the 6th percentile in 1997 to the 66th percentile (55th of 158 countries, 4.0 on a 10-point scale) (Transparency International and Lambsdorff, 1997; Transparency International, 2005). The World Bank’s Control of Corruption measure moved from -0.43 in 1998 to -0.10 in 2004. Investment rose rapidly, and growth resumed (Spreng and Klitgaard, 2002).

Georgia

In 2003, Mickheil Saakashvili’s presidential campaign slogan was “Georgia without Corruption.” He won by a huge majority, and in January 2004 he assumed power. In a remarkable turnaround, Georgia immediately took on organised corruption, including in the police. David Bakradze, speaker of the parliament, said that the government had “to destroy the symbols of corruption,” foremost among them the thieves-in-law – criminals with close ties to government and immense political power. According to President Saakashvili, “These criminals owed their existence to the state; once the nexus with the state was broken, they became helpless.” The government arrested many of the main thieves-in-law early on, as well as corrupt business leaders (Alam et al., 2012).

The Saakashvili administration reformed anti-corruption laws and enacted constitutional amendments to rebalance the powers between the different branches of government.

Public sector incentives were improved and enabled performance bonuses to key staff across government agencies. State revenues increased at a much faster pace than originally expected, meaning the government was no longer obliged to rely on external funding to offer competitive salaries and bonuses. The reforms also allowed various public services to charge fees to finance their operations, which enabled them to pay good salaries and reward good work.

Collaboration across agencies increased, provoked by able leaders working as a team, by a sense of urgency and by a climate of open, energetic discussion. Anti-corruption committees included representatives from the private sector and civil society. In a second stage of reforms, special co-ordinating bodies were created for key sectors of transport, taxes, energy and public-private partnerships. “Sustained domestic mobilisation for anti-corruption policies that added pressure on political elites ‘from below’” facilitated the fight against corruption (Börzel and van Hüllen, 2014: 613).

The results were rapid. In terms of ease of doing business, Georgia was ranked 100th in 2006; it rose to 11th by 2010, the largest increase in the world (World Bank and IFC, 2009; 2006).

In 2003, Georgia was tied for 124th of 133 countries on the CPI – the 6th percentile. By 2008, Georgia had risen to the 68th percentile (Transparency International, 2003; 2008).

In 2010, Transparency International's Global Corruption Barometer ranked Georgia first in the world in terms of relative reduction in the level of corruption and second in the world in terms of the public's perception of the government's effectiveness in fighting corruption.⁴

Within four years, foreign investment quadrupled, as did GDP per capita (Alam et al., 2012).

Challenges persist in Georgia. Corruption in the courts has remained a problem, and accusations of high-level favouritism have been advanced. After leaving office, President Saakashvili was accused of abusing his power, including in the fight against corruption (Mitchell, 2014).

Indonesia

The movement to stem KKN (an acronym in Bahasa Indonesia for the words corruption, collusion and nepotism) was at the heart of popular upheavals in the late 1990s. However, the two administrations after the downfall of President Suharto had made little progress, and in 2002, Indonesia was ranked 96th of 102 countries on the Corruption Perceptions Index.

In late 2003, Indonesia's Corruption Eradication Commission (KPK) was activated, and in 2004 its powers were consolidated by the country's new President, Susilo Bambang Yudhuyono (Bolongaita, 2010; Kuris, 2012; Andrews, 2013). This was one among many anti-corruption initiatives including decentralisation and greater participation of civil society in monitoring. The Yudhuyono administration emphasised strengthening the management of line agencies from prosecution to finance.

Indonesia improved from the 6th percentile in the Corruption Perceptions Index in 2002 to the 38th percentile in 2009 (111th of 180 countries) (Transparency International, 2002; 2009). The World Bank's Control of Corruption measure improved from -1.13 in 2002 to -0.68 in 2008. During this time, investment in Indonesia rose and growth accelerated.

Other examples of progress

Tables 5 and 6 provide examples of countries that improved their ratings on two measures (the Ease of Doing Business Index and the Global Competitiveness Index). As shown above, these are not indicators of corruption per se, but they are correlated over 0.8 with such measures.

Table 5. **Doing Business: Improvements in distance from frontier, 2006-14**

Country	Score in 2006 $\mu = 53.59$	Score in 2014 $\mu = 61.04$	Improvement $\mu = 7.45, \sigma = 5.71$
Rwanda	37.36	70.46	33.1
Georgia	48.44	80.76	32.32
Belarus	41.14	67.12	25.98
Ukraine	38.17	61.3	23.13
Burkina Faso	30.57	49.98	19.41
Kyrgyzstan	44.91	63.7	18.79
Tajikistan	30.84	48.43	17.59
Burundi	33.19	50.62	17.43
Egypt	37.99	55.13	17.14
Mali	34.26	51.17	16.91
Sierra Leone	37.28	54.1	16.82
Former Yugoslav Republic of Macedonia	54.29	74.22	19.93
China (People's Republic of)	44.98	60.89	15.91
Poland	57.56	73.37	15.81
Azerbaijan	49.02	64.65	15.63
Colombia	55.11	70.32	15.21
Ghana	51.99	66.98	14.99
Guinea-Bissau	32.93	47.16	14.23
Croatia	49.12	63.15	14.03

Note: Countries are listed by order of improvement.

Source: Author's calculations, based on data provided by the International Finance Corporation.

Table 6. **Improvements in the Global Competitiveness Index, 2008-14**

Country	2007 rank	2014 rank	2007 score	2014 score	Improvement
Azerbaijan	69	38	4.10	4.53	0.43
Qatar	26	13	4.83	5.24	0.41
Georgia	90	69	3.86	4.22	0.36
Kyrgyzstan	122	108	3.40	3.73	0.33
Indonesia	55	34	4.25	4.57	0.32
Mauritius	57	39	4.25	4.52	0.27
Costa Rica	59	51	4.23	4.42	0.19

Notes: Across all countries in 2014, the median score was 4.35. The 25th percentile is 3.6 and the 75th percentile is 5.2. The highest score was 5.7, the lowest 2.8 (World Economic Forum, 2014; 2008). Countries are listed by order of improvement.

Notes

1. See also González de Asís (2006).
2. <http://blog.transparency.org/2011/05/18/how-martin-became-transparent-won-a-un-public-service-award>, www.fpd.ro/projects.php?do=un_public_service_award and http://unpan3.un.org/unpsa/Public_NominationProfile.aspx?id=867.
3. There is skepticism of Qatar's anti-corruption achievements given the non-democratic nature of the state: "there is no real separation between the state and the private interests of the ruling family. There are no lobbies, no government watchdogs, no independent civil society, and freedom of the press is restricted when it comes to addressing internal affairs. Instead, citizens air their grievances through a traditional 'majlis' with tribal leaders, where people can submit petitions. However, conflicts of interest and the wealth of individuals are not scrutinised. There is also no transparency in public procurement. There is an official procurement process in place as well as regulations regarding conflicts of interest; but direct contracting is allowed in case of 'urgency' and seems frequent. However, several top-down reforms have cut red tape and increased predictability" (Mungiu-Pippidi et al., 2014: 9).
4. See: www.transparency.org/gcb201011/results.

5. Analytical models and principles of corruption

At its 2010 meeting, the cabinet ministers in the Philippines considered data on corruption and an example of success from another country. They also analysed abstract models of corruption and principles of large-scale change. Some of these models and principles are presented below.¹

Corruption is an economic crime, not a crime of passion. Givers and takers of bribes respond to incentives and punishments in ways familiar from principal-agent models within organisations.

Metaphorically, corruption follows a formula: corruption equals monopoly plus discretion minus accountability: $C = M + D - A$. To reduce corruption, reduce monopoly, limit official discretion and enhance accountability.

When corruption has become systemic, the corrupt equilibrium resembles an n-person (or multi-person) Prisoners' Dilemma. Every individual may wish for a different equilibrium and yet each individual's rational action is to participate in the corrupt equilibrium that prevails.²

From studies of large-scale change in governments and business, as well as in experience in fighting corruption, other lessons can also be discerned: identify and mobilise allies; disrupt equilibria, for example by punishing some senior offenders; build momentum by doing a few things that can show results in six months; do not try to do everything at once; diagnose and subvert corrupt systems.

It is important not to think of corruption primarily as a legal or moral issue. In very corrupt countries, new laws, codes of conduct and better training for public officials will, alas, make little difference.

Successful anti-corruption efforts display commonalities in the ways they understand the problems, identify key strategies and disrupt corrupt equilibria. Common themes emerge from the examples of success discussed earlier:

1. Reformers think in terms of corrupt systems in order to understand the situation they are trying to alter.
2. Reformers change the institutional culture.
3. Reformers mobilise and co-ordinate a variety of resources inside and outside the government.

Understand and alter corrupt systems

In the longer term, reducing corruption requires better systems. Successful leaders understand that better systems go beyond better laws and codes of conduct.

As noted above, corruption flourishes when someone has monopoly power over a good or service, has the discretion to decide how much you get or whether you get any at all, and where accountability is weak. And corruption is a crime of calculation, heavily

influenced by the implementation of effective positive and negative incentives. So, corruption-fighters must reduce monopoly, limit and clarify discretion, and increase transparency in many ways. They must also alter incentives.

i. Reduce monopoly

Reducing monopoly means enabling competition, as in government contracts in La Paz and in Colombia. Mayor MacLean-Abaroa got the city of La Paz out of the construction business, meaning that public works could be carried out by any of a number of private companies. Mexico put all government contracts and procurement plans online, so plans, prices and winners are public knowledge. Argentina reduced corruption in hospitals by publishing the prices of all purchases throughout the hospital system. Corrupt deals that had resulted in higher prices were quickly made evident.

ii. Limit discretion

Limiting discretion means clarifying the rules of the game and making them available to the common citizen. La Paz's Mayor MacLean-Abaroa created a *Manual del Paceño*, which described simply and in the three national languages what was required to get a permit, build a house, start a business, and so forth. Colombia's President Andrés Pastrana used the Internet to limit discretion: it became harder for a government official to trick a citizen because the rules of the game were available online. Judge Plana in the Philippines' Bureau of Internal Revenue simplified the tax code, making it simpler to understand and reducing thereby the effective discretion of tax officials. Under President Aquino, the Philippines changed budgeting procedures to limit the discretion of local politicians and give more power to citizens.

iii. Enhance accountability

Enhancing accountability can mean many things; creative leaders use a remarkable variety of methods. One way to improve accountability is to improve the measurement of performance. Leaders can work with their employees and clients to create new systems for measuring the performance of agencies and offices – and then link rewards to results.

Another method is listening and learning from businesses and citizens. This includes mechanisms for public complaints, but it goes beyond the reporting of individual instances of abuse to the diagnosis of corrupt systems. President Pastrana's *Colombiemos* campaign linked up the *veedurías* (local watchdog organisations) around Colombia, enabling these NGOs to provide even better oversight of public programmes and leaders.

Efforts in e-government are proliferating around the world, with the promise of reducing corruption. President Pastrana's team used the Internet to publicise all contracts and budgets – and also to enable citizens to denounce cases of inefficiency and possible corruption. Similar efforts in Korea and Mexico, among many others, have led to documented reductions in corruption.

Accountability is also increased by inviting outside agencies to audit, monitor and evaluate. The Filipino government is partnering with NGOs such as the Institute for Solidarity in Asia, the Transparency and Accountability Network, and Government Watch to provide greater transparency and accountability. Less formally, the press is an important source of accountability. Following the tsunami in Aceh, Indonesia, a team of local journalists produced a daily one-hour radio programme dedicated to the

rehabilitation and reconstruction effort. These journalists acted as watchdogs, often drawing attention to cases of corruption.

iv. Reform incentives

Successful reformers work hard to change the risk-reward calculations of those who give bribes and those who receive them. Raising pay is helpful, especially for ministers and other government leaders. Georgia radically cut the number of traffic police and regular police and radically increased the salaries of the smaller forces. Ministers and other high officials were incentivised with higher salaries, abetted by contributions from donors and the private sector.

Positive incentives alone are not enough and need to be linked to real negative incentives, which means the enforcement function is crucial. Successful reformers have prosecuted “big fish”, sending a signal that impunity is on the wane. Fukuyama argues that enforcement is even more important than accountability (personal communication); a meta-analysis by Fox (2014) shows how the enforcement and accountability should intersect for maximum impact.

v. Ethics reforms

Successful leaders are those that set a good example. They sometimes create ethics programmes for employees and citizens. Nonetheless, moral reforms do not seem to be a key to success. Rather, the keys revolve around systems that provide better incentives for imperfect human beings to perform in the public interest – and to avoid corruption.

Change the institutional culture

When corruption is widespread, the institutional culture grows sick. The norm is corruption; expectations are that corruption will continue. Cynicism and despair become widespread. Change seems impossible. Even so, there are cases where leaders have made substantial progress in changing a sick institutional culture. The leaders begin by sending a strong signal of change. Words are not enough: in corrupt societies, people have heard plenty of rhetoric about corruption and no longer believe it. Actions could include: punishing major offenders, getting some fast results and bringing in “new blood”.

i. Punish major offenders

As noted, to break through a culture of corruption, high-level corrupt actors must be named and punished. This includes those giving as well as those receiving bribes. It is also important that a campaign against corruption is not perceived as a campaign against the opposition. Therefore, some of the first senior officials investigated should come from the political party in power.

In Hong Kong, China, for example, credibility for the Independent Commission against Corruption (ICAC) came when an ex-police commissioner was extradited from retirement in England and punished in Hong Kong, China. The ICAC also prosecuted scores of other high-ranking police officials. To a sceptical public and a hardened civil service, these were credible signals of change.

Just after he assumed power, Colombian President Pastrana’s anti-corruption task force flew to several regions and held hearings about supposedly corrupt mayors and governors. The team had the power to suspend people from these offices – something that

leaders in other countries may not have – and they used this power to send a signal to the local leaders and to the whole country. The President’s anti-corruption team also went after corruption in the Congress, including those from the President’s own party.

Under President Susilo Bambang Yudhoyono, Indonesia’s Corruption Eradication Commission won global praise for its performance. It successfully prosecuted scores of public servants, some of them extremely senior, as well as business people giving bribes. Georgia prosecuted serious offenders, including senior government officials as well as top business leaders. The Philippines under President Aquino has convicted a former president and a former chief justice.

Even though punishing major offenders is an indispensable step in breaking the culture of impunity, the emphasis on past offenders can be overdone. In the long run, prevention deserves priority.

ii. Pick visible, low-hanging fruit

Successful reformers show progress in some highly visible areas within 6 to 12 months. These leaders do not tackle the most important problem first, if that problem is very difficult. To build momentum, it is good to begin an anti-corruption campaign where it is perceived to be evident and most annoying by citizens, or where the political leadership has given a field particular salience, or where it is perceived that corruption is undercutting economic reform. Picking “low-hanging fruit” (something easy to get) allows for short-term successes, which can shift public expectations that things will really change, therefore building support for deeper, long-term reforms.

This principle is consistent with lessons learnt from reforms in very difficult environments, such as conflict states and low-income countries under stress. The World Bank’s *World Development Report* in 2011 recommended focusing on a few priorities and ensuring some quick successes in order to build credibility and change expectations (Box 2).

iii. Bring in “new blood”

Even when they work with people within existing institutions, effective reformers invite people from the outside. This “new blood” might be young people working on oversight (as Mayor Ronald MacLean-Abaroa did with interns in La Paz, Bolivia); business people to take important public positions (for example, the Anti-Corruption Czar under President Pastrana and several leaders of President Fox’s reform efforts in Mexico); or young accountants to partner with senior staff in in-depth investigations (as in the case of Efren Plana, who famously cleaned up the Philippines’ Bureau of Internal Revenue more than two decades ago). Georgia brought in high-powered ministers from outside the usual political class, including some from the diaspora.

Box 2. Core tools for restoring confidence

The World Bank's 2011 *World Development Report: Conflict, Security, and Development* highlights tools to win back citizens' trust:

Signals: Future policy and priorities

- Citizen security goals
- Key principles and realistic timelines for addressing political reform, decentralisation, corruption, basic justice services and transitional justice
- Utilise state, community, NGO and international capacities

Signals: Immediate actions

- Participatory processes
- Local security, justice and development results
- Credible government appointments
- Transparency of expenditures
- Redeployment of security forces
- Removal of discriminatory policies

Commitment mechanisms

- Independence of key executing agencies (Aceh reconstruction agency)
- Independent third-party monitoring (Commission against Impunity in Guatemala)
- Dual-key systems
- International execution of functions

Supporting actions

- Risk and priority assessments
- Communicating of costs of inaction
- Simple plans and progress measures on two to three early results
- Strategic communication (strategic communication on the need for change and for a positive vision for the future is crucial – no one can be persuaded to support new initiatives if they do not know they exist)

Source: World Bank (2011), *World Development Report: Conflict, Security, and Development*, World Bank, Washington, DC, p.251, available at: http://siteresources.worldbank.org/INTWDRS/Resources/WDR2011_Full_Text.pdf.

Mobilise and co-ordinate resources

i. Co-ordinate government institutions

A successful fight against systemic corruption must involve more than one agency of government. Long-term success requires the contributions of the supreme audit authority, the police, the prosecutors, the courts, the finance functions of government and others.

The fight against corruption also requires a strong leader – someone strategic and brave and politically astute. The most important leadership trait is the ability to mobilise other actors and to co-ordinate their efforts productively. The task is not command and control, but mobilisation and co-ordination.

For example, in Colombia the Anti-Corruption Czars of Presidents Pastrana and Alvaro Uribe have created mechanisms for co-ordination across major ministries and agencies of government (auditing, investigation, prosecution, etc.). Hong Kong, China's Independent Commission against Corruption works in three areas – prosecution, prevention and public relations. In each area, the ICAC works closely with and through other government agencies. Georgia put in place a variety of mechanisms to co-ordinate government agencies and work across the public-private divide.

ii. Involve public servants

Surprisingly perhaps, it turns out that even public servants involved in corrupt systems are willing and able to analyse where those systems are vulnerable to corruption – as long as the focus is on corrupt systems and not on condemning isolated individuals. (Table 4 showed the results of one such exercise in La Paz, Bolivia.)

As mentioned previously, successful reforms also need to provide something positive for public sector employees; for example, new systems of performance measurement linked to better pay, promotion policies and recognition such as study trips and courses.

iii. Mobilise citizens and the business community

The government must invite those outside of government to become part of the solution. After all, corruption is not confined to the public sector. Business people and lawyers pay the bribes while condemning the phenomenon of bribery as in many cases this is the only system through which they can operate.

In such situations, only collective action and credible, systematic reform can break out of this corrupt equilibrium. Citizens and businesses should be part of the solution.

Allies in business and civil society can be mobilised by emphasising longer term collective self-interest, to find a way out of the corruption equilibrium (for examples, see Pieth, 2012; Klitgaard, 2012; Dixit, 2014). For example, Mayor MacLean invited citizens' groups to become involved in local public works, which enabled new kinds of accountability. So did Mayor Jesse Robredo in Naga City, Philippines, and Mayor Elba Soto in Campo Elias, Venezuela. Mayor Soto created an Office for Development and Citizen Participation, using citizens as eyes and ears to ensure successful implementation of public works. The international NGO Integrity Action has produced a guide to enhancing community engagement against corruption, available in six languages (Integrity Action, 2014).

Citizens know where corruption is and how corrupt systems work. Lawyers understand the workings of corruption in legal systems. Accountants know the illicit games played with audits. Business people understand how corrupt systems of procurement and contracting work. Citizens know where bribery shapes the services they receive (or do not receive).

This knowledge can be culled in many ways. In surveys, people can be asked *where* they perceive corruption to be occurring. In confidential interviews, insiders can be asked *how* a corrupt system works. For example, a study of a procurement system may lay out

the various steps: prequalification of bidders, technical criteria and their weights, the judging of the various bids, the process for post-award changes and the payment of the contract. Each of these steps may be subject to corruption. Interviewees are asked, in effect, “Here is how things are supposed to work in prequalification. In your experience, what problems tend to emerge? How prevalent do you guess these problems are? What distortions are created?”

The results of many such interviews can then be the basis for a diagnostic of a procurement system. The diagnostic can be shared with the interviewees for comments and corrections. The final version can be shared with many parties, including the government, and be used to plan remedial actions. A year later, the interviews and surveys can be repeated to assess progress and identify new remedial actions if necessary. Annex C shows how this process undermined a deeply corrupted system even though many of the country’s leaders were complicit.

The Bangalore Agenda Task Force (BATF) in India demonstrates the potential of involving business and civil society. This public-private-non-profit partnership assists government agencies in their reforms and monitors progress. The BATF combined credible information supplied by NGOs about government effectiveness, efficiency and corruption, with resources and expertise supplied by the business community. Agency heads used both the information and the resources to institute changes that were vetted with the Task Force. The results were remarkable. As the federal government’s Department of Administrative Reforms and Public Grievances put it in 2011: “The BATF in collaboration with multiple government and civic agencies has revolutioni[s]ed public services in Bangalore.”

Ana Vasilache, Olivia Baci, and the Partners Foundation for Local Development have successfully worked with more than 20 cities in 11 countries of Eastern and Central Europe. In their anti-corruption reforms, their partners stressed new roles for citizens’ groups:

The majority of donor anti-corruption program[me]s aim at strengthening the civil society organi[s]ations as watch dogs, to be able to monitor public institutions’ activities and critici[s]e their performances. Very few of them recogni[s]e the power of collaboration and collective action in addressing corruption[...]

[W]atch dog roles are very important to keep public institutions’ work under scrutiny and put pressure on public officials to behave honestly. But in order to change systems, there is also another type of approach that should be acknowledged and encouraged by donors: a collaborative role of NGOs/CSOs that can help willing and courageous public leaders change the systems from inside.³

iv. Use social media

Innovative uses of social media can add further infusions of transparency and, therefore, commitment. International experience includes platforms for reporting corruption (e.g. “I paid a bribe” in India), databases on bribes, non-transparent procurement procedures and state budgeting and spending (e.g. “Porcisme” in Romania, “Rospil” in the Russian Federation and the “Mars Group” in Kenya), and online forums. These initiatives have been developed by NGOs and private individuals. Experience shows that after initial opposition from the government, some of these social networks eventually build a constructive relationship with the public authorities.

Notes

1. The following observations draw on Klitgaard (1988).
2. “Why is it so difficult to get rid of corruption? It is clear that corruption imposes large costs on the economy as a whole. It weakens tax collections and therefore means fewer resources for investment in critical infrastructure and public services. It creates unfair and uneven treatment of firms, limits competition and erodes the regulatory environment and enforcement. However, viewed from the perspective of individual firms and officials who are part of the system, bribes may be entirely rational transactions. These individual incentives are the reason why it is so difficult to fight endemic corruption” (Eckardt et al., 2014).
3. Email from Ana Vasilache, February 2014.

6. The virtues and limitations of econometric analysis

Comparative data about governance around the world is helpful to locate a particular country's challenges and opportunities and to show how much corruption deters development, and why. The experiences of the Philippines and some other countries and cities provide an existence theorem: governance can be improved, and increased investment will follow. Certain economic principles apply to corrupt individuals and systems, which lead to guidance about what to change and how. Could we not, therefore, create a multivariate model from which we could derive the policy changes needed in a given country given its setting?

The brief answer is yes and no. *Yes*, in the sense that models may help us discern the biggest obstacles and perhaps ways ahead. *No*, in that so many variables interact in determining effective action that models cannot “derive” what will work here. Understanding both the yes and the no is crucial for understanding the virtues and limitations of social science in policy design and implementation. The analysis of anti-corruption policies is an instance of a general challenge.

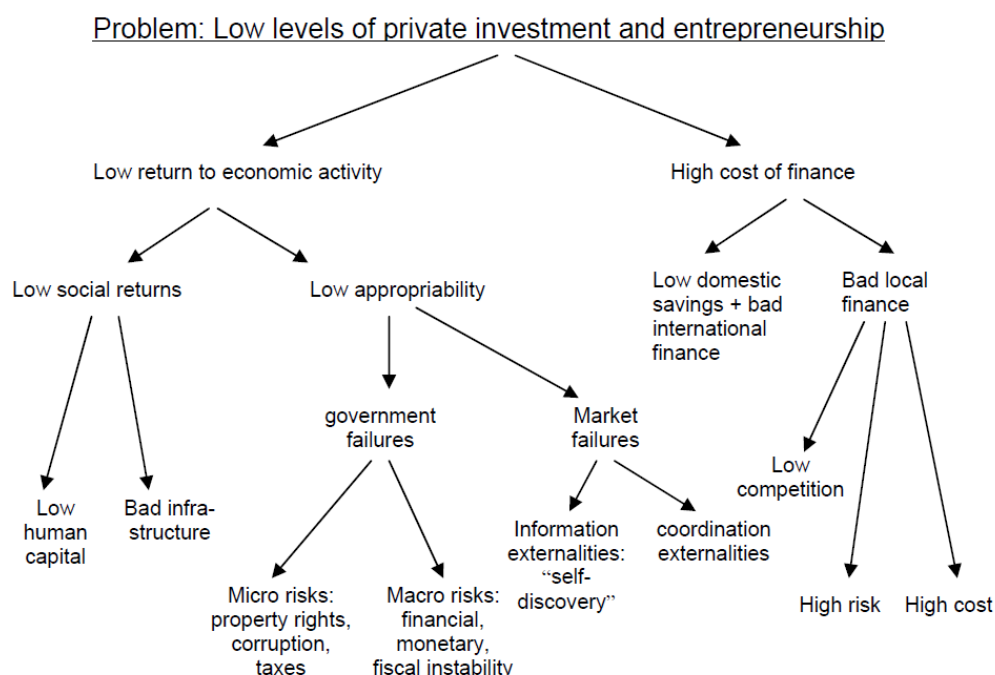
Econometric analysis

Consider a framework developed by Hausmann et al. (2005) to explain “low levels of private investment and entrepreneurship”:

Is it inadequate returns to investment, inadequate private appropriability of the returns, or inadequate access to finance? If it is a case of low returns, is that due to insufficient investment in complementary factors of production (such as human capital or infrastructure)? Or is it due to poor access to imported technologies? If it is a case of poor appropriability, is it due to high taxation, poor property rights and contract enforcement, labor-capital conflicts, or learning and co-ordination externalities? If it is a case of poor finance, are the problems with domestic financial markets or external ones? And so on.

Figure 2 depicts the various factors that economic theory and experience suggest might make the private returns low or the financing costs high. It is worthy to note, in particular, “government failures”, which include corruption, inefficiency and breakdowns in the rule of law. These diminish the returns from private investment. Government failures may also diminish the availability of financing, another branch of the tree.

Figure 2. Growth diagnostics



Source: Hausmann, R. et al. (2004), *Growth Diagnostics*, Harvard Kennedy School, Cambridge, Massachusetts, p.39, available at: www.hks.harvard.edu/fs/rhausma/new/growthdiag.pdf.

Theoretically, then, the effects of reducing corruption on investment may be multiple, and they may depend on all of these other factors. For example, if financing is not available, lower corruption may not spur investment. Moreover, the factors may interact:

One should not take at face value the idea of a decision tree which would imply that moving down one branch excludes all others from consideration. Indeed, after a few rounds of argumentation it is obvious that branches cross each other because there may be complex interactions between the different potential constraints. (Hausmann et al., 2008: 23).

The abundance of possible causes and their possible interactions daunt both theory and practice. The effect of improvements in governance may depend on all of the variables above, in ways no theory can specify.

In practice, those estimating the determinants of investment and capital flows have relied on only a few of the many possible variables in Figure 2. Researchers have used variables such as a country's economic policies, capital controls, industrial structure (especially capital intensity), trade flows, population growth, shared language or colonial experience with specific investing countries, level of corruption in investing countries, and more (see, for example, Jin, 2012; and Kolstad and Villanger, 2004). Many studies have looked at corruption as an explanatory variable in foreign investment (Zurawicki and Habib, 2010). Studies have suggested that the predictability of corruption matters, not just its magnitude (see, for example, Campos et al., 1999). One review finds nine "theories" about the determinants of one form of investment (foreign direct), and concludes that not one or another but all of the theories should be utilised.¹ Another review concludes, "Empirical studies of bilateral foreign direct investment (FDI) activity

show substantial differences in specifications with little agreement on the set of covariates that are (or should be) included” (Blonigen and Piger, 2011).

Not only are there many possible causes, they may also interact. Unfortunately, here as in many other areas of the social and behavioral sciences, our ability to model interactions and estimate them is limited.² Given these challenges, econometric analysis is humbled.

Imperfect measures pose a further problem. As noted, we cannot directly measure corruption. Even with long-standing measures of political variables such as rights and civil liberties, their reliability and validity are poorly understood (Bollen, 1991). Indeed, investment itself proves difficult to define and measure.³

Finally, even with valid and reliable measures and a persuasive causal model, there are many plausible choices of estimation techniques. As Annex B briefly demonstrates, the choice of panel estimation techniques turns out to shift the coefficient of good government from positive to negative to insignificant. Moreover, quantile regressions may render quite different results compared with ordinary least squares (Billger and Goel, 2008). Countries may be heterogeneous in ways not captured by controlling for such variables as a country’s level of per capita income, export orientation, and so forth; countries may be like apples and oranges, instead of apples of different sizes (Fedderke and Klitgaard, 2013).

Abundant possible causes, insufficient theory, weak data, competing estimation techniques and the possibility of deep heterogeneity: these many challenges reduce our confidence that econometric estimates will lead to valid predictions about the future in a particular country.

It is for the reasons above that many reviews of the econometric and comparative literature on corruption and development are inconclusive.

But can donors benefit from an econometric analysis of determinant factors of whether aid has any definite positive contribution on reducing corruption in a given environment? Several questions need to be considered:

1. What are the effects of improvements in governance (reductions in corruption) on development outcomes?
2. What are the effects of international aid on improvements in governance? More precisely: given a recipient country’s level of governance, what forms and levels of aid have what effects on development outcomes?
3. What are the effects of international aid on the donor?

In other words, the donor aid allocation decision can be taken based on the effects it will have on several areas:

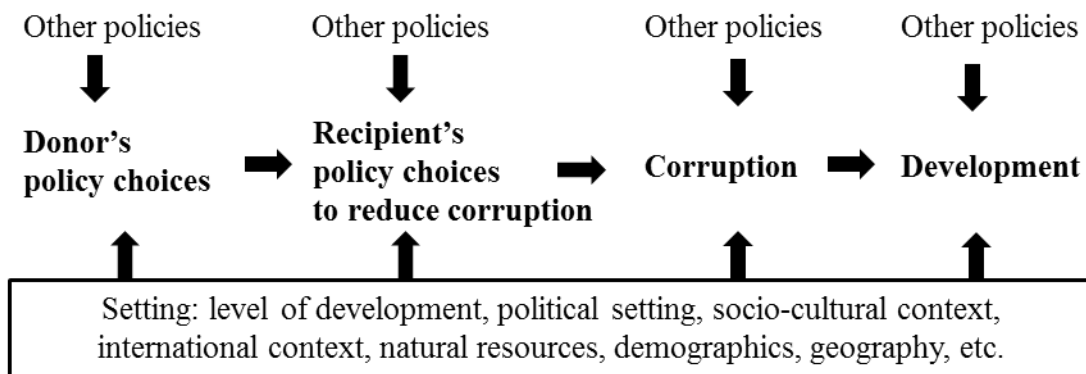
Choose the amount and type of aid to countries given their contexts, depending on the effects on development outcomes, the effects on recipient-donor relationships, the effects on the donors’ own political economy (e.g. approval of aid budgets), and the direct and indirect costs of this amount and type of aid. (Klitgaard et al., 2005).

Klitgaard et al. (2005) separate four effects of the choices on how to allocate aid: efficiency effects, incentive effects (for example, countries may improve governance in order to qualify for more aid), representation (for example, allocation criteria may lead to too few countries in a given region receiving aid) and fundraising effects (different

allocation methods may have impacts on parliaments and citizens' decisions to approve aid funds). The authors provide some econometric analyses, but they conclude that the complexities of foreign aid preclude a ready solution given the number of variables that cannot be controlled: donors' objectives go beyond the recipients' development; donors' utility functions are non-linear; allocation includes more than money and conditions may be imposed. Finally, countries may be heterogeneous, meaning that econometric averages may be misleading.

Figure 3 presents a schematic model of the context of the donor's decision.

Figure 3. **Schematic causal model of the context of a donor's decision on allocating aid**



As Figure 3 indicates, each of the areas highlighted in bold above are affected by a host of other variables (indicated in the box; such as level of development, political setting, etc.). For example, we cannot be sure that a reduction in corruption will have the same impact on a development outcome in one setting as it does in another, because the other variables will be different.

This incapacity to predict what will work where is reinforced by a number of reviews of the literature on corruption, which tried to assess what one can say about: 1) the effects on development of reductions in corruption; and 2) the impact of development assistance on reductions in corruption. The reviews agree on the data limitations and methodological difficulties in trying to link anti-corruption initiatives in differing contexts to development outcomes.

McGee et al. (2010)

Where we find positive evidence in one setting, this is often not corroborated – and sometimes even contradicted – by findings in another setting where different, or even similar, methods have been used.

In addition to these reasons for caution, the study elaborates on three significant limits of the existing evidence base: 1) untested assumptions and theories of change; 2) the methodological challenges of assessing what are often highly complex initiatives; and 3) the complexity of factors which contribute to their success. (p.6)

Hanna et al. (2011)

[This] review was also limited by the lack of relevant evidence available. In general, there is a lack of high-quality empirical micro studies that evaluate anti-corruption strategies. (p.46)

Tierney et al. (2011)

That we know so little about what makes aid work is hardly a problem of intellectual neglect. Indeed, as we have shown, hundreds of published works address the question of aid effectiveness and allocation decisions on which effectiveness may depend. But data-driven studies are only as good as the information on which they rest, and the currently inconclusive results reflect in part the incompleteness of information on financial flows around the world. (p.5)

Hough (2013)

Where does this leave the bigger picture in terms of the simple question asked at the beginning – under what conditions do which type [*sic*] of anti-corruption strategy work? There are, unsurprisingly, no concrete answers... (p.121)

Baez-Camargo and Jacobs (2013)

As it became evident that the performance of governing elites did not solely depend on more capacity building or better policies, hopes were shifted to the chastening effect of external incentives, i.e. bottom-up pressure for performance. Both approaches, however, assume the existence of an intrinsic, uncomplicated desire for better public governance and goods provision on behalf of the relevant actors. What works and does not work for the actors involved can vary widely across settings in terms of their goals and expectations as well as in terms of what is socially acceptable and feasible for attaining sustained results.

Figuring out these details is not a straightforward task as any governance setting harbours multiple, often conflicting interests and a web of varying loyalties and accountability relationships, whereby principals sometimes act as agents and vice versa... (p.13)

Rose-Ackerman and Truex (2013)

Much of this work does not deal with the simultaneous-equation nature of the relationship. It leaves unclear whether low levels of income and growth are a consequence or a cause of corruption. Most likely, the causal arrow runs both ways, creating vicious or virtuous spirals. (p.639)

Institutions that promote accountability and transparency need more rigorous evaluation. At a theoretical level, their role in promoting anti-corruption and good governance seems clear, but we do not know much about their practical operation or about the conditions required to make them effective. (p.647)

At present, we still do not have good data on the relative effectiveness of most reform programs... [Moreover], there is an on-going debate in economics and political science over the best evaluation methods.... Unresolved empirical issues limit the value of estimates of the relative cost-effectiveness of different strategies and the ways in which distinct alternatives interact. (p.662)

Søreide (2014)

The literature on corruption has expanded rapidly over the last 10-15 years, but the methodological obstacles remain substantial and few impact evaluations have provided results of general applicability. Even experts knowledgeable of the most

up-to-date research do not know how anti-corruption initiatives should optimally be designed. (p.45)

Mungiu-Pippidi (2014)

Despite an exponential increase in work on corruption over the last 20 years... the field remains divided between micro-theoretical models and macro-empirical models at the country level, with much confusion and no real communication between individual, organisation and national level... Not only is the disconnect between these levels of analysis a serious impediment, but so too is the absence of time series data which would allow a theory of governance change to develop. (p.63)

As we saw in Section 3, studies of many varieties show that improvements in governance (reductions in corruption) have positive effects on development outcomes. But given the large numbers of policy variables and contexts, estimating how specific anti-corruption policies and contexts interact to improve measures of governance remains econometrically impossible. Not to mention estimating the effects of international aid on these variables.

Analogies in the broader development literature

This conclusion may seem harsh, but actually it holds in most areas of development studies. A recent, judicious overview of the literature on institutions and development, for example, concludes that even the best quantitative research does not identify institutions that will foster growth (Vollrath, 2014).

What specific policy changes do any of these papers suggest would lead to economic development? “Don’t get colonised, exploited, or enslaved by Europeans” seems like it would be hard to implement retroactively.[...]

Understanding how a country/region/ethnicity got poor is not the same thing as understanding what will make them rich. “Institutions mattered” is different from “institutions matter.” I think the better conclusion from the 3rd generation of institutions research is that economies can fall into poverty traps from which escape is difficult if not impossible. Would better institutions allow these places to escape these traps? I don’t think we can say that with any confidence, partly because we have no idea what “better institutions” means. [...] Certainly not to the point that we can pinpoint the “right” institutions with any confidence.

More broadly still, take studies of GDP per capita and growth. A recent review of econometric efforts in this domain notes how many variables would have to be taken into account – and how impossible it is to do so with such a small data set:

A second source of uncertainty is the problem of selecting regressors to include in the model. The data set we consider contains 88 countries and a list of 67 potential explanatory variables, giving 267 different possible subsets of regressors to include in our model. All of these variables can reasonably be expected to influence economic growth, and we cannot be sure a priori which subset of variables we should use. (Saliman, 2013)

The same point was noted in a statistical study of social indicators and economic development:

The danger of more and more studies using some or all of the social and political indicators is that “results” will emerge which are not robust. With other indicators and other specifications, as we have seen, one or another variable may show up as more important than another. (Fedderke and Klitgaard, 1998)

Francis Teal, lead author of the book *Empirical Development Economics* (Teal et al., 2014), made these points (personal communication, September 2014):

1. Methods matter. The diversity of results you find in development is due in large part to the fact that there is no agreed method of analysing problems. At a general level, that covers whether you use quantitative methods, but even within a quantitative tradition there is no agreement on methods.

2. More specifically within the empirical literature on cross country analysis results will depend on how you deal with dynamics, endogeneity and common factors. Much work in this area either ignores all three or focuses on one aspect to the exclusion of others.

On policy lessons... The one thing we can say with some confidence, at both the micro and macro level, is that heterogeneity matters. That has been a much less prominent theme at the macro level than it has at the micro level and one objective of the survey was to bring that thought to the attention of researchers in this area... Researchers should not expect to find policies have the same effects everywhere.

Concluding points

This section raised issues of general importance in the application of the social sciences to policy design and implementation. How can we learn from country experiences when local contexts are so different? Can we somehow measure the contexts and include them in a predictive model, in order to estimate the effects of various policy choices on the outcomes of interest?

As in many other policy domains, the number of possible variables and causal relationships swamps the data (both in terms of sample size and measures of important contexts and causes) and the estimation techniques. Even with better data and models, the complexity of these issues, coupled with the relatively small number of observations, means that econometric estimates cannot stipulate what reforms will work in a specific context.

Case studies also cannot be generalised. And yet, a good example from a different context may nonetheless provide inspiration. The fact that what seems sometimes an intractable problem has yielded some success in a difficult context may dislodge a cynical, nothing-can-be-done mindset. By working through the details of such examples, policy makers and donors come up with ideas they may not otherwise have had. “Interesting in the case that they had *that* objective. *That* alternative is not one I would have thought of. Fascinating that they did *A* first, and waited on *B* and *C*. I wonder how those points might apply *here*.” This was the case with the Philippines cabinet meeting in August 2010.

Faced with these uncertainties, academic work and practical engagement may seek a process that builds on data, theory and examples. One vision is to combine the best of international knowledge and experience with the best of local knowledge and experience, to kindle problem-solving that might not otherwise occur. How might development assistance providers do this, in the context of corruption?

Notes

1. “...any analysis of determinants of FDI should not be based on a single theoretical model. Instead, FDI should be explained more broadly by a combination of factors from a variety of theoretical models such as ownership advantages or agglomeration economics, market size and characteristics, cost factors, transport costs, protection, risk factors and policy variables” (Faeth, 2009).
2. “The first is that you need to know what interactions are in the data generating process, which we typically do not. Secondly, you must know the functional form of that interaction. Finally, in a typical cross-country regression framework as you add these interactions you run out of degrees of freedom because the sample size is not big enough. As argued in Aghion and Durlauf (2007), there is econometric specification uncertainty, measurement uncertainty and theory uncertainty. In fact, Rodriguez (2007) uses a non-parametric approach to show that there is evidence that interaction effects are important but that they cannot be adequately explored with existing datasets because of sample size.” (Hausmann et al., 2008: 7-8; see also Manski, 2012).
3. With regard to FDI, for example, the International Monetary Fund noted that in some regions “the majority of countries do not yet follow applicable international standards” (IMF, 2003).

7. Donors and corruption

Public sector reform was present from the beginning of foreign aid. Providers and recipients of development assistance understood that inefficient government hindered development. The prevalent strategies included capacity building, analyses of workflows and personnel, and sharing of good practices. But what Noonan (1984) calls “the two great sins of government, dictatorship and bribery”, were mostly excluded, at least by multilateral institutions, whose charters forbade them from entering into politics. And what could be more political than autocracy and corruption?

Corruption can polarise discussions of foreign aid. On one side are those who dismiss foreign aid because it does not deal effectively with autocracy and corruption. When a report criticized British aid in October 2014 for not doing enough about corruption, the *Express* headline read “Billions in British aid ‘goes to corrupt nations’, report reveals” (Little, 2014). *The Telegraph* headlined, “British aid money is funding corruption overseas, damning new report finds” (Riley-Smith, 2014).¹

On the other side are people who say accusations of corruption are excuses for not helping. Corruption, they argue, does not harm growth much; and in any case countries outgrow corruption as they become richer or more modern through the proponent’s favourite brand of development (for example: more aid, freer markets, socialism done right, Islamic states, etc.). For instance, an op ed² in the *Wall Street Journal* by Bill and Melinda Gates (2014) concludes that “contributions to promote international health and development offer an astonishing return,” corruption or not:

One common complaint about foreign aid is that some of it gets wasted on corruption – and of course, some of it does. But the horror stories you hear – where aid just helps a dictator build new palaces – mostly come from a time when aid was designed to win allies for the Cold War rather than to improve people’s lives.

The problem today is much smaller. Small-scale corruption, like a government official who puts in for phony travel expenses, is an inefficiency that amounts to a tax on aid. We should try to reduce it, but we can’t eliminate it, any more than we can eliminate waste from every government program or from every business, for that matter. Suppose small-scale corruption amounts to a 2% tax on the cost of saving a life. We should try to cut that. But if we can’t, should we stop trying to save those lives? (Gates and Gates, 2014).

As a matter of fact, today most aid donors and international financial institutions emphasise anti-corruption. A turning point, in terms of publicity anyway, was a speech by World Bank President James Wolfensohn in 1996. He called corruption a cancer – and the reaction was electric.³ A year later, each of the World Bank’s regions had strategies to fight corruption. By 1999, the rhetoric had escalated. “So far as our institution is concerned,” Wolfensohn said, “there is nothing more important than the issue of corruption.”

But like the UK's Department for International Development (DFID) and most other donors, the World Bank itself proved reluctant to take on high-level corruption.⁴ An internal World Bank evaluation in 2003 summarised what its Public Sector Group was good at and not so good at:

Excellent diagnostics, good at addressing the “surface” manifestations, good technical solutions and design, and this works when [there is]:

- committed leadership
- coalition for reform
- capacity.

But, struggling to address “deeper” underlying issues:

- enhancing domestic and international pressures for reform
- overcoming vested interests against reform
- reversing the “culture” of corruption in the public sector
- tackling political drivers of corruption (e.g. party financing)
- within [the World Bank], mainstreaming across sectors and countries. (World Bank, 2003)

Perhaps as a result, a major internal review in 2008 rated the World Bank's good governance, anti-corruption programmes as “moderately unsatisfactory” (2008: 82).

Facing up to high-level corruption has proven difficult for many donors, not just DFID and the World Bank. Perhaps as a consequence:

...the share of aid flowing to corrupt countries increased from the mid-1990s through 2002 and then has fluctuated around the new higher level since then. Ironically, the period of increase is the same period over which donors began to openly condemn corruption, with the rhetoric implying that aid should increasingly shift from more corrupt to less corrupt countries. (Easterly and Williamson, forthcoming: 40)⁵

Corruption is a loaded word: even discussing it can create bad feelings, misunderstanding and hostility. In lieu of high-level engagement on corruption, providers of development assistance may seek safer endeavours, such as capacity building or freedom-of-information acts. A donor may seek more corruption-resistant projects or partners (such as NGOs), or it may simply wish not to engage in an aid relationship with such a recipient (Dia, 1996). It is possible that a donor will decide to engage despite widespread corruption, using development assistance to obtain a *quid pro quo* such as access to resources, help in the fight against drugs or terrorism, or votes in the United Nations (Morgenthau, 1962).

Another alternative, bolder and riskier, is to work with reformist elements in a country to take on corrupt systems. Annex C provides a short case study of collaboration that successfully tackled corruption even when top leaders were involved.

An exciting possibility is to take advantage of new leaders around the world who have given priority to the quest for good government. They are not just moralists. They are fighting corruption because their citizens demand it and because the goal of inclusive growth requires it. Reformers are likely to emerge in three groups: new governments,

competitors to collusive businesses and the citizens whom corruption harms.⁶ When leaders see how corruption can be reduced (though never alas eliminated) without committing political suicide, they are often willing to move forward.

When countries are experiencing systemic corruption, many of the usual aid approaches will prove insufficient. These approaches pass new laws, dictate codes of conduct, train public administrators and build capacity. They often propose reorganisation. With regard to civil society and the business community, the usual approaches include meetings and conferences to raise awareness, as well as surveys that measure how many citizens and companies are paying bribes.

These steps are not wrong as much as they are incomplete. Having state-of-the-art laws does not guarantee their implementation. Codes of conduct are often only ornaments. Surveys showing that a certain percentage of citizens pay bribes in ministry A and that another percentage pays in ministry B does not imply that the social costs of corruption in ministry A are greater than those in ministry B. Nor, of course, does such data say what corrective actions are cost-effective in ministry A or B. Alas, when very abstracted guidance on anti-corruption work is provided, the results are often banal. Annex D provides a recent example of “guidelines that could instruct the process of developing, designing and implementing sustainable anti-corruption strategies.” The guidelines turn out to be so general that they are unhelpful.

In the fight for good government, many reformers are not getting the analysis and help that they need. What might be done instead and how might development co-operation actors help?

Notes

1. The report itself (Independent Commission on Aid Impact, 2014) was less dramatic. It said:

DFID recognises corruption as a critical development challenge and seeks to tackle it through direct and indirect activities. DFID has not, however, developed an approach equal to the challenge, nor has it focused its efforts on the poor. While some programmes show limited achievements, there is little evidence of impact on corruption levels or in meeting the needs of the poor. DFID’s willingness to engage in programming that explicitly tackles corruption generally is often constrained by political sensitivity in-country. It is not capturing and applying lessons learned. (p.1)

We also witnessed negative impacts of programming, where government systems that lead the poor to have to pay bribes and become the victims of corruption were perpetuated and not tackled by programmes... Instances, such as those in Nepal in the context of [the] LGCDP and CSP, raise concerns that the general principle that aid should first “do no harm” has been breached. (p.31)

2. An op ed, or “opposite the editorial page”, is an article published in a newspaper or magazine which expresses the opinion of a named author who is not affiliated with the editorial board of the newspaper or magazine.

3. What is not widely recognised is that Wolfensohn (1996) only mentioned corruption well into his speech and well down the list of priorities – and then only in a few paragraphs:

If the new compact is to succeed, we must tackle the issue of economic and financial efficiency. But we also need to address transparency, accountability and institutional capacity. And let's not mince words: we need to deal with the cancer of corruption.

In country after country, it is the people who are demanding action on this issue. They know that corruption diverts resources from the poor to the rich, increases the cost of running businesses, distorts public expenditures and deters foreign investors. They also know that it erodes the constituency for aid programs and humanitarian relief. And we all know that it is a major barrier to sound and equitable development.

Corruption is a problem that all countries have to confront. Solutions, however, can only be home-grown. National leaders need to take a stand. Civil society plays a key role as well. Working with our partners, the [World] Bank Group will help any of our member countries to implement national program[s] that discourage corrupt practices. And we will support international efforts to fight corruption and to establish voluntary standards of behavior for corporations and investors in the industrialized world.

The [World] Bank Group cannot intervene in the political affairs of our member countries. But we can give advice, encouragement and support to governments that wish to fight corruption and it is these governments that will, over time, attract the larger volume of investment. Let me emphasize that the [World] Bank Group will not tolerate corruption in the programs that we support; and we are taking steps to ensure that our own activities continue to meet the highest standards of probity.

4. A World Bank stock-taking in 2008 concluded: “The [World] Bank’s lending support for anti-corruption efforts has mostly used indirect methods, which still predominate, often through reforms to public financial management, civil service and tax administration... The [World] Bank’s country strategy and major operations have directly addressed state capture only in rare cases... Advocating wholesale transformations of neopatrimonial governments has been politically difficult for the [World] Bank and is usually avoided, even when formal or informal analytical work identifies the problem.” (World Bank, 2008: 60, 63).
5. This finding echoes a conclusion of Alesina and Weder (2002: 1 136): “Our vast exploration of the data never uncovered any even weak evidence of a negative effect of corruption on received foreign aid...”
6. “Who are the plausible agents of change and how long would they remain so if they were to gain power? Historical lessons from the past and more recent times point to professional groups as more sustainable allies of good governance than individual leaders, who frequently turn from champions to chief profiteers. Merchants motivated by profit and lawyers and journalists motivated by the need to have equal access with the privileged classes were in the vanguard of historical good governance. ‘Achievers’ [countries that reduced corruption] all had professional elites engaged in changing governance regimes ... [I]n the absence of educated and autonomous professional groups fighting for good governance, sustainable development does not exist.” (Mungiu-Pippidi et al., 2011: 89)

8. Working together against corruption

In the Philippines success story, in their first weeks in office top policy makers evaluated data on the challenges facing the Philippines compared to those facing other countries. They worked through a case study of success from another country with a different context, not to copy but to inspire. They considered theoretical models of corruption, which helped them reframe the problem as one of systems rather than just individual transgressors, of incentives rather than just morality, and of multi-person Prisoners' Dilemmas rather than an inevitable feature of Filipino culture.

They applied what they learned to the particular challenges facing the Philippines. In the process of discussing together objectives and alternatives, diagnosing their problems, considering how to sequence and collaborate, they generated strategies that otherwise might have remained dormant.

This process, referred to in this paper as “convening”, resembles what others call “problem-driven iterative assessment” (Andrews et al., 2013) or “developmental evaluation” (Patton, 2011). The process can lead to new, practical ideas that are locally created and owned. Note that this is not (just) consensus building, which focuses on defining objectives; nor is it a session designed to raise awareness.

Rather, a convening is based on theory, case studies and quantitative analysis. Its use of social science goes beyond a classic model of policy analysis and operations research, where the analyst takes a given objective function and given alternatives, assesses the costs and benefits, and definitively recommends one alternative. It forgoes the illusion in the social sciences that solutions to a particular problem could be derived if there were enough good data and a good-enough theory. That goal is unattainable as made clear in Figure 3, through the causal arrows implicit in our problem.

Social science, however, can be catalytic while admitting that the data and theory are insufficient to derive policy implications and instigating not a deduction but a discussion, leading to collaborative, imaginative problem solving.

There is, alas, little evidence that one such social science-based process is better than another (see Annex E). But if we cannot deduce from theory, case studies and quantitative analysis what problem-solving process will work best under what conditions, can we at least describe and then discuss one process that has worked sometimes and consider it together?

Comparative advantage in convenings

Like corruption, many policy problems have so many causal loops and intervening variables that we are not confident that what we learn from an evaluation in one setting can be transferred to a seemingly similar problem in a quite different setting. Speaking analytically: we often face theory uncertainty, measurement uncertainty and modelling (or econometric) uncertainty, coupled with samples of countries (or ministries, cities and

projects) that are too small to enable us to explore potentially important interaction effects.

In this case, we should make the best of local actors, as they have the knowledge of relevant complexities of the local ecology but they often lack access to the best models, best data and techniques of data collection, and the appropriate comparisons to calibrate their challenges. They may also lack examples of what has worked elsewhere. The challenge becomes how to combine forces, bringing what locals know best (local objectives, constraints, alternatives, intervening variables, etc.) with what outsiders may best offer (facts, examples, frameworks).

Convening tries to combine these forces¹ *building on policy analysis and evaluation*. It provides participants with:

- Data about the nature of the problems, funding and costs (data-rich discussions also help build trust, particularly about controversial issues).
- Examples of success in similar problem areas, highlighting goals, alternatives, if-then relationships and partnerships. These examples should be presented as case studies covering what results were achieved and a discussion about how they were achieved.
- Models, theories and frameworks for understanding goals, alternatives, if-then relationships and/or strategic interdependence. A framework may be a grand theory, a programme theory or a heuristic experiment.

Convenings thus combine:

- Key decision makers and stakeholders, sometimes from outside government, sometimes including development co-operation actors.
- A “safe” setting (no recordings, Chatham House rules, etc.), away from the office.
- Protagonists of the success stories elsewhere may also be invited. When participants are able to pose their practical concerns to the people who actually made change happen, it adds to the intellectual and motivational experience.

Convenings can occur more than once, allowing participants to share progress and problems, recalibrate their next steps. Annex F gives an example from urban reform in seven cities in Mindanao, the Philippines.

The objective is to have participants consider together data that help contextualise their particular challenges, a case study of a success in a different place and a practical framework (model, theory). Annex F provides further examples of convenings.

Final points about donors and recipients in the fight against corruption

In many countries, corruption remains a major obstacle to development. Sometimes rulers, foreign investors and donors do not wish to tackle corruption for a variety of reasons. Sometimes leaders of these organisations are benefiting and they do not wish to change the status quo. Sometimes the reality is more complicated – and more hopeful.

Around the world, many new presidents, ministers and mayors are eager to take on corruption. They need more help in how to do so, beyond the usual capacity building and project safeguards. Political will is in part endogenous: it depends on leaders seeing that it is possible to reduce corruption without committing political suicide.

Development actors can provide distinctive assets. They can provide flexible financial resources. They can also share knowledge and experience relevant to anti-corruption programmes: data that help locals appraise their situations, cases of success from which locals can learn, and models and frameworks that can stimulate a constructive rethinking of goals and alternatives. Development co-operation actors may also include emerging countries undertaking powerful reforms against corruption themselves. They can share distinctive and credible lessons given the fact they experience constraints in many cases similar to recipients.

For the reasons elaborated above, econometric research will prove unable to render policy-relevant predictions about which reforms will work how well in a particular country or city. And yet, policy-relevant research can help policy makers be more creative, practical and collaborative. Convenings help participants consider data, examples and models with the aim not of copying best practice or stipulating a solution, but of enabling locally tuned and locally owned solutions to emerge.

This sort of process has worked. It can work even better, with more countries making it happen and, as Annex E argues, with additional learning about convening processes.

Thus, one should feel optimistic about the potential for development providers and recipients to collaborate against corruption. Especially optimistic is John T. Noonan:

As slavery was once a way of life and now...has become obsolete and is incomprehensible, so the practice of bribery in the central form of the exchange of payment for official action will become obsolete (Noonan, 1984: 706).

Noonan says that the moral condemnation of corruption will grow, for four reasons:

- Bribery is shameful. (In all cultures.)
- Bribery is a sell out to the rich. (And no one wants plutocracy.)
- Bribery is a betrayal of trust, which is “a precious necessity of every social enterprise” (p.704).
- Bribery violates a divine paradigm.

Noonan argues that our collective repulsion will eventually change practice and render corruption extinct.

Noonan’s prediction will not be realised without determined effort. Tackling corruption entails practical, feasible strategies to weed out monopolies, increase accountability, align incentives, improve enforcement, create co-ordinated government approaches, enlist the co-operation of businesses and civil society, empower the public and disrupt corrupt equilibria. These strategies must be locally developed and adjusted to local realities. Donors and recipients together can abet processes bringing together the tacit knowledge of locals and the best of international knowledge. The process recommended here can help providers and recipients of development assistance combine forces: how to bring what they know best (local objectives, constraints, alternatives, intervening variables, etc.) with what outsiders may best have to offer (facts, examples and frameworks).

Notes

1. Convening, in fact, is a term of art in the literature on consensus building and dispute resolution. Its meaning there is more limited than the one in this paper. “In this context, convening typically involves:

1. Assessing a situation to determine whether or not a consensus-based approach is feasible.

2. Identifying and inviting participants to ensure that all key interests (i.e. stakeholders) are represented.

3. Locating the necessary resources to help convene, conduct and support the process.

4. Planning and organizing the process with participants, or working with a facilitator or mediator to do so.

It may be helpful to think of convening as Phase 1 in a consensus-building process, which is followed by Phase 2, the actual negotiating or consensus-building phase” (Carlson, 1999: 169).

Annex A

Examples of success of anti-corruption development assistance

For this paper, the author informally emailed 30 professionals knowledgeable about corruption around the world asking one question:

What examples do you know of anti-corruption programmes by donors that have contributed effectively to anti-corruption reforms with tangible results?

I realise that “success” and “contributed effectively” and “tangible results” are subjective and contestable. On the other hand, as Frederick Mosteller once said, even when people can’t agree on a definition of “success,” they can often agree about examples of “outrageous success” and “outrageous failure.”

Many respondents did not provide examples of success. Charles Kenny of the Center for Global Development was “not sure I have a great example, in that it is pretty much impossible to rigorously test the impact of programmes in this area.” Bo Rothstein of the University of Goteborg said, “Unfortunately I know of no such good studies. There are many ideas, but very few studies that empirically can verify any effects.” Luís Macedo Pinto de Souza of the University of Lisbon said, “My impression is that very few people actually have a clear idea of whether things are improving or not, because monitoring and evaluation methods and measurements are still quite underdeveloped.”

“I am generally very gloomy about attempts to integrate into aid anti-corruption agendas in a policy sense,” said Laurence Cockcroft, author of *Global Corruption: Money, Power, and Ethics in the Modern World* (2012). “I am skeptical that flows of funds into societies which are endemically corrupt can avoid the corruption trap one way and another, and I did not want to pretend otherwise (i.e. that there is a silver bullet).”

Some cited insincerity by donors. For example, Seamus Miller of Charles Sturt University in Australia believes that in a project he studied, AusAid officials “were aware that there was a very significant corruption problem, e.g. with the contracts handed out to the local service providers to implement the AusAid programmes, but their main ‘anti-corruption measure’ seemed to be to avoid taint by putting in place arm’s-length arrangements to distance themselves from the corruption they knew was going on in the expenditure of their aid funds.”

Bert Spector of Management Systems International (MSI) reviewed MSI’s programmes in Indonesia, the Philippines, the Russian Federation and Ukraine. “We try to trace back implemented reforms to our interventions, but this is often difficult to do. And... because our client usually wants to know about successes accomplished over the short term, I would classify most of these as ‘small and incremental’... but leading in the right direction and providing precedent and encouragement for future and bigger successes.”

Candidates for success stories

Jennifer Widner, Director of Princeton's Innovations for Successful Societies, cited many examples from their trove of case studies, including Croatia, Naga City (Philippines), Bogotá and Medellín (Colombia), Surakarta (Indonesia), Indonesia's anti-corruption agency, Sri Lanka, Ghana and Georgia.¹ One recent comparative study examined the factors leading to success in six anti-corruption agencies (Kuris, 2014).

Bertrand de Speville, former head of Hong Kong, China's Independent Commission against Corruption, cites these examples of successful country reforms: "The countries where de Speville & Associates have been funded by donors and the country has subsequently improved its Corruption Perceptions Index rating by a point or more (on a 0-10 scale) are Armenia (UNDP), Indonesia (Asian Development Bank), Latvia (World Bank), Lesotho (Commonwealth), Former Yugoslav Republic of Macedonia (Council of Europe), Madagascar (World Bank), Nigeria (Transparency International) and Serbia (USAID)."

Edilberto de Jesus, former Minister of Education of the Philippines and President of the Asian Institute of Management, cited the Philippines under President Aquino as a success story, though not a complete one. He noted how a variety of partnerships with international donors helped catalyse and deepen the Aquino reforms.

Jesper Johnsen, a senior adviser to U4 at the Chr. Michelsen Institute in Norway, mentioned:

...the Governance Partnership Facility (GPF), a multi-donor trust fund providing additional resources to support the World Bank's implementation of the Governance and Anti-Corruption Strategy. As one would expect, the GPF made an impact. Countries where a governance advisor was present to shape reforms did better... A specific example could be the reforms in Tajikistan.

Scott Fritzen of New York University and the National University of Singapore cited:

- Successful efforts in Viet Nam by the United Nations and later by the World Bank to catalyse "community-level participatory processes and transparency".
- "The World Bank's Kecamatan Development Program (KDP) and related programmes like the Urban Poverty Program (UPP) were reasonably successful in instituting participatory controls on local development funds."
- Procurement reform in the Bali Urban Infrastructure Project, supported by the World Bank.
- "Technical assistance in the drafting of Indonesia's anti-corruption law that launched the KPK was useful to the secretariat. And given how important the KPK has become as one of just a handful of cases of strong Anti-Corruption Agencies in developing countries, that would be worth highlighting."

Claudia Baez-Camargo of the Basel Institute on Governance noted:

...successful social accountability initiatives in less propitious contexts, meaning where public sector officials may not be responsive or answerable to begin with. In several of these examples, mostly dealing with provision of essential public services, quality of service provision improved (decreased absenteeism of health workers or teachers, decreased stock outs of medicines) or specific local problems were

addressed (building of a new health centre, repairs to a school, a road connecting to local markets). In this category are examples from India, Uganda, Tanzania and Bangladesh to name a few. What remains unclear to me on most of these success stories is to what extent the positive impacts lasted after the intervention ended.

Another example, a joint project with the United Nations Development Programme, is on the island of Bohol in the Philippines. The project involves citizens monitoring the delivery of agricultural subsidies in rural communities. Corruption is down, and citizens feel more “empowered *vis-à-vis* the local government.”

The misuse of subsidized seeds has decreased, and farmers are achieving better farming outcomes. Furthermore, the local government unit is an example of transparency and responsive disposition. There is now significant support among the local stakeholders (citizens and government officials alike) about extending the monitoring to several other sectors (especially health and education) given the success with the agricultural subsidies programme.

To be perfectly honest I am still trying to place this case in a wider perspective, to understand what may be the enabling factors underpinning this success.

Anga Timilsina, the programme manager of the UNDP’s Global Anti-Corruption Initiative, provided a number of promising examples:

- *Public financial management and supreme audit institutions.* A [joint donor evaluation of interventions](#) in five countries (Bangladesh, Nicaragua, Tanzania, Viet Nam and Zambia), found that from the array of targeted support areas, the work with supreme audit institutions was highly effective. Technical and financial support included legal and policy reforms to improve public financial management accounting and reporting procedures and strengthened external audit and procurement oversight mechanisms. In Tanzania and Zambia, the evaluation showed that donors’ support increased the capacity of supreme audit institutions to produce quality audit reports that are increasingly being used by national stakeholders to monitor public financial management.
- *Harmonisation between domestic legal frameworks with international standards.* Donors and development organisations have focused support in this direction over the last decade. Particularly, UN agencies (mainly the UNODC and the UNDP), since advent of the UNCAC, have provided technical assistance to around 80 countries for: 1) the development of gap assessments and governance assessments to inform anti-corruption policies and reforms; 2) facilitation of national and participatory dialogue about national political/anti-corruption reforms; 3) raising awareness and strengthening the capacities of public servants and civil society organisations to comply with new regulations. The growing adoption of laws, norms and policies by state parties in compliance with the UNCAC is a tangible result of this work, which has been pivotal to harmonise (and modernise in some sense) national frameworks to combat emerging corrupt practices and align these frameworks with international standards. The case of access to information laws has been recognised as one area of success. In 1990, only 12 countries had access to information laws, while today there are nearly 80 such pieces of legislation.
- *Transparency and accountability initiatives through information and communication technologies (ICTs).* This nascent area of work has increasingly attracted the attention of donors and development partners as an innovative and

effective strategy to prevent corruption by strengthening horizontal and vertical accountability. Successful pilots that are being supported by donors and development partners show that based on the positive experiences, local authorities, oversight institutions and line ministries are now moving towards the integration of open data and access to information tools to strengthen transparency and accountability in service delivery. For example, see the experience in Kosovo² with the web-platform www.kallxo.com, which allows Kosovo citizens to report corruption in real time through multiple channels, including social media, SMS and the web. Based on the success of this experience to report inefficiencies in service delivery, around 30 municipalities in Kosovo have incorporated the tool as a mechanism of interaction with the citizens.

Dan Hough of the Institute of Development Studies, Sussex, and author of *Corruption, Anti-Corruption and Governance* (2013), cited the Indian website www.ipaidabribe.com. He nonetheless warned about certain forms of empowering citizens in the fight against corruption.

One of the prerequisites of things such as www.ipaidabribe.com working is subsequently that it is based in civil society structures that prevent it [the website] from being used to launch witch hunts. I am decidedly suspicious of ideas that instinctively put the citizen at the centre of the anti-corruption movement. In China, for example, that leads to a need to see people caught and convicted, and you get dangerously close to those aforementioned witch hunts. Why? Well, civil society groups are not well developed enough in many places to deal with the complex challenges (and indeed responsibilities) that come with empowering people.

Ora-Orn Poocharoen of the National University of Singapore said she knew of no “clear success cases”. Indeed, her research at the village level in the deep south of Thailand found that:

...big donors’ programmes contribute to corruption because they rely on existing government processes. But I found less corruption when the development programmes were run by NGOs and the village leaders. The participation process is very elaborate in programmes such as the World Bank’s Community-Driven-Development (CDD) that it helps to deter large-scale levels of corruption.

Ronald MacLean-Abaroa, former Foreign Minister of Bolivia and Mayor of La Paz, referred to his well-known success with reforms in that city (Klitgaard et al., 2000):

The World Bank did help us tackle corruption, without even intending it, by allowing [...]the “best and brightest” [...]be the core of the reform, and design a project loan [...] that required strict accounting requirements, and strong supervision in the execution.. The [World] Bank finally acceded to provide topping-up funds to hire better people, and pay decent salaries to key personnel. I think that it was this mix of people that subverted any possibilities of collusion among potential corrupt aspirants.

Ana Vasilache and the Partners Foundation for Local Development, based in Bucharest, has turned the MacLean-Abaroa case study into a training session offered throughout Central and Eastern Europe. “The methodological assumption is that corruption is not (just) a problem of bad people, but of bad organisational systems and that addressing corruption is the needed entry point for reinventing a better and fairer local government. Armed with the appropriate conceptual tools, mayors and municipal

employees embark in a reform process, supported by trained external *change agents* certified by us as *anti-corruption practitioners*.”

The results have been promising.

We have promoted the anti-corruption methodology in front of more than 500 mayors/public managers, during workshops organised in 15 countries (Albania, Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Former Yugoslav Republic of Macedonia, Georgia, Kosovo, Moldova, Montenegro, Poland, Romania, the Slovak Republic, Serbia and Turkey)... Local governments developed anti-corruption strategic plans through participatory processes, focusing on decreasing discretion, increasing accountability and transparency, effectiveness and efficiency, as well as strengthening organisation integrity. Their plans can be accessed as case studies at: www.fpd.ro/services.php?do=anticorruption_strategies.

Two of the cities with which she and her colleagues worked were honoured by the UNDP as the outstanding public administration reforms in the world in 2011 (Craiova, Romania and Martin, Slovak Republic).

Notes

1. See: <http://successfulsocieties.princeton.edu/focus-areas/anti-corruption>.
2. See: www.ks.undp.org/content/kosovo/en/home/ourwork/democraticgovernance/successstories/-empowering-citizens---fighting-corruption-through-social-media-.

Annex B

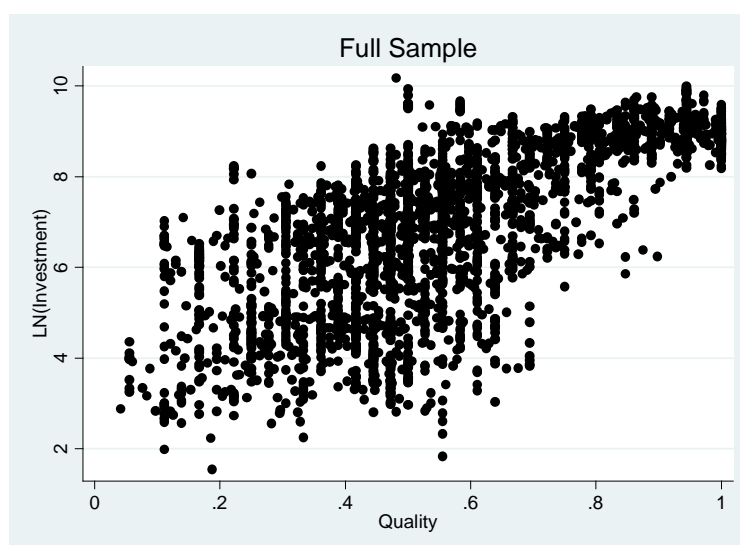
Lower corruption, more investment?

Some economists have argued econometrically that reducing corruption and improving governance lead to greater investment. Wei (2000) calculated that reducing the level of perceived corruption in Mexico to that in Singapore would have the equivalent effect on investment as lowering the tax rate by over 20 percentage points. Lambsdorff (2003) estimated that improving Colombia’s perceived “level of integrity” to that of the United Kingdom would increase net yearly capital inflows by 3% of GDP. In the Middle East and North Africa, “improved governance institutions [including political rights, civil liberties, and corruption and bureaucratic quality] would greatly stimulate private investment.” An improvement of one standard deviation “would ... boost private investment by 3.5% of GDP per year” (Aysan et al., 2007: 446).

This annex shows how the choice of variables and estimation techniques can radically alter econometric estimates of how much reducing corruption and improving governance will affect investment.

The horizontal axis in Figure B.1 presents the average of control of corruption, bureaucratic efficiency and rule of law (these are variables in the Political Risk Group’s *International Country Risk Guide*). Higher scores indicate better results in these variables. The scattergram (in which each country and year is a data point) suggests a positive relationship between quality and investment as a percentage of GDP. But as Tables B.1 and B.2 show, in the context of panel data, it turns out that different specifications (such as choosing different variables to include in the analysis) and using different estimation techniques yield radically different results.

Figure B.1. Investment and the quality of government



For example, using pooled ordinary least squares, Table B.1 shows that the sign of quality changes from significantly positive to significantly negative, depending on which other variables are in the equation. In Table B.2, using a fixed-effects estimation and a dynamic panel fixed-effects estimation yields different results: in all but one simple regression, the coefficient on quality is not significant.

Table B.1. **Pooled ordinary least squares estimates**

Dependent variable = ln(investment) as a % of GDP						
Variables	(1)	(2)	(3)	(4)	(5)	(6)
Quality	5.327*** (0.0880)	0.190*** (0.0667)			-0.161** (0.0726)	-0.149** (0.0728)
Rights			-0.261*** (0.00750)	-0.0439*** (0.00368)	-0.0468*** (0.00405)	-0.0464*** (0.00402)
ln(GDP per capita)		1.255*** (0.0135)		1.211*** (0.0104)	1.228*** (0.0131)	1.225*** (0.0132)
Openness to trade						-5.84e-05 (0.000192)
Inflation						2.83e-06 (2.04e-05)
Exchange rate						2.51e-05*** (4.12e-06)
Constant	3.914*** (0.0656)	-4.063*** (0.0922)	8.714*** (0.0443)	-3.280*** (0.109)	-3.312*** (0.110)	-3.306*** (0.110)
Observations	2,513	2,513	2,513	2,513	2,513	2,513
R-squared	0.501	0.910	0.328	0.916	0.916	0.916
Adjusted R-squared	0.501	0.909	0.328	0.916	0.916	0.916

Note: Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1.

Table B.2. **Other estimates**

Fixed effects – Full sample									
Dependent variable = ln(investment) as a % of GDP									
Fixed effects							Dynamic panel fixed effects		
Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	ARDL(2)	ARDL(3)
Quality	0.330*** (0.0741)	0.0699 (0.0587)			0.0764 (0.0586)	0.0311 (0.0619)	0.0368 (0.0714)	-0.0430 (0.133)	-0.0122 (0.134)
Rights			-0.0254*** (0.00480)	-0.00384 (0.00375)	0.00570 (0.00423)	0.00697 (0.00464)	0.00848* (0.00472)	0.00575 (0.00835)	0.00775 (0.00861)
ln(GDP per capita)		1.275*** (0.0288)		1.372*** (0.0325)	1.282*** (0.0296)	1.222*** (0.0358)	1.154*** (0.0508)	1.125*** (0.0723)	1.125*** (0.0737)
Openness to trade						0.000703** (0.000293)	0.000469 (0.000294)	0.00139** (0.000659)	0.00113* (0.000685)
Inflation						-3.23x10-6 (8.04x10-6)	-3.22e-06 (8.07x10-6)	2.17e-05 (2.42e-05)	-6.01e-05** (2.58e-05)
Exchange rate						8.89x10-6** (4.00x10-6)	9.03e-06** (4.09e-06)	3.44e-06 (1.46e-05)	4.09e-06 (1.44e-05)
Year fixed effects							Yes		
Φ								-0.357*** (0.0175)	-0.385*** (0.0199)
Constant	6.650*** (0.0428)	-4.171*** (0.248)	6.849*** (0.0345)	-4.903*** (0.281)	-4.272*** (0.263)	-3.794*** (0.740)	-3.093*** (0.454)	-1.068*** (0.231)	-1.151*** (0.254)

Observations	2,513	2,513	2,513	2,513	2,513	2,513	2,513	2,513	2,513
Number of countries	119	119	119	119	119	119	119	119	119
R-squared	0.962	0.980	0.947	0.974	0.980	0.980	0.981		
Adjusted R-squared	0.960	0.979	0.945	0.973	0.979	0.979	0.979		

Notes: Robust standard errors in parentheses. ARDL(2) denotes autoregressive distributed lag structure of two lags for every variable. ARDL(3) denotes autoregressive distributed lag structure of three lags for every variable. *** p<0.01, ** p<0.05, * p<0.1.

Table B.3. Definitions of variables

Variable	Definition	Source
Investment	Per capita investment. Obtained by multiplying investment share in PPP adjusted GDP per capita in 2005 constant prices by level of PPP adjusted GDP per capita in 2005 constant prices. Constant 2005 international USD	Penn World tables
Investment share of GDP	Investment share in PPP adjusted GDP per capita in 2005 constant prices.	Penn World tables
GDP per capita	PPP adjusted GDP per capita in 2005 constant prices. Constant 2005 international USD	World Bank Development Indicators
Openness to trade	Total trade as a percentage of GDP in 2005 constant prices. %	Penn World tables
Inflation	Annual growth rate of implicit GDP deflator. %	World Bank Development Indicators and OECD
Exchange rate	Amount of local currency equivalent to USD 1	Penn World tables
Rights	Sum of Political Rights and Civil Liberties ratings. Political Rights ratings are based on electoral process, political pluralism and participation and functioning of government. Civil Liberties ratings are based on freedom of expression and belief, associational and organisational rights, rule of law and personal autonomy and individual rights. Ratings 1-7 (lower is better) Score 2-14 (lower is better)	Freedom House
Quality	Mean of three measures: corruption, law and order, and bureaucracy quality. Corruption is on a 6-point scale, law and order is on a 6-point scale and bureaucracy quality is on a 4-point scale. The mean is scaled to be 0-1 (higher is better)	Political Risk Services Group, <i>International Country Risk Guide</i>

Annex C

What if recipients do not want to fight corruption?

What if the leaders of a country do not want reform because business and the bureaucracy are benefiting from organised corruption? What can be done under such circumstances?

Consider an example from a country whose identity must remain confidential. A government agency, the Public Health Service (PHS), buys pharmaceuticals and distributes them to the poor. There are eligibility cards and subsidies, supply chains and special health posts, and a lot of contracting and procurement, which involve public-private partnerships of several kinds.

Corruption has always existed in the PHS, but suddenly things get worse. The President is involved in a scandal and may be impeached. Parliament forms a committee to investigate and judge the President. The President and his party try to influence the committee; a relative of the committee chairman is named the Director of the PHS. Other new appointments in the PHS involve people from the same region as the committee chairman.

Procurement in the PHS becomes even more deeply corrupted. Competitive bidding, once the norm in 90% of the procurement contracts, is used in less than half of the cases. The other contracts are declared “emergencies” and therefore are eligible for sole-source contracts. Contracts are decentralised. In the regional offices, always scarce on talent and on oversight, the new leadership of the PHS combines the separate functions of procurement and internal auditing. In the words of one official, “Many of these people decide which firms will get the contract and then both manage the project and are responsible for auditing it.”

Even when procurement is competitive, abuses spread. Political influence paralyses external controls. Parliament names a new director of the supreme audit agency, and the President’s party installs a compliant individual. The Attorney General, the President’s old friend, is unwilling to pursue sensitive cases.

As the corruption in the PHS grows, organisational chaos ensues: eligibility cards are allocated through extortion and fraud, files disappear, when investigations or audits are started, records are missing. No one is sure if contracts have been awarded or if funds are available. As a result, some contractors are not paid and further rounds of corruption follow. Eventually, suppliers charge higher prices or retire from this market, leading to less competition and further opportunities for corruption and inefficiency. The PHS freefalls into financial collapse. Healthcare for the poor disintegrates.

Corruption in the PHS involved a corrupt coalition of the President, the congressional committee, some contractors, some political appointees and many PHS officials. Political will at the very top of government is lacking. Could this system be subverted?

- Information that the corrupt system had hidden started to be disseminated. For example, our research with records inside the PHS easily documented the switch from 90% competitive bidding to 50%. The “emergency” contracts had been recorded, and we could readily show that most had been awarded to cronies of political appointees. Inserting this information into the public dialogue created pressure for change.
- Some political appointees had received corrupt payments, which proved difficult but not impossible to trace. In some cases, houses, cars and other forms of conspicuous consumption were documented and then leaked to the press. Politicians had to explain how they accumulated such riches.
- The prices of various goods and services were compared with prices before the erosion of the PHS, with prices in the private sector and with prices in neighbouring countries. All of these comparisons showed the mark-ups that had taken place through corruption. These data provided a focal point for public outrage and a baseline for monitoring improvement.
- Businesses have a collective interest in reducing corruption, even when they are virtually required to participate in corrupt systems in order to survive. We worked with firms that could potentially compete in the PHS’s activities, as well as with associations of industry leaders, auditors and lawyers. They knew the problems and would tell when they felt safe in doing so. When the findings were out, the private sector started to push for change.
- Organised extortion for the PHS eligibility cards was uncovered and documented using hidden video cameras, undercover agents and confidential exit interviews.
- Successful efforts against organised crime – as corruption happens to be in many settings – attack the criminals’ culture of secrecy. Measures such as using undercover agents, planting electronic surveillance and inducing key insiders to become state witnesses are crucial. Creating distrust among the corrupt – for example, planting false rumours that someone is a turncoat or catalysing animosity among various factions – may result in useful information becoming available for those interested in fighting corruption.

The list of potential allies in fighting systemic corruption is long. Citizens’ groups, the press, religious and business groups, who realise that as a whole business suffers from systemic corruption. Interestingly, people and units of government who are not yet infected by corruption when given the opportunity may be valuable sources of information about how exactly the corrupt system functions. In the country in question, the new President had made fighting corruption a priority. International donors supported these initiatives.

In the case of the PHS, all of these forces were brought into play. Stakeholders were convened to consider the results of policy research and to devise alternative ways forward.

The results included the conviction of the PHS head, his two new deputies and the chair of the parliamentary committee. (The former President, alas, had already left the country.)

When corruption becomes systemic, the challenge shifts from preventing corruption to subverting corruption (see Table C.1).

Table C.1. Preventing and subverting corruption

	Preventing corruption	Attacking the illicit or parallel system
Key metaphor	Controlling corruption	Subverting corruption
Medical analogy	Strengthen the body to prevent the disease from taking hold. Examples: exercise, nutrition, lifestyle	Attack the disease itself. Examples: antibiotics, chemotherapy, surgery
Use analysis to find out:	Where healthy systems are vulnerable and how to strengthen them	Where organised corruption is itself vulnerable and how to weaken it
Some key analytical questions	How are agents selected? How is the principal-agent-client relationship structured? What are the incentives? How can monopoly power be reduced? How can discretion be clarified and circumscribed? How can accountability be enhanced? How can the moral costs be increased?	How are corrupt deals made? How can they be kept secret? How are corrupt goods and services delivered? How are members recruited and disciplined? What “footprints” are there from all these things? How can risks and penalties be created or enhanced? How is impunity now supplied and where is it vulnerable? Where is the money hidden?
Draw inspiration from:	Best practices in business management Public health programmes	Best practices in fighting organised crime Pathology and medicine
Key functions in the fight against corruption	Audit, systems design, incentive and personnel system, control, citizen oversight	All of these, plus undercover agents, infiltrators, turncoats and key witnesses
Key actors in the fight against corruption	People who run the system. The “principal” (in practice, the people in charge)	People who can influence and, if necessary, subvert the corrupt system. Citizens, professional associations, the press, business groups, one agency or level of government against systemic corruption in other agencies or levels

Annex D

Recommendations from the Kuala Lumpur Statement on Anti-Corruption Strategy

In October 2013, high-level representatives of anti-corruption authorities as well as national planning authorities from Asia and anti-corruption experts from around the world gathered in Kuala Lumpur to discuss a set of Guidelines for Anti-Corruption Strategies that “could instruct the process of developing, designing and implementing sustainable anti-corruption strategies”.¹ Their recommendations are listed below.

Anti-corruption strategy development process

- **POLITICAL, SOCIAL, ECONOMIC AND CULTURAL CONTEXT:** States must take into account their particular political, social, economic and cultural context when designing anti-corruption strategies.

- **POLITICAL WILL:** Committed political leadership, ideally from the highest levels of the state, and broader political support to steer the overall process and mobilise necessary resources, is a necessary condition of an effective anti-corruption strategy development process.

- **STAKEHOLDER INVOLVEMENT (INCLUSIVE PROCESS) AND OWNERSHIP:** Broad engagement of stakeholders builds ownership and helps to ensure acceptability and effectiveness of strategies adopted. State institutions (executive, legislative and judiciary) at national and sub-national levels, civil society organi[s]ations, private sector, media, professional societies, trade and industry associations and labo[u]r unions, academic institutions, youth and cultural organi[s]ations, can serve as important allies and partners in the development of anti-corruption strategies and can reduce the vulnerability of the reform efforts to changes in political leadership.

- **CLEAR AND TRANSPARENT PROCESS:** The process of developing strategies needs to be clear and transparent from the outset.

- **COMMON VISION:** A consensus should be built around a common vision and intended objectives of strategies.

- **STRENGTHENING CO-ORDINATION:** Anti-corruption strategies should focus on enhancing inter- and intra-agency co-ordination during the development process as well as implementation and monitoring phases.

- **SOUND KNOWLEDGE BASE:** Development, implementation and monitoring of strategies should be informed by sound diagnostics, needs and evidence of risk and vulnerability areas and gaps in anti-corruption policies and institutions.

- **SUSTAINABILITY AND INSTITUTIONALI[S]ATION OF THE PROCESS:** Development of strategies should be institutional[i]s]ed to ensure continued relevance and timely modification of the anti-corruption strategies.

- **ALLOCATING AND MOBILISING RESOURCES:** Necessary resources should be mobilised at the time of development of strategies to ensure effective implementation and monitoring of strategies.
- **PUBLIC COMMUNICATION AND ENGAGEMENT:** Anti-corruption and national planning authorities shall communicate and engage with the public regularly in order to ensure public confidence and channel feedback for the effective implementation of anti-corruption strategies.

Anti-corruption design and content

- **RATIONALE CORE OBJECTIVES AND REALISTIC GOALS:** Core objectives and goals, and rationale for interventions should be defined based on national priorities, and identified gaps and needs.
- **NATIONAL DEVELOPMENT STRATEGY/PRIORITIES AND BROADER CONTEXT:** Anti-corruption strategies should be incorporated within broader national development initiatives currently in focus and should take into account international/regional obligations.
- **INTEGRATION WITH OTHER RELEVANT NATIONAL PROGRAMMES/REFORM AGENDAS:** Anti-corruption strategies should take into account and establish links with other relevant national strategies (e.g. judicial sector, public administration reform, open government, etc.) and should seek to form synergies with other agencies.
- **COMPREHENSIVE AND CO-ORDINATED APPROACH:** Anti-corruption strategies should be organi[s]ed under an overarching/holistic approach while taking into account sector-specific needs.
- **CLEAR AND UNDERSTANDABLE DOCUMENT:** Strategies have to be clear, concise and easily understood.
- **STRUCTURE AND DESIGN:** While there is no simple formula for the proper design, content or implementation of anti-corruption strategies, UNCAC can be used as a framework for anti-corruption strategies, taking into account relevant data, particular needs and national capacities.
- **PRIORITI[S]ATION AND SEQUENCING:** Strategies need to be realistic on what is achievable in the short, medium and long term, set clear priorities and sequence actions based on priorities. Strategies could be designed with the aim of enhancing the credibility of leadership and ensuring quick tangible results to strengthen the national commitment to reform.
- **IMPLEMENTATION MECHANISM:** It is imperative that strategies provide for an implementation mechanism in the form of an action plan with clearly identified responsibilities and timelines for implementation with focus on results. The agency designated to co-ordinate implementation of strategies should be within high-level government agencies.
- **SUB-NATIONAL IMPLEMENTATION:** Where applicable, particular attention should be paid to strategies' implementation at sub-national and local levels.

- **INSTITUTIONAL AND FINANCIAL SUSTAINABILITY (NEEDS AND CAPACITIES):** Strategies should provide for their institutional and financial sustainability and should take into account capacity for implementation.

Anti-corruption strategy monitoring and evaluation

- **INTEGRAL PART OF STRATEGY DESIGN:** Monitoring and evaluation mechanisms are an integral part of national anti-corruption strategies. Elements of evaluation and data collection systems should be built into strategies from the design phase.
- **INDICATORS WITH CLEAR BASELINES AND TARGETS:** Measurable indicators, with established baselines and tracking mechanisms, are needed to determine whether targets are being achieved.
- **NEED FOR DATA GENERATION TOOLS:** Effective monitoring and evaluation requires reliable data that are generated based on multiple sources.
- **REGULAR REPORTING:** Regular monitoring and reporting allows authorities to gauge progress in implementation and achieving results in curbing corruption.
- **EVALUATION VS. PROGRAMME MANAGEMENT:** It is important to distinguish between programme management monitoring (activities/outputs) as opposed to evaluation (outcomes/impact) and between implementation responsibilities as opposed to monitoring and oversight responsibilities.
- **RESPONSIBLE AUTHORITY:** National body/bodies should be entrusted with the responsibility for monitoring, implementation and regular reporting and be provided with sustainable institutional and financial support. An independent evaluation should ensure accurate monitoring and reporting at regular intervals.

These generic reminders are probably as applicable for family planning programmes or telecommunications projects as for anti-corruption endeavours. Moreover, for practitioners, the “guidelines for anti-corruption strategies” are at once too much and too little.

Too much, in that they assume conditions that are absent in many developing countries.

- For example: *Committed political leadership, ideally from the highest levels of the state, and broader political support to steer the overall process and mobilise necessary resources, is a necessary condition of an effective anti-corruption strategy development process.* In the most difficult contexts, many at the highest levels of the state are worried about taking on systemic corruption, for several possible reasons. They may benefit from the corruption. Or they may understand that the corrupt systems have functions, and defenders, whose disturbance may engender extreme costs and risks. How can they be more feasible, effective beginnings against systemic corruption?
- For another example: *Regular monitoring and reporting allows authorities to gauge progress in implementation and achieving results in curbing corruption... Effective monitoring and evaluation requires reliable data that are generated based on multiple sources.* What data exactly are necessary, especially given the data limitations in many poor countries?

Too little, in lacking guidance about how to do what is recommended.

- For example: *States must take into account their particular political, social, economic and cultural context when designing anti-corruption strategies.* How in practice is this to be done?
- Or: *Strategies should provide for their institutional and financial sustainability and should take into account capacity for implementation.* Without telling us how, such statements are virtually empty.

Note

1. Kuala Lumpur Statement on Anti-Corruption Strategy, 21-22 October 2013, available at: www.unodc.org/documents/southeastasiaandpacific//2013/10/corruption/Kuala_Lumpur_Statement_on_Anti-Corruption_Strategies_Final_21-22_October_2013.pdf.

Annex E

What processes work?

Sometimes convenings, like the ones described in the Philippines, have a positive impact (in other cases, they do not – see Klitgaard [2013] for some examples). What do we know about which kinds of processes work and under what conditions?

One reason for the existence of so little information on what types of processes like these have worked is that those who launch these processes seldom evaluate them with rigour. One of the main reasons for this lack of evaluating effort is that gifted facilitators are not always motivated to evaluate. For decades, Herbert C. Kelman of Harvard organised problem-solving workshops to help influential people from Israel and the Palestinian Authority work together to define issues, understand obstacles and overcome those obstacles. The goals were “to produce changes – in the form of new insights and new ideas – in the workshop participants; and to transfer these changes into the political process and the political culture of the two societies” (Kelman, 2008: 44).

What did Kelman’s workshops accomplish? “The time has come for me to confess that, in the more than 30 years that I have been engaged in developing interactive problem solving, building its theoretical foundations and practicing it, I have not engaged in systematic research designed to evaluate its effectiveness” (Kelman, 2008: 39).

Even with the best of wills, evaluation would not be easy. Processes like Kelman’s take place in complex ecologies that change over time. An evaluation of the effects of his workshops would face another version of the evaluation problem described above. What positive (and negative) outcomes occur for what kinds of processes (done how) with what populations in what settings?

Innes aptly described the challenge:

Those who study public policy making and organi[s]ational development need to understand how and why consensus building is similar to or different from the alternatives, develop theory and evidence to define *best practices*, and establish when and why consensus building is (or is not) successful. Evaluations can help meet all of these needs. (Innes, 1999: 632)

In practice, evaluations have not met these needs so far. “The evaluations of consensus building conducted to date have not adequately assessed the full set of long-term and secondary effects...” (Innes, 1999: 636), nor were the variety of settings and indeed treatments taken into account.

Even when the method and goals of a decision-making process are identical, the qualities of the particular conveners and the participants may determine the effect of the treatment on the outcome. For example, Susskind et al. (2002) reviewed the effects of “multi-stakeholder dialogue at the global scale.” They noted: “While there are examples of successful [multi-stakeholder dialogues] contributing to official policy making, too many multi-stakeholder dialogues flounder because the participants are inadequately

prepared, the processes are managed ineffectively, and expectations are unrealistic.” Innes (2004) asserted that if done well, consensus building could yield positive results; but if done poorly, it could result in unintended consequences, even negative net effects. For example, consensus building might lead to “lowest common denominator solutions” and, because of power imbalances, apparent agreements would be fleeting.

Truex and Søreide studied “multi-stakeholder groups” in oversight and implementation and concluded that the barriers to success are substantial:

The laundry list of potential challenges includes: poor participation among members due to time constraints or conflicts of interest; problems reaching consensus on key decisions; imbalances of power and capacity across stakeholder groups; a lack of broader social and political legitimacy; difficulties obtaining needed inputs; and insufficient time as a result of external deadlines. (Truex and Søreide, 2011: 479)

Consider a few examples mentioned in the literature of valuable experience that did not lead to what we consider careful evaluations.

Conferences as a space for ideas development

Mead and Byers describe the goals of “small conferences”: to produce new ideas that participants would not have had on their own, ideas that after the workshop might be disseminated widely. “The ideas that grow under such conditions are different from the ideas which any participant would have had working alone, or even working with one or two colleagues” (Mead and Byers, 1968: 6).

Mead’s small book (with photographer Paul Byers) about small conferences presents her idiosyncratic lessons from 30 or more years of conference going. She focuses on whom to invite, where to meet, who should be the chair and the characteristics of participants. For conference organisers, Mead provides many down-to-earth recommendations about food, drink (it should be readily available to avoid “glut and famine phenomena”) and luxury (facilities should be very luxurious or, for the right cause, spartan).

Although she does cite, in footnotes, disguised examples of disastrous conferences, her evaluation of what works does not include examples of excellent conferences leading to important insights. Nor are her often-amusing generalisations, which may still have practical value, supported by anything like formal evaluations.

Government learning events

Blindenbacher began organising learning events for various levels of government in Switzerland. Later at the World Bank, he organised “about 150 documented learning events...in all sizes and shapes” (Blindenbacher, 2010: 71). Lots of methods were used (“a full range of different models”): “their compilation shows a kaleidoscope of theory-based disciplines, which were used to describe and understand how governments learned” (Blindenbacher, 2010: 71). The rationales of the different concepts were analysed using qualitative content analysis: “Following this methodology, the deduced rationales were clustered around precisely defined subject matter and thematically organi[s]ed around and sequenced into eight distinctive stages” (Blindenbacher, 2010: 72). The eight stages are:

1. conceptualisation (what knowledge is needed and what knowledge is available?)

2. triangulation (multiple viewpoints must be represented and evoked)
3. accommodation (people must be made to feel comfortable)
4. internalisation (people reflect on their own experiences in light of the new knowledge)
5. externalisation (people share their individual reflections with other participants “in a natural and unobtrusive way”)
6. reconceptualisation (overlapping reflections evolve into a new collective perception and a new normative frame of knowledge)
7. transformation (action plans are created to fit the requirements of a given political reality)
8. configuration (written output of results).

“When these stages are performed, a didactical process is established that encourages behavio[u]ral change in governmental institutions, their members, and representatives from involved non-governmental organi[s]ations and interest groups” (Blindenbacher, 2010: xviii).

Learning theories suggest:

First, a safe and comfortable learning environment has to be established to give the learning actor the opportunity to experience new knowledge, which may awaken his or her curiosity and interest. Second, the learner’s motivation has to be further enhanced by setting up a deliberate didactic process in which he or she becomes rationally aware of the difference between the known and the unknown knowledge, as well as the importance of overcoming this knowledge gap. Third, the learning should be done in a social context, where the learning actor is exposed to different peer perspectives. This way he or she gets an opportunity to choose from a variety of different explicit or tacit knowledge and to think about how it may best fit into his or her individual social reality. And fourth, if actors are exposed to positive incentives and rewards, their motivation to engage in a learning process increases and supports the intended learning outcomes – a change of thinking and an intended change of behavio[u]r. (Blindenbacher, 2010: 62)

What is known about how to design such processes and how well they have worked? Not much, Blindenbacher admits: “To date the contemporary literature offers few theory-based concepts to enhance participatory and interactive governmental learning” (Blindenbacher, 2010: 33). Beyond short-term evaluations by participants, impact evaluations are non-existent. “Though the learning spiral has been developed and applied over the last decade, it has yet to be rigorously evaluated and grounded in a *results framework*” (Blindenbacher, 2010: 88).

Improving our understanding about successful convenings

Given the lack of evaluations, rigorous evidence does not exist about what kinds of problem-solving processes work for what purposes with whom and where. However, as the importance of collaborative decision-making processes grows, they will generate more analyses and evaluations, more examples of outstanding success and more sharing of ideas. Progress could be expedited by having something like an evidence-based problem-solving process, about the very subject of the problem-solving process.

Imagine convening experts of different disciplines to consider what kinds of processes work where. They would assemble and consider some relevant facts on which kinds of processes people carry out to solve different types of problems such as workshops, multi-stakeholder groups, consensus building, group decision making and conferences. Then they would discuss the nature of the problems they address, what people are trying to learn, who the participants should be, the flows of decisions, partnerships to be formed and the roles of policy research.

Then they would consider examples, especially success stories. They might analyse the examples in the fashion of business case studies. In part A, the case study should explore the problem those in the case confronted. They would analyse what kind of process they should design, which facts need to be gathered, examples and frameworks; what participants to include in the process? In part B of the case study, they would see what happened to the case and how. In the ensuing discussion, participants would extrapolate the example to situations they know well, and learn from each other.

Finally, they would consider various frameworks relevant to the design and management of these problem-solving processes. They might assess the framework for “convenings” explained above (for another example, see Klitgaard [2013] on Haiti after the earthquake). They might consider ideas from Blindenbacher (2010), Patton (2011), and Andrews et al. (2013) on “problem-driven iterative assessment”.

This “convening about convenings” would help development co-operation actors and their partners become even more creative and practical problem solvers on problems like corruption.

Annex F

Other examples of convenings

Multiple convenings

Sometimes a convening is a single event. Ideally, there may be two or more convenings, as in the example from the island of Mindanao, in the Philippines, below.

In 2003, under the auspices of the Asia Foundation, the mayors of seven cities in Mindanao came to the RAND Corporation in Santa Monica (California) for a week. Each mayor brought along three to five senior colleagues. The purpose was to develop strategies for urban reform, in a context of both civil unrest and potentially large increases in funding from the central government and foreign aid.

The event lasted several days, and it included components that are by now familiar:

- *Data.* Participants considered data about (small) cities like theirs in the Philippines and in other countries. They learned about scorecards and outcome measures that had been developed for urban planning and evaluation around the world.
- *Frameworks.* Participants considered the classic environment-strategy-structure triangle (Paul, 1982; 1984) and a checklist for policy analysis regarding corruption (Klitgaard, 1988).
- *Case studies of success.* Together they analysed three cases of successful reforms from other countries, using a part A/part B structure:
 1. Part A presented the challenges faced by the reformers, along with their resources and settings.
 2. Working in seven teams (one for each city), participants analysed the case, considered the pros and cons of different alternatives, and made recommendations.
 3. Each team presented its recommendations, with other teams posing questions and making comments.
 4. Using visual techniques, Part B was presented – what actually happened in the case.
 5. Participants discussed what happened and possible implications for their cities.

One case concerned governance reforms at the country level. Another dealt with the use of citizens' groups and scorecards in a successful turnaround of a city. The final one examined an ultimately successful reform of a city government that confronted both a financial crisis and systemic corruption.

During the penultimate day, the participants turned to their seven cities. Each group presented to all participants a description of its city's challenges, resources and setting. The ensuing discussions focused on what objectives might be sought, what alternatives might exist and what learning was needed. Beginning in the afternoon and going into the evening, each city worked separately to develop a strategy for reform. On the morning of the final day, each city presented its strategy to the plenary. Lots of good ideas were generated, and the participants departed fired with enthusiasm.

One of the conditions of this convening was a follow-up meeting a year later, this time in Mindanao. The mayors recounted their achievements and obstacles. They praised each others' accomplishments and offered assistance on the problems encountered. The relationships forged among the mayors (and with the sponsor) were among the most important products of these events. They continued to help each other during the months and years that followed.

Including real-time dialogue with protagonists of the success story

As participants in a convening ponder how success *over there* might apply *here*, a valuable step can be a conversation with a protagonist. For example, in the mid-1990s the University of Natal, Pietermaritzburg (South Africa), was interested in merging the Faculty of Science and the Faculty of Agriculture. Both deans were advocates; some young professors were keen; but some powerful department heads and some senior academics understandably worried about issues ranging from autonomy to inefficiency. A convening helped everyone address whether and how the faculties might collaborate.

The first step was an evaluation of the putative benefits and costs of the different kinds of mergers. This work tabulated teaching inputs and outputs, measures of research productivity, possibilities for funding and "cultural differences" across the two faculties.

Step two was the identification of a case study of successful academic merger elsewhere. An interesting example was the amalgamation of the Faculty of Medicine and the Faculty of Biological Sciences at the University of Glasgow, creating the College of Medical, Veterinary and Life Sciences. Glasgow's leadership helped document what their issues were and how they dealt with them. A two-part teaching case was created. Part A presented the challenges facing the University of Glasgow before the merger and posed the question of what to do. Part B described what the university did and how, and described the key results.

Step three was a day-long convening. About 70 faculty members and senior administrators from the two faculties participated. They received in advance the study of the possible costs and benefits of the merger at the University of Natal, Pietermaritzburg. At the convening, they received data about the structure of the faculties of science at other universities in South Africa and around the world.

Then they considered the case of the University of Glasgow, Part A. The participants were divided into groups of eight, mixing the faculties and departments. They had 45 minutes to analyse the pros and cons of various alternatives. Then in plenary session a rapporteur from each group conveyed their findings. After a brief break, they listened to a presentation about Part B, what the University of Glasgow had done and how well it had worked. A discussion followed.

The participants were then asked, "If you could pose any question to the Deputy Vice Chancellor at Glasgow, what would it be?" He had been the key figure in the success story. They presented many questions, which were briefly discussed and evaluated.

To the participants' surprise, a telephone call was then made on speaker phone to the Deputy Vice Chancellor, whose participation had been prearranged.

After about half an hour the conversation was over and participants had a break, during which there were lots of discussions. After the break, they discussed what they had learnt from the data, the evaluation and the case of Glasgow. The conversation was creative. At the end of the convening, the participants formed a team to create an implementation plan for the merger at the University of Natal, Pietermaritzburg (which succeeded).

A positive scenario of the future

In difficult environments, people have heard a lot about their problems. What they have not pondered enough are scenarios of success.

One device is to create an imaginary news story dated five years hence as it was done in the case described below. The headline describes great success. The body contains imaginary data and quotes describing how much better things are. Hints are inserted about how the changes might happen, but only to provoke thought.

The example below is from a meeting of senior leaders at the World Bank, which took place just after the fall of President Hosni Mubarak in Egypt. The question on the table was:

Suppose one of the new governments in the Middle East and Northern Africa – say, Tunisia, Egypt or another country – comes to us and asks, “We want to clean up the corruption and abuses of the past regime. Can you help us figure out what to do and how?” How would we respond? Or better put, suppose such a request comes six months from now: how should we prepare ourselves now to give the best help?

First, participants took turns reading aloud, paragraph by paragraph, an imaginary news story of the success of one of the Middle East and North Africa (MENA) countries five years from now. This story, included below, describes some of the steps country X took to improve its governance, and the heartening results. The story adds that help from the World Bank was pivotal in the success – in the imaginary quote from the imaginary Prime Minister of X, “because of their ideas and examples even more than their financial support.” Before the story provided information on what the World Bank did and how, the text says “Continued on p. A-16.” But there is no page A-16. Consequently, the participants had to imagine the next part of the story.

[X is a country in the MENA region, home of a remarkable political revolution in 2011.]

An imaginary news story from 2016

Governance reforms catalysed X's economic success

Al Jazeera, March 2016 – Only five years ago, X's people rose and deposed the country's long-standing leader and his party. The watchwords were freedom and no corruption.

“Some people said we couldn't do either one,” explains Prime Minister Hosni Saeed. “They said our culture was dictatorial and that our new government would simply slip into the corrupt ways of the old regime. But look at the results now, how we've expanded political and civil rights and greatly improved the disease of corruption.”

Political scientist Raymond Gastil recalls, “In 2011, the region called MENA, the Middle East and Northern Africa, was the least free region of the world. It was also the region with the least transparent governments. What a change, at least in X.”

From 2011 to 2016, Gastil’s political rights and civil liberties measures for X have risen from “not free” and below the world average, to “free” and well above the world average. The World Economic Forum’s Global Competitiveness Index for X has moved from below average to above average. X’s Corruption Perceptions Index has improved by two full points, the largest positive swing of any country in the world.

One result: more private investment. “Our studies had shown that governance was the key obstacle to investment,” notes Mustapha Nabli, the World Bank’s former Chief Economist for MENA. “We showed that in the long term, private investment could increase tremendously, with the right climate. Already, private investment as a percentage of GDP has grown by 5 percentage points in X.”

How they did it

“We did three key things,” recalls Minister of Finance Faruk Ahmed. “We looked at the big picture together, with lots of idealism. We created a practical, strategic roadmap together, based on a diagnosis of our situation and examples from other countries of things that worked. And we started with concrete things that could be seen to work quickly.”

Breaking down change into discrete steps made the goal of good governance less daunting. “In addition to a new Freedom of Information Act, look at the specific things they did to increase transparency,” notes Kirstin Sorensen of Transparency International. “On the Internet they published information about all laws, regulations and directives. About all tax incentives and other benefits granted to firms. About privati[s]ations, public land transfers, subsidies and procurement tenders. And about court decisions on commercial litigation.”

Michael Hershman of the Fairfax Group adds, “Any MP who recommends a particular firm to a ministry is required to do so in writing – and all such recommendations are published.”

The new flows of information go two ways. “Citizens developed feedback mechanisms,” observes Iman El-Kaffass, a noted academic and activist. “Like scorecards on the performance of government agencies. Facebook pages where you can ‘like’ good performance and give a thumbs-down to bad performance. A website where you can report extortion or fraud. And with new citizens’ oversight councils for each ministry and big city, we follow up to see that these data were actually used.”

The business community helped with innovative “diagnostics” of corrupt systems. Salim Nasser of the Chamber of Industry describes one success story. “Each major road-building company was asked one-on-one to diagnose shortcomings in the procurement system, from prequalification to the renegotiation of contracts. From about 15 of these interviews, a diagnostic of the parallel system emerged. We used this to work with the ministry and craft-specific measures for reform. We have repeated the diagnostic each year, to gauge our progress and rethink the reforms.” The result: less corruption, lower costs per kilometre of construction, and higher measures of road quality.

Systemic corruption

It was important to go after the ill-gotten assets of the leaders of the prior regime. “This process can be overwhelming for even the most experienced of practitioners,” notes Jean-Pierre Brun, co-author of *Asset Recovery Handbook: A Guide for Practitioners*. “In X, the process was alleviated by the freezing of assets by Switzerland, the EU and the United States. The new government, of course, wanted to get that money back, and what was heartening was the collaboration of many of the secretaries and officials in the old government who had knowledge of the illicit transfers.”

Big fish had to be fried, meaning the prosecution of a few of the most abusive members of the old order, both government officials and corrupt business people. This demonstrated to angry citizens that things were indeed changing.

“But we didn’t emphasise the past,” notes prosecutor Noor Yousef. “Our focus was preventing corruption. We started improving our systems of oversight and auditing, and of course the administration of justice, including better incentives. We developed new ways to get information from citizens, business people and government officials.”

It was more difficult, and more dangerous, to address some inbred systems of organised corruption. “We knew there were plenty of ways the military was involved in corrupt systems,” says Mustapha Iqbal of the Citizens Council for the Revolution. “But we also knew that the military had to be an ally for change. We couldn’t attack the military directly or quickly. Instead, learning from other countries, we developed a longer term strategy to wean the military from its many economic activities and to improve military procurement. We coupled this with reforms in pay and incentives.”

The key role of international institutions

The new X government, and the citizens, were adamant about “doing things themselves.” They distrusted the support the prior regime had received from other countries and from some international financial institutions. But as change proceeded in governance reforms, the World Bank turned out to be a key partner.

“The Bank was so important to us, because of their ideas and examples even more than their financial support,” notes Prime Minister Saeed. “Let me cite just a few instances for (Continued on p. A-16)

Each participant spent about five minutes writing down ideas about what specific things the World Bank did to help country X form an effective strategy and to implement specific steps.

Then participants paired up. People explained their ideas to their partners, and vice versa. Then, each person was asked to tell the group a good idea that he or she had heard from their partner. All the ideas were summarised on whiteboards.

Discussion followed. After a while, the participants turned to a different question. “Given all these excellent possible contributions to country X, what do we need to do now to prepare ourselves and the World Bank for a request from a new government like X, say six months from now?”

The participants raised many ideas and concerns. Here are a few of them.

- Consider four dimensions: transparency, building capacity, using social media and collaborative leadership. Perhaps the World Bank could work with X to choose two priority areas, for example the budget and a social sector such as health. We could emphasise those four dimensions in those two areas. We could begin now to plan various ways of doing so.
- Eventually, we need a much better understanding of the political map in X. This may take a while, because the forces and personalities are unsettled. The World Bank’s country office should, in principle, be helpful here. But is the local office perceived to be too closely linked with the previous regime? Are local staff predominantly members of the former ruling party? Do we need to change some or many of our local staff, in order to be credible? Getting back to the assessment of the political map, we may need to wait until the new government is in place,

and then we may need to utilise the knowledge of people in country X and experts outside the World Bank, to understand the constellation of forces.

- We start with negative credibility. We have the potential to listen, especially to a new government and its citizens. We have to overcome the World Bank hubris of being the centre of the universe. We have to get outside the World Bank and consult all of the smart people who know about the region, the country, the issues. And then we have to ask: how can we support the reformers that are emerging?
- What if the new government becomes just like the old government?
- We have to learn from our own past mistakes – for example, with the former countries of the USSR and with parts of Africa. Are new regimes really different? What new sources of information and new relationships should we develop and use?
- You can be pessimistic easily enough. For example, think of Central Asia under the USSR and now. Is the Middle East as culturally resistant? Or is this a moment of unprecedented possibilities? Can we listen – and do something different?
- Situations like this may offer us a chance to change the World Bank. Not just the MENA region. We can face up to our credibility problems. We can develop relationships in new ways and lead by example.
- What are the World Bank's comparative advantages? Are we good at relationships with governments but less good at new governments? We are interested in relationships with civil society but who in the World Bank is really good at that? How can we become more capable at helping the new government of X forge relationships?
- Who are the key players in the World Bank with regards to the MENA region and with regards to the key issues a country like X will be facing? Who steps up first? What are our terms of engagement? We have working groups now in four areas, but we may need more guidance from the top levels of the World Bank.
- Going back to trust. The big task for us at the World Bank is to change ourselves. Our services do matter, our money and our connecting knowledge and people across countries. But we need to be less biased. More humble. The World Bank Institute has capability in working with non-state actors, but other parts of the World Bank do not do this so easily. How can our institution do better at building partnerships, fostering trust, being humble?

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