

# PUBLIC-PRIVATE COLLABORATION AND CORRUPTION

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## OVERVIEW

This paper hopes to kindle a conversation on three propositions.

1. Improved public-private collaboration is needed to catalyze progress on the most important issues facing our neighborhoods, regions, countries, and world.
2. As public-private collaboration grows, it will raise the specter of corruption.
3. Therefore, if public-private collaboration is to live up to its promise, issues of corruption will take center stage. Fortunately, there are promising anti-corruption innovations involving collaboration across the public-private divide.

### 1. PUBLIC-PRIVATE COLLABORATION AND BIG ISSUES

In areas such as the construction and maintenance of infrastructure, the economic value of public-private partnerships (PPPs) is based on bundling (compared with traditional procurement) and comparative advantage (private firms have more knowledge, higher-powered incentives, competitive pressures, and access to different sources of financing).<sup>1</sup> Like horizontal and vertical integration, partnerships are sometimes seen as ways to overcome incomplete contracts by aligning interests (Klitgaard 1990, ch. 9). Some people believe that PPPs save taxpayers' money, but the savings may be illusory and the distortions of taxation simply postponed.<sup>2</sup>

Managerial advantages have also been cited—for example, Kwak, Chih, and Ibbs (2009). “Terms are clarified, evaluations and assessment made, costs and benefits known, and decisions informed by science as well as by politics” (see a long list of potential benefits in Fung and Tumin 2010: 4-5).

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<sup>1</sup> See, for example, Iasso and Martimor (2008), Martimor and Pouyet (2008), Kwak, Chih, & Ibbs (2009), and Engel, Fisher & Galetoic (2011). More general but also relevant are Besley & Ghatak (2001) and Hart (2003). See also Laffont & Tirole (1993).

<sup>2</sup> “The case for PPPs cannot rest on the claim that they relieve strained budgets,” conclude Engel, Fischer and Galetoic (2011, p. 9). Funds invested by a private contractor may save society from distortionary taxes now, but the contractor must be compensated for the investment through a longer contract term, which costs society future distortionary taxes equal to the initial tax saving. Many governments, however, continue to value the illusion of savings from the off-budget aspects of PPPs.

Beyond PPPs in infrastructure, consider the biggest issues facing our countries, our regions, and our planet. In no particular order of priority and without being exhaustive: taking advantage of scientific and technological progress for the benefit of all, improving education, managing natural resources, enhancing social integration, addressing early childhood disadvantage, changing lifestyles to promote health and well-being, managing banking and credit systems, reducing crime, protecting ourselves from communicable diseases, providing universal identification (as in India's Aadhaar initiative), and improving local, national, and international security.

And consider this proposition: progress in addressing these and other big issues will involve more and better partnerships (or collaboration) across government, business, and civil society (Klitgaard 2004).

Why the sectors together, not one sector or the other? Robert Picciotto (1994) pointed out that big issues often involve multiple kinds of goods (private, public, toll, common property, and more) and that government, business, and civil society have different comparative advantages in providing these goods. For example, when working on a issue like the green revolution in Ethiopia, government has its distinctive advantages (authorizing legal environment, raising revenues for R&D, agricultural extension, some aspects of irrigation), business has its (marketing and distribution of inputs such as seed, fertilizer, and credit), and civil society organizations have theirs (mobilizing demand, managing common property resources, cooperation in procurement of credit).

"Collaboration" across the public-private-nonprofit divide can mean a kind of contract, as in infrastructure projects, a classic location of one kind of PPP. More broadly, John Donahue and Richard Zeckhauser (2006, 2011a) define "collaborative governance" as "The pursuit of authoritatively chosen public goals by means that include engaging the efforts of, and sharing discretion with, producers outside of government" (2006: 496). They cite examples ranging from parks in New York and Chicago to "management-based regulation"<sup>3</sup> to job training.<sup>4</sup> Not

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<sup>3</sup> "Government regulators' recognition that they suffer a deficit of information, relative to regulated firms, is the fundamental motive for sharing regulatory discretion with firms' managers. In the environmental arena, a conventional regulatory approach might specify the technologies for processing wastewater before it can enter a river. A management-based approach would set maximum levels for each contaminant, but allow firms to decide the best way to meet the standards. While flat generalizations about the broad and varied terrain of regulation are notoriously perilous, we perceive a widespread migration toward regulatory models featuring efforts to forge common goals, the sharing of discretion, and strategically charged interaction—in a word, collaboration" (2006: 511).

<sup>4</sup> "The private sector is extensively involved not just in governance but also in delivery. Community colleges and other non-profit educational institutions are eligible to deliver training, but so are for-profit training providers. Moreover, private firms are explicitly granted eligibility to deliver on-the-job training to

all the examples are successful, however. Donahue and Zeckhauser criticize how shared discretion has functioned in U.S. health care, and an online appendix weighs the mixed evidence on educational partnerships such as charter schools (Donahue and Zeckhauser 2011b).

Donahue and Zeckhauser describe collaboration along six dimensions:

- Formal through informal to tacit.
- Permanent to ad hoc and temporary.
- Focus: narrow to broad.
- Diversity of participants (number, type).
- Stability defined in terms of shared objectives.
- Discretion, which “is the most useful discriminant for separating collaborative governance from other forms of public-private interaction” (2011a: 26).

The authors distinguish three kinds of shared discretion—production, payoffs, and preferences. Production discretion regards the means to pursue defined ends. Private firms and non-profit organizations often have production advantages because of “the focused incentives of the profit motive (with respect to for-profits) and procedural flexibility (with respect to both for-profits and non-profits), the ability to harvest economies of scale and scope by operating beyond jurisdictional boundaries, and the prospect that the quality of performance will affect the odds of expansion, merger, or extinction” (2011a: 19).

Payoff discretion regards how the gains from efficiency are shared. “When production alternatives entail different immediate distributions of value, the inevitable entanglement of payoff discretion with production discretion renders government vulnerable whenever it lacks full information about the efficiency and payoff characteristics of each alternative” (2011a: 38-9).

Preference discretion arises when various kinds the payoffs are valued differently by the partners (even when “altruistic”). “Even apparent public goods—that cleanly meet the standard criteria of non-rivalry and non-exclusivity—rarely spread their benefits uniformly.” (2011a: 41)

The central task for government officials attempting to create public value through collaborative arrangements is to maximize the efficiency gains of production discretion, net of the losses associated with payoff and preference discretion... [At the optimal amount of production discretion]...the marginal benefit (MB) of greater production discretion ... just equals the marginal cost (MC) ... [which] is the increase in payoff discretion from a unit increase in production discretion times the marginal cost of that

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individual workers and (under certain circumstances) to use public money to upgrade the skills of their overall workforce. While this collaborative approach to workforce development has its strengths and weaknesses, there is an apparently durable bipartisan consensus behind this general strategy” (2006: 513).

increase.” MB of production discr. = MC of payoff discr. + MC of preference discr.  
(2011: 43, 46)

So, regarding complicated big issues, how can societies best design and manage the collaboration between government, business, and nonprofits? This question will occupy greater and greater attention in the years and decades ahead. Beyond the economic savings from PPP, better public-private collaboration will be needed to mobilize the capabilities, will, and knowledge to make progress on the most important social, economic, and security issues.

## 2. PARTNERSHIPS AND CORRUPTION

Public-private collaboration is not always successful. “[T]he outcomes for the public of collaborative governance can range from spectacular to calamitous, depending on government officials’ ability to determine when collaboration is a promising approach; to judge how much discretion to cede to private agents; and to fine-tune the terms of the collaboration to maximize the benefits less the costs associated with shared discretion” (Donahue and Zeckhauser 2011a: 46).

One reason is that collaboration is difficult to design and manage.<sup>5</sup> For example, Vining and Boardman (2011) suggest eight rules for governments regarding PPP and show how the rules were not applied in the case of the failed Metronet (the London Underground P3).

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<sup>5</sup> “To fulfill the functions that we rather casually summarize in the preceding paragraph,” Donahue and Zeckhauser (2011a) observe, “government officials must:

- gauge the expected efficiency differential between direct government performance and delegation to the private sector of a particular function;
- evaluate the net public benefits of different levels and variants of an undertaking;
- estimate the probable balance between value gained and value lost for each increment of private discretion, in order to judge how fully specified the terms of a delegated task should be;
- appreciate the objectives, constraints, and internal dynamics of potential collaborators in sufficient detail to predict the gains from production discretion and the degree and nature of risks associated with payoff and preference discretion;
- discriminate among potential collaborators according to how they are likely to employ any discretion granted, and how likely they are to comply with measures to curb their discretion;
- structure, implement, and uphold a regime of rules that loosely constrain productive discretion and tightly constrain payoff and preference discretion;
- alter the terms of the collaboration as public priorities change or new evidence comes to light;
- and do all of this even when, as will frequently be the case, the private parties in a collaboration out-match the public parties in resources, political influence, and popular esteem.” (47-8)

Another reason is that public-private collaboration can spawn corruption. The same arrangements that have positive effects may also abet the abuse of power. When José Edgardo Campos and Hilton Root (1996) unpacked the “East Asian economic miracle,” they emphasized innovations in public-private collaboration. Various kinds of consultative councils provided leaders with needed flows of information and also constrained governments that bordered on the authoritarian. The “dictator’s dilemma” of biased information and an inability to commit was relieved. The results, argued Campos and Root, included political stability and better decisions about economic and social policies. These forms of government-business collaboration mattered more to the economic miracle, they conjectured, than free-market policies or the mobilization of resources. But right after the book was published, many East Asian economies collapsed. What caused the collapse? Many explanations focused on governments and business people being too tightly connected. The new institutions of public-private collaboration facilitated crony capitalism, collusion, and corruption.

Whether or not these arguments were valid in East Asia, there is a risk to the expansive notion I described of public-private collaboration taking on the big issues. An amusing, or perhaps frightening, depiction of the downside of PPP was presented by the late Joan Veon, of the Women’s International Media Group (Veon 2012). It is unclear whether Ms. Veon’s fears of big business taking over government were motivated by Karl Marx or Ayn Rand. There are less fantastic visions of the threat. Legal scholars such as Martha Minow (1993) and Dominique Custos and John Reitz (2010) worry about the “new religion” or “new enthusiasm” for public-private partnerships. They see U.S. law governing PPPs as insufficient to protect “public values and interests.” Some social scientists and public administration scholars speak of the privatization of the public interest, sometimes associated with context-insensitive international capitalism—and of course so do some eloquent politicians, notably in Latin America and Europe. “Opponents to public-private partnerships have often argued that those forms of procurement increase the scope for capture of the decision-maker by private interests” (Martimor and Pouyet 2008: 16).

Consider, then, a second proposition: as we foster public-private collaboration to tackle the hardest problems, corruption and abuse of power loom. Indeed, the countries most in need of collaboration face the greatest obstacles of dictatorship, crony capitalism and crony NGOs, and cultures of bribery. Mona Hammami and her colleagues found that PPP are lacking in countries with more corruption and less effective legal systems (Hammami, Ruhashyankiko and Yehoue 2006).

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The authors note that “orchestrating collaborative arrangements calls upon skills that are frequently found among corporate executives, venture capitalists, or senior consultants, but less so among front-line public managers.” (48)

As noted, Donahue and Zeckhauser distinguish collaborative governance in terms of *shared discretion*. Discretion is a key to corruption as well. An old formula says  $C = M + D - A$ . Corruption equals Monopoly plus Discretion minus Accountability. Whether we are in Copenhagen or California or Cochabamba, an institution is vulnerable to corruption when someone has monopoly power over a good or service we want or need, has the discretion to decide how much we get or whether we get any at all, and is not accountable for what he decides (Klitgaard 1988).

Indeed, careful studies of PPPs have shown how damaging corruption can be. PPPs are part of a broader category of high-value, unique transactions, which present special opportunities for “grand corruption.”

If the state carries out infrastructure construction projects, privatizes public firms, makes large defense purchases, or allocates concessions to natural resources, these activities are very valuable to the successful private firms and, as one-of-a-kind projects, are difficult to price competitively. Thus, those involved in the government and in the private sector may inflate overall contract values and then struggle over the division of the excess profits ... If corruption is endemic in large public undertakings, it will give officials incentives to create extra unneeded projects to hide monopoly gains to be split between government officials and their private sector counterparts. These projects may be self-consciously designed as special purpose deals to make monitoring difficult by both insiders and outsiders, such as aid and lending organizations. In such cases the loss to society is not just the bribes paid; it is the total of wasted resources spent on the project. (Rose-Ackerman and Truex 2012: 21-22)

Bent Flyvbjerg and his colleagues studied 258 transportation infrastructure projects worth US\$90 billion and representing different project types, geographical regions, and historical periods. They found the cost estimates used to decide whether such projects should be built were lies told for a purpose: “[D]eliberate cost underestimation is lying, and we arrive at one of the most basic explanations of lying, and of cost underestimation, that exists: Lying pays off, or at least economic agents believe it does.” (Flyvbjerg, Skamris Holm and Buhl 2002: 288).

In addition, as long-term contracts, PPP have proved subject to remarkable amounts of dubious renegotiation, leading to suspicion of corruption. Luis Andrés and his colleagues lament the

excessive disposition by governments to consider demands for renegotiation of the original contracts. This disposition is reflected by the excessively large number of renegotiated contracts. Overall, more than 50 percent of the contracts were renegotiated. The most affected sectors were water and transport, with 88 percent and 71 percent of contracts renegotiated, respectively (Andrés *et al.* 2008: 231).

In a study of 307 water and transport projects in five Latin American countries between 1989 and 2000, Guasch, Laffont and Straub (2006) found that about four-fifths of government-led renegotiations occurred after the first election during the life of the project. Andreas Brenck and his colleagues studied PPP in Eastern and Central Europe. Their verdict: PPP didn't work as well as traditional procurement, because of "institutional weaknesses," a lack of transparency, and "inefficient renegotiations."<sup>6</sup> In the United Kingdom from 2004 to 2006, changes occurred during negotiations with the contractors in about one-third of Central Government Departments PFI projects. The changes amounted to a value of over £4 million per project per year, or about one-sixth of the value of the project (cited by Iossa and Martimort 2008: 30).

Why so much renegotiation? Changing requirements, perhaps. Perhaps, too, the corrupt exploitation of the opportunities for bilateral negotiations, where changing requirements can be faked and the resulting cost increases can be corruptly shared.

Recently, economists have taken theoretical stabs at the renegotiation challenge (for example, Guasch, Laffont & Straub (2006, 2007) and Iossa & Martimort (2011). Eric Maskin and Jean Tirole (2008) sketch out rules that constrain the government's ability to understate future costs of pet projects. One idea: a spending cap that varies according to the government's "distortionary incentives."

But so far, formal economic models of PPPs do not address what to do if both partners are corrupting the partnership, benefiting particular agents and officials but harming most of the public through higher costs, lower quality, too many projects not worth their costs, and the misdirection of public spending. "The second important omission of this paper on the political economy side," note Elisabetta Iossa and David Martimort in their review of the microeconomics of PPP, "is that we disregarded the issue of collusion between the contracting agency and the firm, though some research exists on the topic. In Martimort and Pouyet (2008) for instance, PPPs are shown to increase the risk of capture for political decision-makers. Indeed, the very reason of the benefits of PPPs is that those contracts allow some efficiency gains that raise the power of incentives, and thus stakes for collusive behavior. This like other important issues on the design and usefulness of PPP contracts await further research." (Iossa and Martimort 2008: 44)

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<sup>6</sup> "The Hungarian experience can also be taken as evidence that concession companies in Central and Eastern Europe almost always entered into renegotiations, in which they succeeded in gaining additional financial support from the public sector. In an emerging country, which tries to attract foreign investors, the visible bankruptcy of a concession company adversely affects the country's reputation, and this is why the public sector is particularly weak in renegotiations. Even without renegotiating 'failed' projects, PPPs and concessions enable construction companies that hold shares in the concession company to make profits by overpricing construction works" (Brenck, Beckers, Heinrich, & von Hirschhausen 2005: 94).

Systemic corruption can infect public-private collaboration. What to do? Enter new forms of civic action and public-private collaboration.

### 3. PUBLIC-PRIVATE COLLABORATION IN THE FIGHT AGAINST CORRUPTION

Around the world, the usual approaches to fighting corruption are not producing good enough results. These approaches pass new laws, dictate codes of conduct, train public administrators, and buy computers. With regard to civil society and the business community, there are meetings, speeches, and surveys that measure how many citizens and companies are paying bribes.

These steps are not so much wrong as incomplete. Having state-of-the-art laws doesn't guarantee their implementation. Elaborate codes of conduct are often only ornaments. Knowing that X% of citizens pay bribes in ministry A and Y% in ministry B doesn't mean that the social costs of corruption A are greater than in B. Nor of course do such data say what corrective actions are cost-effective in A or B.

We need new approaches. They will recognize that:

- Corruption is a problem of political cultures as well as bad laws and poor policies.
- Corruption involves informal systems that work in parallel to the ostensible, legal systems.
- Reformers have to build credibility and momentum by “frying big fish” and achieving some quick, highly visible successes.
- The business community and civil society must participate in diagnosing and healing corrupt systems.

This section focuses on the last point, how to involve business and citizens and forge effective public-private collaboration against corruption. Immediately, a question arises: “If government leaders and business people and citizens are participating in corrupt partnerships, who will undertake needed changes?” Reformers are likely to arise in three groups: new governments (especially those who ran against corruption, although sometimes alas they quickly have their heads turned), competitors to the collusive businesses, and citizens whom corruption harms. Around the world, corruption has emerged as a priority in political campaigns, in business groups, and in civil society organizations. In my experience, there is no shortage of sincere opponents of corruption from the public, private, and nonprofit sectors, even in highly corrupt countries. But they are stuck in a kind of corrupt equilibrium. How might they collaborate in

diagnosing, restructuring, and monitoring public-private partnerships (and for that matter, many other areas of corruption)?

### AN EXAMPLE OF COLLABORATION UNDERMINING ORGANIZED CORRUPTION

Consider an example from a country I worked in but whose identity must remain confidential (Klitgaard 2010; despite the title of the monograph, the country in question is not Haiti). A government agency we'll call 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 lots of contracting and procurement, which involve public-private partnerships of several kinds.

Corruption has always existed in PHS. But suddenly, things get worse. The country's president is involved in a scandal. He 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 PHS. Other new appointments in PHS involve people from the same region as the committee chairman.

Procurement in PHS becomes even more deeply corrupted. Competitive bidding, once the norm in 90 percent of the procurement contracts, is used in less than half. The other contracts are declared "emergencies" and therefore are eligible for sole-source contracts. Contracts are decentralized. In the regional offices, always scarce on talent and on oversight, the new leadership of PHS combines the heretofore 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. Specifications are tailored to enhance the chances of favored suppliers. Cost overruns are approved in exchange for bribes.

Political influence paralyzes 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 PHS grows, organizational chaos ensues. The manual of procedures is abandoned. Eligibility cards are allocated through extortion and fraud. Some files disappear, then many. Even if investigations or audits are started, records are missing. No one is sure if contracts have been let, or if funds are available. As a result, some contractors are not paid. Delays 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. An honest auditor finds a PHS warehouse full of televisions, champagne glasses, and so forth. Straightforward theft becomes widespread, and medicines disappear.

PHS free falls into financial collapse. Health care for the poor disintegrates.

So, corrupt in PHS involved a PPP gone bad: a coalition of the president, the congressional committee, some contractors, some political appointees, and many PHS officials. How was this corrupt system subverted?

- Information was disseminated that the corrupt system had hidden. For example, our research with records inside PHS easily documented the switch from 90 percent competitive bidding to 50 percent. 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 side 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 PHS, with prices in the private sector, and with prices in neighboring countries. All 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 corruption systems in order to survive. We worked with firms that could potentially compete in PHS’s activities, as well as with associations of industry leaders, auditors, and lawyers. They knew the problems and would tell us, when they felt safe in doing so. When the findings were out, private-sector pressure points to express outrage and to push for change.
- Organized extortion for PHS eligibility cards could be uncovered and documented by using hidden video cameras, undercover agents, and confidential exit interviews.
- Successful efforts against organized crime attack the criminals’ culture of secrecy. Crucial are such measures as using undercover agents, planting electronic surveillance, and inducing key insiders to become state witnesses. Also, misinformation and “dirty tricks” have been used to create distrust among the corrupt—for example, planting false rumors that someone is a turncoat, or catalyzing animosity among various factions.

The list of potential allies in fighting systemic corruption is long but not easy to mobilize. Citizens’ groups, including the international NGO Transparency International. The press. Religious groups. Business groups, who realize that as a whole business loses from systemic corruption. International organizations. And, interestingly, people and units of government who are not yet infected by corruption. Even within a corrupted agency, the infection is never complete, and given the opportunity, people ranging from secretaries to technicians to long-term civil servants 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 PHS, all 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 had already left the country.)

### *PUBLIC-PRIVATE COLLABORATION IN SUBVERTING CORRUPT SYSTEMS*

This (limited) success story suggests a generalization. Business people, citizens and citizens' groups, and government officials can help diagnose, redesign, and monitor corrupt systems. Business people understand corrupt systems of procurement. Lawyers know the workings of corruption in legal systems. Accountants understand the illicit games played with audits. Citizens know where corruption affects them, from getting drivers' licenses to receiving public services.

The task is to cull what these parties know without putting them at risk. Surprisingly perhaps, firms, citizens, and public servants will diagnose how corrupt systems work, as long as they are asked questions about systems and not individuals and as long as they can express their views confidentially.

So, those interested in reform—new governments, competing firms, citizens' groups, the press, international donors—might select public-private partnerships where they suspect that corruption has become chronic. Use the firms that bid on and engage in these PPP to identify weaknesses in the existing processes and how the parallel system works. To begin, lay out the various steps: prequalification of companies, technical criteria and their weights, the judging of the various competitors, the process for post-award changes, the payment of the contract, and post-contract renegotiations. Each step is susceptible to corruption. Each interviewee is asked, "Here is how things are supposed to work in renegotiations. In your experience, what problems tend to emerge? How prevalent do you guess these problems are? What distortions are created?" And so on for the all the steps.

These interviews—perhaps 15 of them—provide the basis for a diagnostic of a corrupt system. This diagnostic is supplemented with estimates of the harms of corruption in terms of quality and cost. For example, what is the cost in terms of the price of a kilometer of rural roads, the prices of pharmaceutical supplies, or the cost of school lunch programs? These estimates are obtained by comparisons with costs and prices in the private sector, other parts of a given country, and other countries in the region.

The next step is to analyze the weaknesses of the parallel corrupt system. The techniques for analyzing corrupt systems resemble those used in fighting organized crime: computer-based analyses of suspicious patterns, undercover agents, wiretaps, trying to get one member of a corrupt syndicate to turn state's evidence, and so forth. Then reformers work together to

subvert the corrupted system. For example, it is hard to hide ill-gotten funds, difficult to make and enforce corrupt agreements, risky to recruit new buyers and sellers. Each of these weaknesses provides a possible point of attack.

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

Table 1  
Preventing Corruption and Subverting Corruption

	<b>Preventing Corruption</b>	<b>Attacking the Illicit or Parallel System</b>
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 organized 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? 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 programs	Best practices in fighting organized 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, “dirty tricks”
Key actors in the fight against corruption	People who run the system. The “principal” (metaphorically, the people; 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

Beyond diagnosing and then strengthening government institutions, the task is diagnosing and then weakening corrupt institutions. To engage in corruption a government official and a

private party have to identify each other as potential corrupt partners, find a way to reach and enforce an agreement, and then deliver what each has promised.

Each of these steps can be difficult, and each has vulnerabilities to detection. So, one asks how the corrupt systems work. How are corrupt buyers and sellers found and matched? How do they make and enforce their implicit contracts? What footprints does their illicit transaction create, and how they try to cover them up?

Then countermeasures should be designed. For example, how might corrupt contracts be exposed, undercut, or destabilized? How might undercover agents be introduced to the system in order to disrupt it? Who are the disaffected in the corrupt system, and how may they be induced to defect? How might disinformation be injected into the corrupt system to create schisms, distrust, and greater risk?

I believe public-private collaboration in diagnosing, remaking, and then monitoring corrupt PPP will be of growing importance. The subject deserves far more research than it has received (see below for some suggestions).

#### OTHER PROMISING EXAMPLES OF COLLABORATIVE INITIATIVES AGAINST CORRUPTION

Developments in the social media offer potent opportunities for anti-corruption activism. Moving forward, they may become the basis of new forms of public-private collaboration—indeed, new methods to sanitize corrupt PPP.

Consider the aptly named Indian website Ipaidabribe.com (<http://ipaidabribe.com>). Over the past two years, Ipaidabribe has helped galvanize a movement against corruption never before seen in India. This initiative helps civil society live up to its anti-corruption potential. Civil society—a.k.a. the people—have distinctive competencies in the fight against street-level corruption. One is knowledge. Collectively, the people know where corruption occurs with police and service-providers, permit-givers and tax-collectors, and in many local construction projects.

How can we glean this knowledge from citizens about corruption? They need to be able to report their experiences easily and anonymously. When governments ask citizens to report corruption, the results are often disappointing. Often the process is not easy. Citizens may not believe promises of anonymity and may fear reprisals. And when they do file a report, often nothing ensues. Cynicism is reinforced. Why bother?

Suppose instead citizens report to each other. Suppose we have a website where we can describe our experiences with corruption easily and anonymously. Suppose we can subsequently see the patterns of bribery in our town or region, in this-or-that ministry. Suppose

the website also enables us we to share the ways that we have managed to avoid paying bribes—how we’ve beaten corruption in our daily lives.

Ipaidabrike.com was brought online in September 2010 by Swati and Ramesh Ramanathan, along with Sridar Iyengar, of the Janaagraha Centre for Citizenship and Democracy, a civil-society organization in Bangalore. “Please do NOT report names,” the website says. “We aim to change processes not target individuals.” Citizens and business people can go to Ipaidabrike using SMS or Twitter or Facebook and report corrupt acts. How much did you have to pay for that permit or license, or to get out of that traffic ticket? Your reports and many others become the source of unprecedented data about bribery. Ipaidabrike takes individual reports and produces tables and maps showing where corruption is happening and how much various transactions cost. You can read people’s short reports and examine the resulting data. In another part of the website, people also help each other figure out how to avoid bribes.

This idea has gone viral. At least 20 countries have something similar, such as ipaidbrike in Pakistan and ipaidabrike in Kenya. In Estonia, the smartphone app Bribespot lets users reveal and then visualize the corruption that surrounds them. The app determines the user’s location and then displays reported instances of bribery nearby. The app’s “bribe stream” reveals specifics about each bribe, including the amount and how it was requested or paid (<http://bribespot.com/>). In Latin America, similar ideas are being tested regarding crime instead of corruption (<http://www.as-coa.org/article.php?id=3887>). Latin America is also using social media to fight electoral corruption. In Argentina, the civil-society organization Citizens’ Power enables citizens to share information about campaign financing for different candidates (<http://poderciudadano.org/quien-te-banca/>). A similar effort is underway in Colombia (<http://www.transparenciacolombia.org.co/HERRAMIENTAS/AplicativoCuentasClaras/tabid/87/Default.aspx>). In Guatemala, citizens use social media to report irregularities in the electoral process (<http://www.miradorelectoralguatemala.org/ushahidi-new/>).

Evaluation lags innovation. It is not yet known what impacts these initiatives have had. Indeed, a recent conference debated what the measures of success should be (hits on a website? number of bribes reported? changes in measures of government efficiency? <http://europeandcis.undp.org/blog/2011/11/25/social-media-for-anticorruption-from-“why”-to-“how-to”/>). This is a ripe area for evaluation and policy analysis.

Also for case studies. At least one successful government reformer has acknowledged Ipaidabrike. Bhaskar Rao, the commissioner of transportation for the Indian state of Karnataka, used data from Ipaidabrike to push through reforms in the motor vehicle department. Licenses are now applied for online, and last year Bangalore launched the world’s first automated [driving test tracks](#). Drivers parallel park, navigate a figure eight, and perform other tasks while monitored by electronic sensors. The automated test “totally eliminated the whims and fancies

of the motor vehicle inspectors,” Mr. Rao recently explained. “It is videotaped so everyone can see the results, and everything is very transparent.”

#### *FROM COMPLAINTS TO SYSTEMS ANALYSIS TO SOLUTIONS*

So, the social media are growing in prominence in the fight against corruption—and more generally, in the quest for good governance. Even for countries where corruption has become systemic, a recent review of anti-corruption policies recommends a “basic package” of initiatives that emphasize the roles of business and civil society, such as “audit and watchdog systems anchored in civil society, Internet infrastructure at community level, support for watchdog media,” (Mungiu-Pippidi, A., *et al.* 2011).

The next steps for the social media, I believe, will move from *complaints* to *systems analysis* and from there to *practical solutions*.

Consider “I Propose,” a website run by university students in Mexico City (<http://www.yopropongo.org/>). People are invited to propose ideas to help solve social problems in Mexico City. Through the site’s blog, Twitter feed, and Facebook page, the site’s administrators ask people which problems need to be solved and elicit ideas about practical solutions.

Social innovation camps, pioneered in the United Kingdom, have blossomed in the last two years in five countries of Eastern and Central Europe, including Russia. The camps convene experts in social problems and solutions along with software designers and developers. The goal: to mobilize innovations in the social media applied to social change.

[http://issuu.com/undp\\_in\\_europe\\_cis/docs/social\\_media\\_report\\_-\\_external](http://issuu.com/undp_in_europe_cis/docs/social_media_report_-_external)

Think of other possibilities with experts. As noted above, lawyers and accountants know all about the scams in their domains. Companies involved in public works know how procurement can be corrupted. These kinds of corruption often go beyond the street-level varieties experienced by ordinary citizens. Social media could help lawyers, accountants, and business people report instances of corruption. And beyond individual complaints, social media could encourage them to describe how various corrupt systems work. This knowledge could then be used to crowd-source possible improvements.

What will it take to take these next steps? A vision and a business model, for starters. Ipaidabribe.com in India has an operating budget of about USD80,000/year. It is supported by a foundation set up by Pierre Omidyar, a co-founder of Ebay, and it is also part of a well-funded civil-society organization. But many of the social network sites appear lack sustainable revenues. Ipaidabribe in Kenya, for example, is funded from its founder’s pockets.

To involve experts—the lawyers and accountants and business firms—we need to make a business case for these steps—and then create a feasible mode of collective action. In many countries, systemic corruption is a kind of equilibrium. If your firm won't pay the bribe, it won't get a contract. Ditto, perhaps, for a verdict. No firm wants to pay; it has to, because if it doesn't, others will. If firms can agree with each other not to pay, however, and their agreement can be enforced, then a new, reduced-bribe or no-bribe equilibrium can be the goal.

Consider an example. Transparency International has pioneered integrity pacts ([http://www.transparency.org/whatwedo/tools/integrity\\_pacts](http://www.transparency.org/whatwedo/tools/integrity_pacts)). Firms bidding on big contracts each sign a pledge. It says, in effect, "I promise not to bribe, and if any firm that also signs this pledge thinks I bribed, I will open my books to inspection." This pledge increases transparency and helps firms resist extortion. "I would love to pay you, but the other firms would find out and I'd be ruined."

Innovative uses of social media could add further infusions of transparency and therefore of commitment. After all, corruption is a crime of calculation. If the chances go up that bad behavior will be reported, the probability of being caught also goes up. This in turns makes it less desirable to undertake bad behavior.

One proposal is to convene

- the activists who have founded Ipaidabribe, I Propose, Bribespot, and the rest,
- big players in the social media, such as the leaders of Facebook, Microsoft, Google, and Twitter, and
- leaders in areas of business expertise such as Chambers of Commerce, Bar Associations, accountants organizations, and so forth.

These people would consider together how to move from individual complaints to systems analysis, and then to solutions. They would design some experiments. Run some pilot projects. Detail the business case. Garner longer-term agreements and funding.

Who might convene such meetings? One idea is an organization like the World Economic Forum. Or perhaps a consortium of universities, particularly schools of public policy, business, accounting, and law. After all, this is the path of much of what we do at universities and think tanks. We study specific problems. We try to understand the deeper, systemic causes. And we examine the how-to of possible solutions, in the messy dimensions of design, management, and sustainability. As the example of fighting corruption indicates, the social media offers a new and exciting set of tools to gather information, understand how systems work, and collaborate across the public-private-nonprofit divides.

## *FINAL THOUGHTS*

Returning to our three propositions:

1. Improved public-private collaboration is needed to catalyze progress on the most important issues facing our neighborhoods, regions, countries, and world.
2. As public-private collaboration grows, it will raise the specter of corruption.
3. Therefore, if public-private collaboration is to live up to its promise, issues of corruption will take center stage. Fortunately, there are promising anti-corruption innovations involving collaboration across the public-private divide.

I am optimistic about the potential of public-private collaboration to make strides against the big problems facing our world. A corollary is that I am optimistic about the fight against corruption, in PPPs and more generally. Excellent leaders in countries as diverse as Georgia (World Bank 2012), Colombia, the Philippines, Malaysia, and Indonesia—and in many cities around the world, from Singapore to those being abetted by the Partners for Local Development Foundation ([http://www.fpd.ro/services.php?do=anticorruption\\_strategies](http://www.fpd.ro/services.php?do=anticorruption_strategies))—show that corruption can be reduced, with promising repercussions for investment and development. And I can envision PPPs becoming increasingly important in the fight against corruption: in the PPPs themselves and more broadly in all areas of public life.

What can researchers do to abet progress? We might think of our applied work in four categories: theory, case studies (especially of success), data analysis, and convenings.

**Theory** regarding PPP proceeds, but not at the pace of innovation on the ground.<sup>7</sup> Corruption in PPP is one area that should benefit from more research. Another area, suggested here, is as it were to use public-private collaboration to fight the very corruption that infects public-private collaboration. I find helpful the model of Robert Picciotto (Fig. 1). In the battle against various kinds of corruption in PPP, what are the comparative advantages of various kinds of institutions in providing what kinds of “goods and services”?

Theoretical development as well as practical progress will be stimulated by **case studies** of success (also of failure, but success stories are rarer and more motivating).<sup>8</sup> One kind of case

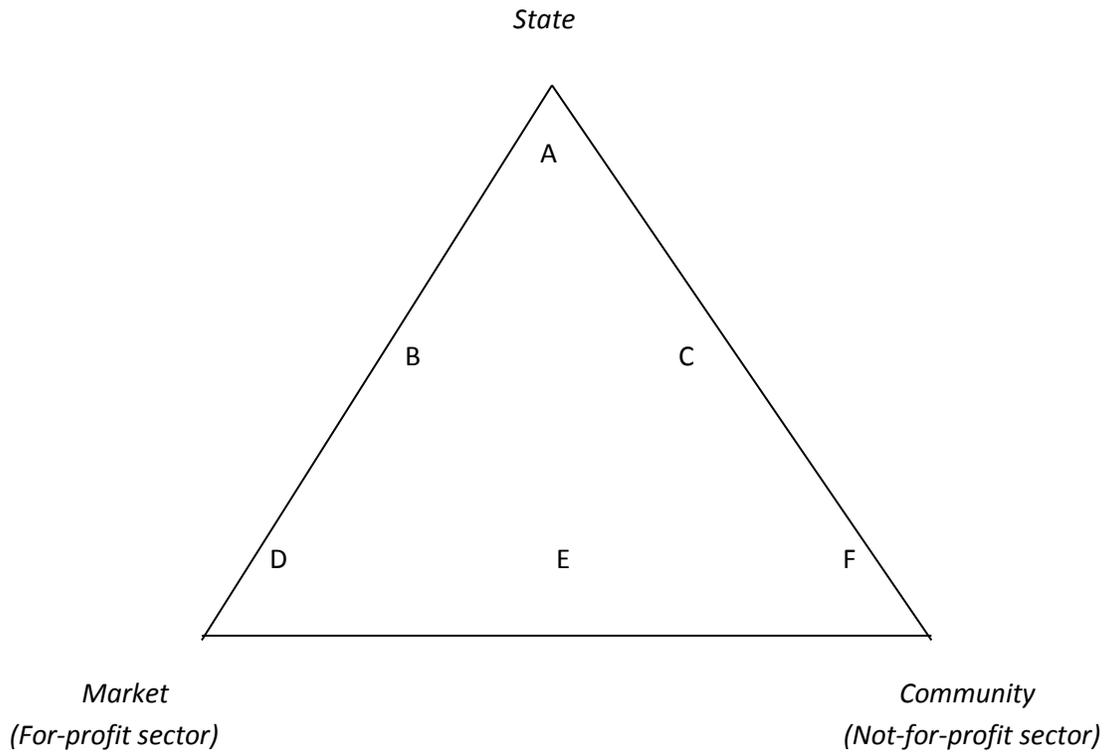
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<sup>7</sup> “First, the growing practical importance of collaborative governance has outstripped our capacity to understand, categorize, make predictions about, and prescribe improvements to such arrangements. Our analytical apparatus—anchored in traditional, more crisply defined concepts such as market failure and public goods—lags behind practitioners’ exuberant improvisation” (Donahue and Zeckhauser 2011a: 48).

<sup>8</sup> “In my own thinking,” noted Nobel laureate Thomas C. Schelling, “they have never been separate. Motivation for the purer theory came almost exclusively from preoccupation with (and fascination with) ‘applied’ problems; and the clarification of theoretical ideas was absolutely dependent on an identification of live examples” (Schelling 1960: vi).

study research evaluates and documents designs for public-private partnership that have fostered efficiency and stemmed abuse—for example, Iossa, Spagnolo & M. Vellez (2007).

Fig. 1  
The Picciotto Triangle of Goods and Sectors



	<b>Type of Good</b>	<b>Type of Institution</b>	<b>Examples</b>
A	Government	State agencies	Justice, police
B	Toll	Public or regulated private corporations	Public utilities
C	Public	Hybrid organizations	Policy, rural roads
D	Market	Private corporations, farmers, and entrepreneurs	Industry, farming, many services
E	Civil	Non-government organizations, private voluntary organizations	Public advocacy, professional standards, civic action
F	Common pool	Local organizations, cooperatives	Natural resource management

Based on Picciotto (1995).

Another kind of case study would look at public-private collaboration that has reduced corruption. One valuable example is the Public Affairs Centre of Bangalore's collaboration with government through performance scorecards; the model has been copied in many countries (Paul 2012, ch. 7; a more available account is Paul 1999). Less well documented, but apparently potent, is the public-private collaboration catalyzed by Ciudadanos al Día in Peru, including citizen ratings of public institutions in eight categories, nationally publicized prizes, documentation of best practices, and sharing of these practices in context-sensitive training and consultancy (<http://www.ciudadanosaldia.org/>).

**Data analysis** is perilous in this domain. So many intervening variables, so few reliable and valid measures, and such an abundance (which means, in practice, a paucity) of "theory": in such circumstances, analyzing causality and estimating the relative merits of various alternatives through econometric modeling seems at best metaphorical, at worst misguided (Fedderke and Klitgaard 2006). And yet, data analysis that showcases tendencies, clustering, and variation can be helpful in thinking through practical choices. One can avoid premature absolutes. One can find exceptional cases to study carefully, to see the paths to calamity or to breakthroughs. In my experience, policymakers are fascinated to see what the empirical relationships are (and are not) among variables that rhetoric, ideology, or common sense posit should be one way or another. They like to see where their country stands in relation to other countries on a variety of imperfect but widely used measures. With regard to infrastructure PPPs, it is valuable to help leaders see how well their costs per unit match up with other countries.

**Convenings:** This term refers to events that pull together policymakers, sometimes with key stakeholders, to think creatively about difficult problems. In my experience, I have seen how combinations of case studies of success, theory-based frameworks for defining alternatives, and data-founded discussions of where we stand, can lead to better problem definitions and the generation of creative, collaborative ideas that no outsider could have specified.

But I would be the first to say that empirical research about the effectiveness of various kinds of convenings is scarce. Those who do workshops, conferences, brainstorming sessions, high-level meetings, and the like are seldom the same sorts of people who do quantitative evaluations or even well-documented case studies. Here, as elsewhere in work on public-private collaboration, we need more research that works across the disciplines and out into the world.

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