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RUSSIA: CORRUPTION AND TRANSPARENCY IN BUSINESS REGISTRATION AND REGULATION

PRINCIPAL FINDINGS

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The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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ABSTRACT

As part of a broader task, to develop a methodology for assessing corruption in specific sectors, the IRIS Center implemented a pilot survey in Russia, in business registration and regulation. The surveys were designed to be sector-specific—that is, tailored to the institutional environment of a particular sector—in order to (1) point to specific institutional factors in corrupt practices, and (2) assist in identifying at-risk sectors. Separate surveys of business owners and public officials were administered and compared.

The methodology incorporates USAID's TAPEE framework for analyzing corruption vulnerabilities (Transparency, Accountability, Prevention, Enforcement, Education). Business owners were asked about their experience of corrupt practices in dealings with government agencies; the public officials were asked to report on the adequacy of governance, as reflected in the TAPEE factors.

In view of serious problems in data collection, the results must be interpreted with great caution. The survey of business owners suggests high consistency within the same municipality. Many businesses reported willingness to report corruption anonymously; creating an anonymous reporting mechanism may be a useful reform. The responses of public officials were highly consistent with one another, but showed little correlation with the businessmen's reports of specific areas of corruption. Even so, their responses did point to specific areas of concern, such as patronage politics. Some simpler reforms may also be useful: for example, better enforcement of the requirement to post key information, such as statutory time limits and other regulations.

KEY WORDS

Methodology, survey, anticorruption, TAPEE, regulation

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I. CONTEXT

INTRODUCTION

The Europe and Eurasia (“E&E”) Bureau of the United States Agency for International Development (“USAID”) asked the Center for Institutional Reform and the Informal Sector (“IRIS”) to develop a methodology for assessing corruption and factors related to corruption in selected sectors in several E&E countries. Previous studies have canvassed entrepreneurs to ask them about their perceptions of corruption and experiences with respect to corruption in business registration and licensing. These studies concluded that there is substantial regional variation in the frequency with which bribes are paid and the amounts. An assessment methodology was needed to be able to identify sectors that were more corrupt or more at risk for corruption and to identify mechanisms of corruption in the targeted sectors so as to design effective anti-corruption programs and develop a means of monitoring and evaluating the impact of anti-corruption efforts. The methodology was to be based on the factors identified by USAID as important in preventing or controlling corruption. These factors are transparency, accountability, prevention, enforcement and education, or “TAPEE.”

IRIS began by conducting a qualitative assessment to learn more about the local structure of corruption. IRIS then developed survey instruments to survey business owners and public officials. Business owners were asked about their perceptions of corruption, and their experiences with corruption, at various agencies. Agency officials were asked about the TAPEE factors at their agency. This allows IRIS to “marry” the two sources of information, looking at the relationship between TAPEE factors and corruption, and identifying agency offices with low TAPEE factors. In addition, IRIS sought to “deconstruct” corruption, which includes many types of behaviors.

THE TAPEE FRAMEWORK

Institutional integrity — or the mechanisms to reduce corruption risks — can be summarized as TAPEE (Transparency, Accountability, Prevention, Enforcement and Education).

Corruption, as Robert Klitgaard famously (and insightfully) pointed out, is a crime of calculation and not of passion. Hence, the incidence and prevalence of corruption is likely to be governed by the expected costs and benefits of being corrupt. (This follows from the economic theory of crime as developed by the Nobel laureate Gary Becker and colleagues). This logic can lead to the derivation of both USAID’s TAPEE and Klitgaard’s $C=D+M-A$, which represent somewhat similar attempts to analyze factors permitting and encouraging corruption to occur (Box 1 summarizes TAPEE and Box 2 describes its relationship with theory and Klitgaard’s formula). TAPEE is based on an augmented cost-benefit framework, and explicitly allows for the role of values in limiting corruption.

The gains from corruption are likely to depend on the discretion and monopoly that officials have. A highly regulated economy offers more opportunity to demand bribes, and the lack of competing officials who can provide the same licenses also increases the amount that can be demanded. Thus reducing discretion and monopoly can reduce corruption. This corresponds to **Prevention** in TAPEE. Other components of prevention include rightsizing the civil service, some privatization, and separating citizens from public officials (having electronic filing of applications

so no face-to-face contact is made, preventing practicing judges from having private practices, etc).

Accountability refers to rules specifying the relationships between public officials' behavior and performance, and rewards and punishments. It includes both punishments for corruption, and incentives based on the quality of service delivery. Accountability, like transparency and enforcement, should be thought of in two layers, between voters and politicians and between politicians and bureaucrats. In a multi-layer principal-agent relationship, as exists between voters and public officials, increasing the effectiveness of one layer can be unproductive or even counter-productive if the other layer is not functioning well. For instance, improving the ability of elected officials to fire civil servants can backfire if improprieties in the political system lead to the politicians being corrupt.

It is important to include rewards and punishments based on the quality of service delivery in an anti-corruption strategy, even if no corruption is observed or can be clearly inferred. The fundamental insight of principal-agent theory is that it is possible to motivate the agent to act in accordance with the principal's preferences even if the agent's actions cannot be observed, and even if following the principal's preferences is not in the agent's immediate interest. The proper motivation can be provided by holding the agent accountable for outcomes. Indeed, this can be done even if events outside the agent's control may also have affected the outcomes.

The expected costs of corruption depend on the probability of being caught and the probability and severity of the punishment once the official is caught. The probability of being caught refers to **Transparency** in TAPEE, and the probability of punishment to **Enforcement**. For many kinds of corruption, where negligence is difficult to disentangle from corruption—like shirking, or bribes for ignoring tax evasion—the provision of incentives or clear performance standards (accountability) can be an effective deterrent: indeed, this might be more effective at reducing corruption than attempting to increase the amount of transparency and enforcement in terms of the actual observation and punishment of corrupt behavior. It is important to emphasize that criminal sanctions are inappropriate and violate the rule of law without proof of corruption, and only administrative sanctions (fines, transfers, suspensions and dismissals) should be used to punish poor performance. Ultimately, enforcement has to be present for accountability to have an impact. Like accountability, transparency and enforcement both need to be decomposed into political and administrative components to be meaningfully analyzed.

BOX 1. THE TAPE CRITERIA

USAID has identified five main disciplines that can prevent corruption. These components of integrity are Transparency, Accountability, Prevention, Enforcement and Education. These variables can be defined as follows.

- T = Transparency: Refers to the ability of citizens, public officials and civil society organizations to detect whether public officials are in compliance with the rules and standards defined in Accountability. Transparency can be usefully decomposed into substantive transparency, i.e., supervisors knowing the behavior of their subordinates and procedural transparency, i.e., the involvement of stakeholders in the process of decision making. Reporting requirements can reasonably be thought of as either transparency or accountability.
- A = Accountability: Refers to rules that set standards for avoiding corruption and specify punishments, and set standards for service delivery and performance and specify rewards or punishments for meeting or failing to meet standards. Accountability can be usefully decomposed into the ability of superiors to reward or punish their subordinates, and the ability of voters to punish and reward politicians.
- P = Prevention: Refers to the systemic reform of institutions so as to decrease opportunities for corruption. This includes reducing monopoly and discretion and rightsizing the civil service. Decreasing the amount of contact between public and private actors is an important example of reducing discretion.
- E = Enforcement: Refers to whether the rules defined in accountability are enforced once violations are detected. This includes criminal sanctions for corruption, and administrative sanctions for negligence or poor performance. The presence and effectiveness of anti-corruption agencies, ombudsmen and auditors can be thought of as components of enforcement. There are obvious complementarities between enforcement, transparency and accountability.
- E = Education/Values: Refers to the intrinsic motivations of public officials to avoid corruption even when a simple cost-benefit analysis would induce them to be corrupt.

In addition to “TAPE”, another factor can also be a determinant of the level of corruption. This is variously referred to as “**Education**”, “Awareness”, or “Values”. In many contexts people do undertake actions that are not in their interest if they serve some broader public good. Such behavior can lead to the control of corruption. Thus, even if changing human nature seems difficult, a focus on values might lead to policy advice like reducing the barriers to entry into public service of applicants likely to behave in more principled ways (rather than those with political connections). Finally, it might be possible to affect attitudes towards corruption by demonstrating just how harmful it is. For instance, results showing the effects of corruption on health and education outcomes (Azfar 2002), crime (Azfar 2004), environmental quality, or human trafficking (Azfar and Lee 2003), may galvanize civil society to act against corruption.

BOX 2. CONTROLLING CORRUPTION

Theoretical analysis of gains and losses from corrupt behavior lead to both Klitgaard's formula (C=M+D-A) and USAID's TAPEE framework.		
Theoretical analysis	Klitgaard	USAID
Potential gains from Corruption	Monopoly	Prevention
	Discretion	
Expected costs of corruption	Accountability	Transparency
		Accountability
		Enforcement
Values		Education/Values

Integrating the TAPEE factors into Klitgaard's framework, we can restate the formula as

$$C = M + D - A * T * E - V$$

Where C, M, D and A stand for corruption, monopoly, discretion and accountability, as in Klitgaard's formula, and T, E, and V stand for transparency, enforcement and values. In this restatement, corruption is a function of monopoly and discretion, minus accountability, transparency and enforcement, and minus values. Accountability, transparency and enforcement are multiplied because none has meaning without the others.

THE RUSSIAN FIELD STUDY

In conjunction with USAID, four sectors and countries were identified opportunistically based on the interest of the local mission and government counterparts, and IRIS' experience and existing relationships. A methodology that combines qualitative assessments with survey instruments was developed and is being piloted to assess corruption and TAPEE factors in civil litigation in Georgia, business regulation in Russia, business registration and regulation in Romania, and pharmaceutical procurement in Bulgaria. This report presents the findings from the study on business regulation in Russia.

Corruption in Russia is considered by experts and policymakers as one of the key obstacles to economic and public sector governance reforms. Russian corruption, deeply rooted in the Soviet and even pre-Soviet past, became endemic against the backdrop of a breakdown of accountability and broad enrichment opportunities for unscrupulous officials. Corruption permeates all spheres of economic, social and political life, including the private sector, law enforcement, courts, education and health care. Various international comparisons and rankings put Russia among the nations that are notorious for their unbridled corruption. See discussion below and Appendix A.

The government is aware of the severity of corruption in the country, and has responded by a number of policy reforms to address the problem. These include the efforts, presently ongoing, to revamp the nation's public service by strengthening the accountability of public officials while

increasing their remuneration, introducing checks and balances inside the government, improving internal and external control and audit, and making the bureaucracy leaner and more streamlined. While these efforts are progressing well, the public service reform is presently at a standstill without having accomplished its declared objectives. This is symptomatic of deeply entrenched interests that are able to effectively resist reform efforts aimed at reducing corruption.

The effort to combat corruption by cutting red tape has achieved a greater degree of success. A package of recently enacted “de-bureaucratization laws” on business registration, licensing and inspections was expected not only to ease the heretofore stifling burden of compliance with government rules and regulations, but also to reduce corruption, since excessive bureaucratic interference provided ample opportunities for corruption and rent-seeking. [EIU 2002 26]

In 2001, Russia introduced a package of legislative reforms aimed at simplifying and clarifying the sometimes contradictory legislation on business registration, licensing and inspections. The first law, “On State Registration of Legal Entities”, simplified the registration procedure, stated the requirements for registration and expressly prohibited additional requirements. The time for processing is now stated and the reasons for refusal are listed. The cost of registration is standardized at 2000 rubles. The second law, “On Introduction of Amendments and Changes to the Federal Law ‘On Licensing Certain Types of Activities’,” simplified the procedure for obtaining licenses and reduced the number of activities to be licensed from approximately 2000 to 120. Licenses were also made valid for longer periods and the cost of licenses was capped. The third law, “On Protection of Rights of Legal Entities and Individual Entrepreneurs During the Carrying Out of State Control,” provides that agencies are only allowed to conduct planned inspections once every two years. Unplanned inspections are permitted if they are justified by violations detected during a planned inspection that require follow-up, reports of harmful production technologies, or reports of a violation of individual rights. The duration of an inspection is limited to one month.

The Economist Intelligence Unit reported in 2002 that the reforms to the licensing and registration laws had little impact, with some lower-level government bodies defying the law and others applying it “with a literal-mindedness that subverts its intent.” Although the inspection powers of the tax authorities were reduced, the authorities responded by increasing the volume of necessary documentation. [EIU 2002 26]

The Center for Economic and Financial Research (CEFIR) has been monitoring the impact of these new laws on businesses through repeated surveys. The first survey was conducted before any of the laws came into force; the second round was conducted after the enactment of the laws on licenses and inspections; the third round was held in spring, 2003, after the enactment of the new law on registration. CEFIR concludes that the reforms have had a positive impact. Registration became faster and simpler, although more expensive. The number of inspections fell, as did the management time dealing with inspections. The business climate was perceived to have improved. [CEFIR 2003]

Appendix A shows how Russia scores on a variety of corruption measures compared to other countries in the Former Soviet Union. Transparency International ranks the perception of corruption in Russia as 2.7 out of a possible 10 (indicating zero corruption), a worse score than Slovakia, Hungary, Bulgaria, Croatia, Romania or the Former Soviet Union as a whole. The

BEEPS survey¹ reported that Russia was in the middle of the pack for comparator countries with respect to the frequency of bribe paying for licenses; better than most comparator countries with respect to bribes paid to gain government contracts; and towards the high end on estimates of the size of administrative corruption.

Nevertheless, many Russians in the business community do not perceive corruption to be as pressing a problem as citizens of other countries perceive it to be, perhaps indicating that they take it for granted or perhaps value the opportunities to go around the bureaucratic hurdles that it presents. In CEFIR's survey of businesses, businesses ranked corruption at 1.87 on a scale from 1 to 5, where 1 meant that it was not a problem, and 2 meant that it was a slight problem. [CEFIR 2003] This means that the Russian business community is not fully aware of the cost of corruption for the nation and its economy. This is consistent with the TAPEE focus on education and values, which calls for demonstrating to the public the harm of corruption and thus mobilizing grassroots constituencies for anti-corruption actions and vigilance.

Business regulation was chosen as the topic for the Russian field study for the following reasons. First, corruption remains an everyday reality in the Russian private sector, and constitutes a massive drain on the country's economic resources. Reducing corruption in business regulation would be a major boost to private sector development in Russia, which is a strategic priority for USAID. Second, regulations which are excessive, misplaced, or abused by enforcing agencies cause grassroots corruption that involves a large number of businesses. Such corruption lends itself to being analyzed by surveying businesses, including small and medium-sized firms, and drawing conclusions based on rigorous analysis of the resulting data. Third, business regulations are enforced by various government agencies represented by their regional offices, and business surveys could be complemented by surveying such offices. The availability of two sets of data—one on incidences of corruption, and the other on government agencies dealing with particular businesses—may permit the identification and exploration of links between corruption and TAPEE factors.

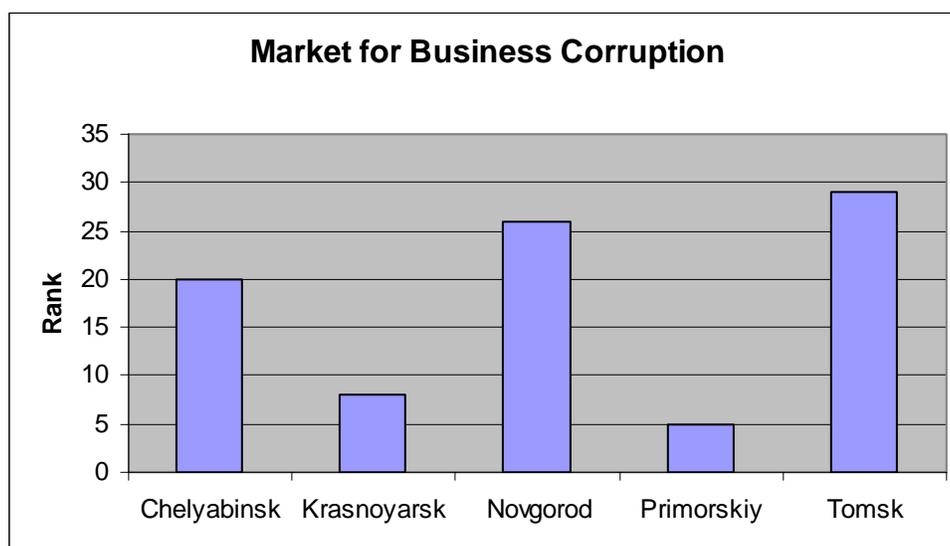
THE SURVEYS

One thousand and seven interviews were carried out with heads of businesses in twenty-five municipalities in five regions: Chelyabinsk Oblast, Krasnoyarsk Kray, Novgorod Oblast, Tomsk Oblast, and Primorskiy Kray. Two fire, sanitary and tax officials were also surveyed in each of the same municipalities. After reviewing the consistency of the observations, IRIS dropped 152 business observations and 12 agency observations as unreliable.² The data presented here do not include these observations.

¹ The Business Environment and Enterprise Performance Survey (BEEPS), developed jointly by the World Bank and the European Bank for Reconstruction and Development, is a survey of over 4000 firms in 22 transition countries conducted in 1999-2000 that examines a wide range of interactions between firms and the state.

² The survey instrument was long and the survey firm encountered difficulties in obtaining respondents. After we noted a suspicious similarity between some observations, it was revealed that certain interviewers filled out the questionnaires for their respondents based on a common "pattern". For more information about how the data were cleaned, please see the accompanying "Methodology" report.

FIGURE 1. MARKET FOR BUSINESS CORRUPTION



Estimated ranking among 40 regions of the size of the market for business corruption (higher rank indicates higher market for corruption). The market for business corruption is the share of the amount of the business corruption market in the region in relation to the gross regional product. Press release, Center Transparency International – Russia. Regional Corruption Indices 2002. Center for Anti-corruption Research and Initiative (in cooperation with INDEM Fund) (Table 3-2).

The five regions vary greatly. Chelyabinsk is highly urbanized and industrialized, and its regional center is one of the largest cities in Russia. Krasnoyarsk Kray, a vast area stretching from Southern Siberia to the Arctic Circle, is rich in natural resources and specializes in mining, metallurgy, chemistry and energy production. Novgorod Oblast is a relatively poor region burdened by non-performing enterprises of the military-industrial complex of the former Soviet Union, and whose population has a comparatively low income. Tomsk Oblast is also poorer than its neighbors, despite its former role as one of the centers of post-secondary education and research in Siberia. Finally, Vladivostok, the center of the Primorskiy Kray, is Russia’s key gateway to the Pacific Coast, a center of shipping and fishing industry, notorious for its organized crime and poor regional governance. Figure 1 and Table 1 illustrate the consequences of these differences in terms of the market for business corruption and the size of typical bribe payments in the five regions, according to Transparency International Russia.

TABLE 1. REGIONAL RANKING FOR BUSINESS CORRUPTION

Region	Administrative Corruption	State Capture	Business Capture^{7 c}
Chelyabinsk Oblast	28	27	34
Krasnoyarsk Kray	2	4	8
Novgorod Oblast	12	22	11
Primorskiy Kray	40	40	39
Tomsk Oblast	31	33	25

Estimated rankings out of 40 regions for different types of business corruption (higher number indicates higher corruption). Press release, Center Transparency International – Russia. **Regional Corruption Indices 2002**. Center for Anti-corruption Research and Initiative (in cooperation with INDEM Fund) (Table 11). INDEM defines “administrative corruption” as including ordinary extortion, “state capture” as businesses purchasing administrative decisions, and “business capture” as officials unlawfully seizing control over firms through abuse of office.

II. SURVEY OF BUSINESSES

There were 855 respondents to the survey. Table 2 shows the breakdown of business respondents by business sectors. Most were in the retail trade or provided services to people.

TABLE 2. RESPONDENTS' BUSINESS SECTORS

Business Sector	Percent
Consumer goods production	7.1
Production of the commodities for industry	4.7
Retail Trade	30.8
Wholesale trade	13.9
Services to people	24.9
Services for manufacturing	5.9
Construction	6.9

The average salary of the workers on staff in 2003 was reported to be 3942 rubles and the salary of managers was reported to be 6421 rubles. (The ruble/dollar exchange rate averaged about US\$1 = 30 rubles during 2003.) We believe that this reflects only official salaries and does not include informal payments.

Most businesses appear to be doing well. In 2003, some 85.1% of businesses reported profits, 58.1% reported no change in the number of employees, 53.8% reported an increase in sales volume and 56.5% reported paying bonuses. Only 26.9% of businesses reported that there were periods of time when permanent employees worked less than a full work week, and 25.4% reported taking out a loan in 2003.

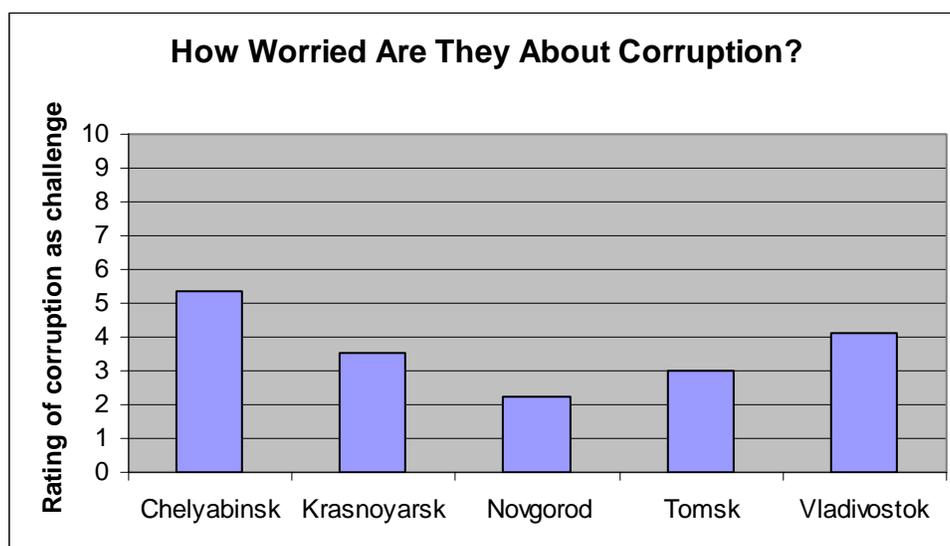
TABLE 3. HOW IMPORTANT ARE THESE CHALLENGES FOR YOUR BUSINESS?

Business Challenge	How Important?
Level of competition (number of competitors in the market segment etc.)	6.00
Tax level (tax rate)	5.62
Economic instability (inflation, exchange rate fluctuation, ...)	5.18
Tax administration (troubles related to filling tax forms etc.)	4.55
Difficulties with capital formation (obtain loans, credits)	4.03
Tax inspections	3.88
Corruption as a whole	3.44
Price regulation	3.34
Licensing procedures	3.16
Need for registration of purchased business premises	3.13
Need for registration of rented business premises	3.04
Fire safety inspections	3.01
Sanitary inspection	3.00
Privileges for competitors created by authorities	2.9
Certification	2.83
Other inspections (indicate by which authority)	2.46
Trade Inspection	2.39
Inspections by Police	2.33
Other problems (indicate what)	2.07
Racket	1.11

Respondents answered on a scale from 0 (low) to 10 (high).

Table 3 shows how respondents rate the importance of various challenges to their business on a scale from 0 to 10. Respondents complained most of the level of competition and the tax rate. Despite evidence of the prevalence of corruption, corruption as a concern was listed seventh, consistent with other surveys that have found that corruption is not the most pressing concern of businesses. However, concern about corruption varied substantially by region; respondents from Chelyabinsk were the most concerned; respondents from Novgorod were the least concerned (Figure 2).

FIGURE 2. HOW WORRIED ARE THEY ABOUT CORRUPTION?



Businesses reported being fairly well connected to the authorities through client relationships. In particular, 26.5% of businesses reported having local authorities among their clients, 23.2% reported having police clients, and 19% reported having tax authorities among their clients (Table 4). Business leaders also occasionally meet important government officials for business. However, they report few social contacts with them, with the exception of local authorities (Table 5).

TABLE 4. CONNECTIONS THROUGH CLIENTS

Authority	Percentage of businesses with representatives of this authority as a client
Local authorities	26.55
Police (Internal Affairs Ministry)	23.16
Tax authorities	18.95
Fire safety inspection	17.43
Sanitary Inspection	14.97
Other control and inspection authorities	14.97
Regional authorities	14.62
Certification authorities	12.75
Registration authorities	12.28
Licensing authorities	11.35
Federal authorities (federal order)	5.03

TABLE 5. BUSINESS AND SOCIAL CONNECTIONS

Types of people	Approximately how many times a year do you meet the following people for official business?	Approximately how many times a year do you meet the following people on social occasions (banquets or other events)?
Directors of other businesses	44.91	34.00
Intermediary firm director	12.1	6.42
Member of parliament	1.94	0.54
Mayor	1.61	0.69
Police person	1.45	0.79
Member of Chamber of Commerce	1.38	0.66
Judge	1.19	0.46
Governor	0.8	0.13
Other regional or municipal officials	13.78	2.43

REGISTRATION PROCESS

While the initial registration date of business respondents ranged from 1944 to 2004, the largest share of businesses registered in 2002 (12.6%), following enactment of the legislative reform package. Some 36.7% reported not having passed re-registration. For those that did re-register, the date of their last re-registration ranged from 1991 to 2004, with the largest share of businesses having re-registered in 2002 (25.6%).

Respondents reported on average that it took 26.7 days to complete the initial registration process, although tax officials reported that registration with the tax agency took an average of 7.4 days. Both reports are consistent with CEFIR's findings that most businesses took from a week to a month to register. [CEFIR 2003] By way of comparison, the average reported time for registration in Romania was 32.6 days.

About 30% of businesses reported at least one kind of corrupt interaction with one of the registration agencies in the course of their registration (pressure to hire a specific intermediary, use of personal relations, or informal payments). By way of comparison, about 26% of Romanian firms reported corruption in the registration process.

Table 6 shows the average expenses of the registration process in rubles. Respondents reported that the distinction between official and unofficial payments was fairly clear, evaluating the clarity of the distinction as 7 on a 10 point scale. Respondents reported substantial informal payments. Although they were asked about three categories of payments--those offered

voluntarily, those requested by officials for facilitation, and those demanded by officials as a prerequisite of registration (Table 6)--many respondents gave identical answers, suggesting that they did not see a difference in these three categories. Informal payments varied substantially by region (Figure 3) and mirror regional concerns about corruption.

FIGURE 3. VOLUNTARY INFORMAL PAYMENTS FOR REGISTRATION

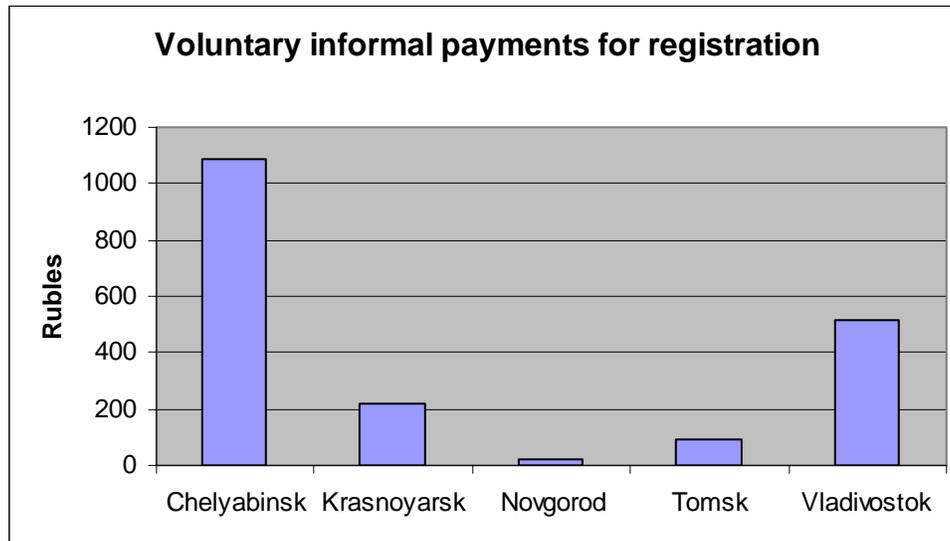


TABLE 6. AVERAGE COST (IN RUBLES) OF REGISTRATION EXPENSES

Expenses	Your firm	Firms like yours
Official government-mandated fees	2423.21	2637.60
Formal, official payments for facilitating and expediting the process	326.58	312.83
Informal payments/gifts voluntarily offered by you	329.58	299.65
Informal payments/gifts demanded by officials for facilitating and expediting the process	292.35	221.49
Informal payments/gifts demanded by officials, without which the officials would not have registered your business	120.13	65.22
Payments paid to private businesses (intermediary firms or law firms) to help in the process	779.70	913.61
Expenses of your business not included above (e.g. labor time, travel, legal work, etc)	1370.67	886.23

Some businesses were asked about their own costs; others were asked about “firms like yours”. The differences in the answers are not statistically significant. Since 2000, the ruble-dollar exchange rate has fluctuated between 29 and 32 rubles per dollar.

Overall, the complexity of the registration process leads some firms to use intermediaries to handle the details. Intermediaries may also be used to facilitate informal payments. Some 15.7% said that they used intermediaries for the entirety of their last registration process; another 14.3% said they used intermediaries for part of the registration process. Figure 4 shows the use of intermediaries in the different regions; perhaps not surprisingly, use of intermediaries mirrors the level of concern about corruption.

FIGURE 4. REGISTERED USING INTERMEDIARY

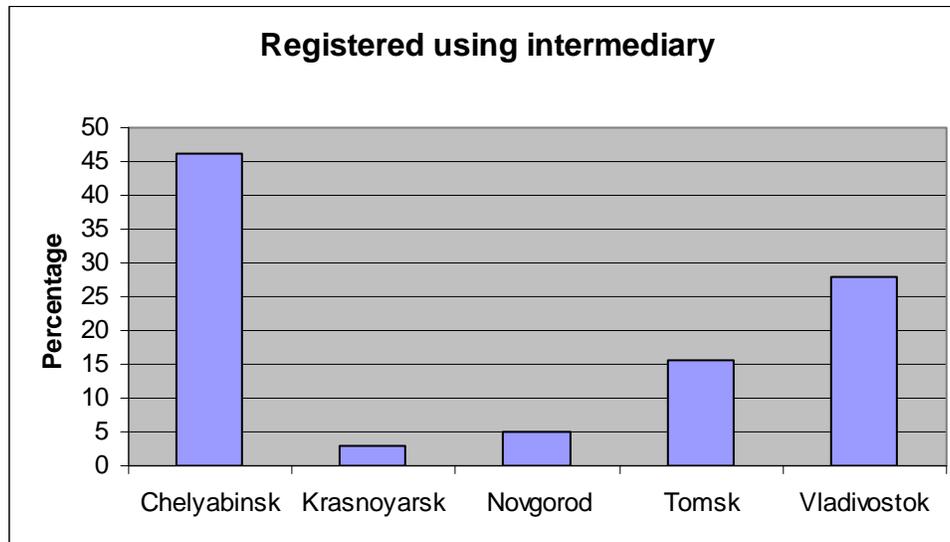


Table 10 shows the use of intermediaries in dealing with various agencies. Only 1.4% of respondents reported having an intermediary imposed on them by agency officials, but 11.6% reported being pressured to use a particular intermediary. Some 3% reported that an intermediary informed them of the need to make informal payments. Only 1.5% of respondents reported that agency officials had pressured them into procuring goods and services from a third party in order to be registered.

The Tax Agency was the agency with whom respondents had the most contact. Respondents used a variety of strategies to deal with the agency. Some two-thirds reported that the Tax Agency issued their registration; about 12% stated that the Trade Registry (Chamber of Commerce) issued their registration; 19% said that the municipal administration issued their registration (Table 7).

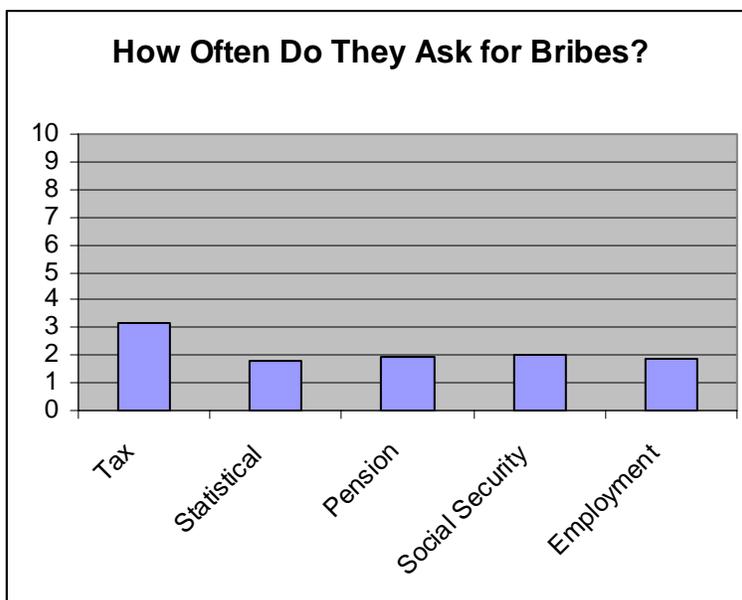
TABLE 7. PERCENTAGE REGISTRATIONS BY EACH AGENCY, BY REGION

Region	Tax Agency	Trade Register	Municipal Administration
Chelyabinsk	60.7	6.7	32.6
Krasnoyarsk	62.6	9.4	24.6
Novgorod	80.7	3.1	16.2
Primorskiy	77.6	6.3	12.1
Tomsk	49.5	32.8	15.1
All regions surveyed	66.7	12.3	18.8

Percentages may not total 100% due to rounding and missing responses.

The Tax Agency was singled out as the most problematic; it was the most frequent requestor of bribes (Figure 5) and also got the lowest marks for service quality and adherence to the law (Table 8). Respondents reported that 2.6% of the cost of registration was in the form of informal payments to the Tax Agency, the highest percentage of any of the agencies. However, it was also the agency that had the most contact with the largest percentage of respondents.

FIGURE 5. PERCEPTIONS OF DEMANDS FOR INFORMAL PAYMENTS BY AGENCY



Respondents answered on a scale from 0 (low) to 10 (high).

TABLE 8. PERCEPTIONS OF SERVICE QUALITY

	Tax Agency	Statistical Agency	Pension Fund	Social Security Fund	Employment Agency
Quality of agency service is high	5.84	6.36	6.46	6.48	6
The agency strictly follows the laws	6.89	7.43	7.54	7.53	7.27
Formal payments that exceed those officially stated are often demanded by this agency	2.99	2.14	2.26	2.26	2.28

Respondents rated on a scale from 0 to 10 how strongly they agreed with the statements.

Within the Tax Agency, respondents reported the acceptance of voluntarily offered gifts, demands for informal payments, and the use of personal relations to facilitate the process of registration. However, the type of action that firms reported facing most frequently was payment for delayed registration of a competitor. It is not clear whether this means that they themselves paid for delay, or that they suspect that someone else did (Table 9).

TABLE 9. CORRUPTION IN THE TAX AGENCY

	How prevalent is the action in the Tax Agency? (Scale 0-10)	How often did your firm face the action in the 2003? (Number of times)
The agency officials accept gifts or informal payments voluntarily offered by the firms representatives	5.16	1.00
Agency officials demand informal payments for facilitating/ speeding the process of registration	2.7	0.38
Registration is refused until the informal payment or gift is given	1.87	0.31
The use of personal relations in the process of registration	4.35	0.61
The agency official imposes a certain intermediary services to facilitate the process of registration	1.92	0.31
Agency official accepts informal payments from the existing firms to delay the registration of potential competitor	1.91	2.98

Respondents used a variety of strategies to deal with the Tax Agency: 15.7% used an intermediary, 15.6% used personal relationships to satisfy the agency requirements, 9.8% made a voluntary informal payment to officials, 5.3% of respondents received a request for an informal payment by an official for “facilitation”, and 3.6% were told that they must pay. Individual enterprises reported a lower prevalence of corruption at the Tax Agency than did full-fledged

firms, and the differences were statistically significant (Figure 6). Those re-registering also reported a lower prevalence of corruption at the Tax Agency than did those registering for the first time, and the differences were statistically significant (Figure 7).

FIGURE 6. REPORTED PREVALENCE OF INFORMAL PAYMENTS IN THE TAX AGENCY: INDIVIDUAL ENTERPRISES

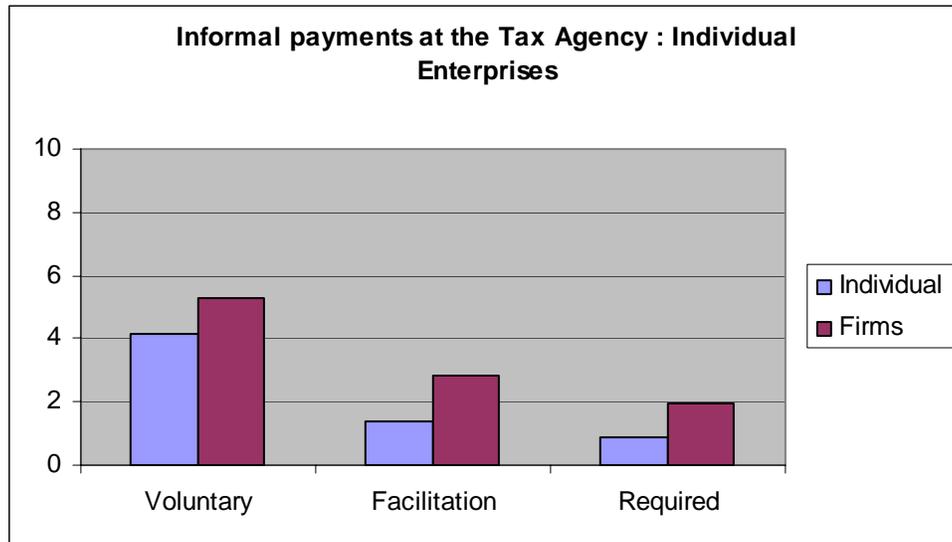


FIGURE 7. REPORTED PREVALENCE OF INFORMAL PAYMENTS IN THE TAX AGENCY: REGISTRATION

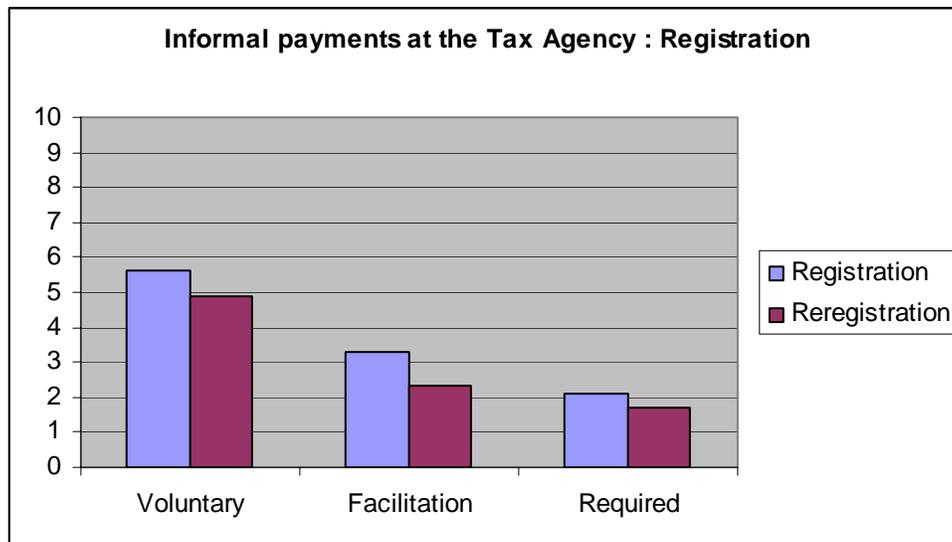


TABLE 10. USE OF INTERMEDIARIES WITH VARIOUS AGENCIES

	Registration chamber	Tax Agency	Statistic Agency	Pension Fund	Social Security Fund	Employment Fund	Other	Average
Interacted directly (without intermediary) with a representative of the agency	54.97	76.84	64.91	72.51	68.07	56.61	10.18	57.73
Interacted with a representative of the agency through an intermediary	17.43	15.67	12.87	14.15	14.97	9.36	3.51	12.56
Pressured by this agency to use a specific intermediary	2.46	3.39	1.17	1.4	0.82	1.75	0.58	1.65
Used personal relationships to satisfy the agency's requirements	10.18	15.56	4.33	6.08	5.15	4.21	2.22	6.82
Voluntarily made an informal payment to the representative from this organization	8.3	9.82	4.21	3.27	4.56	3.04	2.11	5.05
Was asked by the representative from this organization for informal payments to facilitate/speed the processing of the registration	4.56	5.26	1.87	2.22	1.99	1.29	0.7	2.56
The representative from this organization required informal payments (i.e., make it clear that the registration would not be completed without an informal payment)	1.87	3.63	1.4	1.87	1.17	0.82	0.82	1.64
Estimated amount of all informal payments as a % of the total payments made to register your business	1.92	2.63	0.45	0.82	0.68	0.46	1.13	0.99
If the organization denied your business the necessary permissions to operate, how easily could you appeal to a higher authority that could reverse the decision?	5.64	5.53	6.08	5.85	6.01	6.08	5.66	5.74

	Registration chamber	Tax Agency	Statistic Agency	Pension Fund	Social Security Fund	Employment Fund	Other	Average
How easy is it for you to find out what powers this organization has over your business, what fees that it can charge, and what your rights of appeal are against its decisions?	5.73	5.88	6.08	6.01	6.11	6.02	5.42	5.47
If you knew that a representative of the organization was corrupt in its dealings with your business, how easy would it be to report this behavior to a higher authority that would discipline this individual?	4.71	4.85	5.21	5.11	5.08	5.17	4.82	5.11

Respondents answered on a scale from 0 (low) to 10 (high).

INSPECTIONS

Once registered, businesses are subject to periodic inspections by a number of different agencies to ensure that they comply with regulations. In systemically corrupt countries, the enforcement of regulations can give rise to the extortion of payments by regulators and inspectors.

On average, businesses dealt with five different inspection agencies from whom they received an average of nearly eight visits per year (Table 13). Sanitary inspectors were the most frequent visitors, and businesses were hypothetically prepared to pay the largest share of their revenues to escape them. But tax and fire inspectors were the ones who most frequently threatened to shut down a business or impose a large fine, and they were rated as the first and second agencies most likely to ask for informal payments. Tax and trade inspectors were the most costly to pay off. Despite reforms, respondents rated the transparency and clarity of the inspection laws as 5.4 on a scale from 0 to 10—more than 38% rated it over 5—and the proper implementation of these laws was rated at 5.6 on a scale from 0 to 10, with more than 36% giving it a score more than five. Respondents identified the police and the sanitary inspection services as the most frequent requestors of bribes (Figure 8).

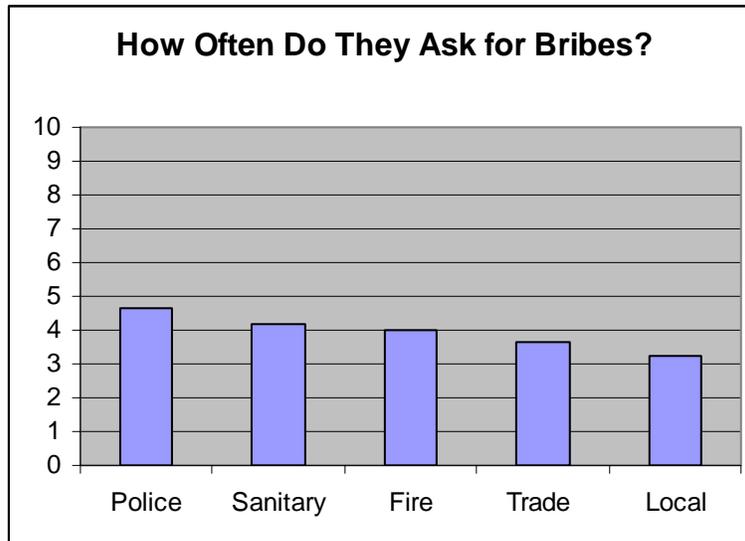
TABLE 11. EXPENSES FOR SANITARY AND FIRE INSPECTIONS

	Sanitary Inspection (rubles)	Fire Inspection (rubles)
Official government-mandated fees .	1966.32	958.17
Formal, official payments for facilitating and expediting the process .	145.52	248.2
Informal payments/gifts voluntarily offered by you .	218.3	258.34
Informal payments/gifts demanded by officials for facilitating and expediting the process .	224.43	609.17
Payments paid to private businesses (intermediary firms or law firms) to help in the process .	402.35	222.48
Expenses of your business not included above (e.g. labor time, travel, legal work, etc) .	822.36	410.88
Please estimate the total cost of all interactions with this agency in the licensing process	3999.08	3115.47

Over the 2001-2004 period, the ruble has fluctuated between 29 and 32 to the U.S. dollar.

Table 11 shows the expenses linked to sanitary and fire inspections, two of the most frequent types of inspections. Overall, informal payments to the fire inspection were greater than informal payments to the sanitary inspection service, and the size of bribes demanded by fire inspection officials was considerably higher.

FIGURE 8. HOW OFTEN DO THEY ASK FOR BRIBES?



Respondents answered on a scale from 0 (never) to 10 (always).

Table 12 shows how respondents rate the different inspection agencies on service delivery, adherence to law, and the tendency to demand informal payments. The fire and trade inspections were listed as having the highest quality service and the best adherence to law.

TABLE 12. PERCEPTIONS OF INSPECTION AGENCY SERVICE

	Police	Sanitary Inspection	Fire Brigade	Trade Inspection	Local Administration
Quality of agency service is high	4.41	5.56	5.92	5.62	5.58
The agency strictly follows the laws	5.09	6.16	6.47	6.19	6.25
Formal payments that exceed those officially stated are often demanded by this agency	4.26	3.65	3.63	3.37	3.16

Respondents answered on a scale from 0 (disagree) to 10 (agree).

TABLE 13. FREQUENCY OF INSPECTIONS

Agency	Agency is relevant to your business in connection with permissions, licensing, inspections, or related matters (% yes)	How many times a year does this agency send representatives to inspect the operations of your business?	What percentage of the revenues of your business would you be willing to pay to ensure that this agency has absolutely no power to inspect your business?	Representative of this agency threatened to shut down your business or impose a large fine (% yes)	Asked to make informal payments in connection with licensing and inspection activities performed by this agency (% yes)	Estimate, what was the share of informal payments in the total amount of money you spent for inspections (paying fines, providing the working space for the inspectors, informal payments, etc)
Tax inspection	96.14	1.51	1.90	6.78	6.67	3.10
Fire Safety inspection	77.19	1.83	1.11	6.67	7.95	2.11
Sanitary Inspection	70.88	2.38	1.83	4.80	5.26	1.95
Social Security Funds	67.95	0.70	0.41	0.58	0.70	1.40
Certification authorities	51.81	1.26	1.16	2.34	1.29	2.33
Trade Inspection	49.24	1.27	1.15	3.27	3.74	4.06
Labor Inspection	48.07	0.76	0.52	0.82	0.70	1.65
Police	37.43	2.33	1.52	3.39	5.38	2.25
Local Administration	34.04	0.98	1.40	1.75	0.94	0.84
Consumer Rights Department of Anti-Monopoly Ministry	33.45	0.66	0.47	0.58	0.70	0.82
Energetic Supervision	25.96	2.23	0.67	1.17	2.81	2.36

Agency	Agency is relevant to your business in connection with permissions, licensing, inspections, or related matters (% yes)	How many times a year does this agency send representatives to inspect the operations of your business?	What percentage of the revenues of your business would you be willing to pay to ensure that this agency has absolutely no power to inspect your business?	Representative of this agency threatened to shut down your business or impose a large fine (% yes)	Asked to make informal payments in connection with licensing and inspection activities performed by this agency (% yes)	Estimate, what was the share of informal payments in the total amount of money you spent for inspections (paying fines, providing the working space for the inspectors, informal payments, etc)
Administrative-Technical Inspection	25.26	0.70	0.55	0.82	0.82	0.37
Ecological Inspection	23.04	0.69	0.56	1.40	0.47	1.15
Engineering Supervision	21.52	0.66	0.45	1.29	0.47	1.06
Land Inspection	14.97	0.76	0.68	0.70	0.70	1.20
State Intercommunication Inspection	6.67	0.47	0.59	0.35	0.23	1.59
Veterinary Inspection	5.73	3.70	0.57	0.58	0.35	0.99
Other	4.56	1.16	2.01	1.29	0.47	3.15
Bread Inspection	3.74	0.75	1.00	0.35	0	1.10

Respondents reported that in 2003 they had been inspected by the sanitary inspection services an average of 2.6 times, and by the fire inspection services an average of 2 times. Most were informed of the reasons for the inspections. Only 8% of respondents reported that the sanitary officials had not always informed them of the reason for inspection, while 6.8% reported that the fire officials had not always informed them of the reason for inspection. Some 10.4% reported that sanitary officials asked them to make payments; only 5.5% of respondents reported getting a receipt. Some 10% reported that fire officials had asked them to make payments; only 3.7% of respondents reported getting a receipt. Some 4.6% reported that sanitary officials had asked to speak with them privately, while 5.4% reported that fire officials had asked to speak with them privately. Some 7% reported that they did not receive written documentation of the results of sanitary inspections, while 9% reported that they did not receive written documentation of the results of fire inspections.

TABLE 14. WILLINGNESS TO REPORT CORRUPTION

Questions about reporting corruption	Percentage who answered affirmatively
Have you ever filed a complaint about corruption?	6.55
Would you be willing to report corruption if you could do so anonymously?	50.29
Would you be willing to give your name and address to authorities in order to report corruption?	15.2

About half of respondents would be willing to report corruption if they could do so anonymously; but only 15% were willing to do so if it required providing their name and address (Table 14).

In short, businesses report that they are doing well, and that corruption is not one of their most pressing concerns. While there is substantial variation in practices by region, municipality and type of corrupt practice, about 30% of businesses reported a corrupt interaction in the course of their registration process. Agencies identified as problematic included the Tax Agency and the fire inspectors, but these are also agencies that have very widespread contact with businesses. The most frequently reported types of corrupt activity were official acceptance of voluntarily offered gifts and use of personal relations. The widespread reporting of voluntarily offered payments suggests that corruption is so engrained that businesses do not wait to be asked. On the other hand, 35% of businesses would report corruption if they could do so anonymously.

III. SURVEYS OF AGENCIES

Two officials (typically the director and the deputy director) of the municipal office of the tax authority and fire and sanitary inspections were interviewed in the same 25 municipalities. The survey firm reported difficulties in securing participation in the interviews. In some cases, superiors received copies of the questionnaire, which were distributed before interviews took place.³

We asked agency officials a number of different questions regarding the transparency of agency operations, the accountability of agency officials for their actions, the degree to which corrupt activities are prevented, the education and values of agency officials with regard to corruption, and the degree to which rules against corrupt acts are enforced. Some questions were common among other pilot studies, but some were particular to this study. We asked these questions for a number of different types of corrupt activities: accepting a voluntarily offered gift from a company official, proposing to a company official to pay an informal facilitation payment, demanding a bribe for concealment of violations, simplifying the procedure for those with personal relationships, making a business employ certain firms for conducting work to help the business pass inspection, conducting repeated inspections to obtain informal payments, and accepting a payment to delay the licensing of a competitor.

TRANSPARENCY

“Transparency” refers to the ability of citizens, public officials and civil society organizations to detect whether public officials are in compliance with the rules and standards defined in Accountability. Appendix B shows the results of the key question “If one of the Agency officials were to do this, how likely is it that they would be observed by someone who could report to the relevant authorities?” asked about a variety of corrupt practices. Agency respondents reported that the acceptance of voluntarily offered informal payments was the least likely to be observed by someone who could report it.

Agency officials reported high levels of transparency in budget management, personnel management, and the conduct of inspections within the agencies themselves (Table 15), although there was some variation in the responses among the agencies.

³ This is potentially of concern insofar as it may have permitted collusion in the responses. Six pairs of agency responses were dropped because their responses were more than 80% identical.

TABLE 15. STATEMENTS ABOUT TRANSPARENCY IN AGENCY PERFORMANCE

Statements about performance, administration, and policies within your Agency	Fire	Sanitary	Tax
Decisions on <i>personnel management</i> within our Agency are done transparently (everybody is informed about who were promoted, transferred, ascended, or received wage increases and why).	9.55	8.67	8.98
Decisions on <i>budget management</i> within our Agency are done transparently (everybody is informed about how money is being spent and why).	8.45	8.05	7.05
Decisions on <i>conducting inspections</i> within our Agency are done transparently (everybody is informed about what decisions are made and why they are made).	9.27	8.52	8.39

Respondents signaled their agreement with each statement on a scale from 0 to 10 where 0 indicates complete disagreement and 10 indicates complete agreement.

One aspect of transparency is the dissemination of the relevant laws and regulations. If businesses do not understand the rules governing registration inspections, it will be more difficult for them to hold government officials to the rules. Respondents reported that most offices do not post key information. Only one tax office reported that fees for registration and statutory time limits were posted. Only one had a web site; however two municipalities reported that the fees for registration and statutory time limits were posted on the web site. Fire officials in one municipality reported having a web site on which all key information was posted except the schedule of legal investigations. Out of the 25 municipalities surveyed, sanitary officials in six municipalities reported having a web site, and all the key information shown in Table 16 was reported posted on a web site in four municipalities.

TABLE 16. TRANSPARENCY -- MUNICIPALITIES POSTING KEY INFORMATION

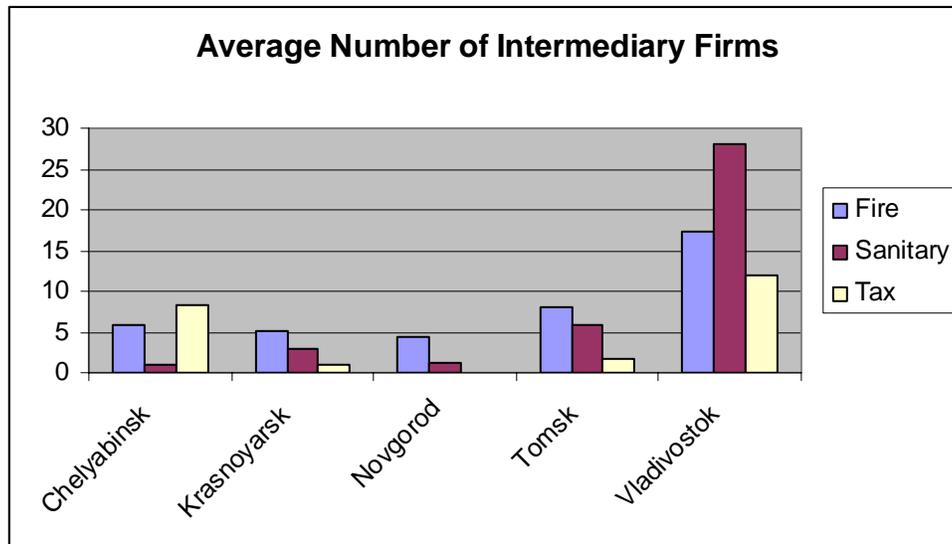
Key information	Fire	Sanitary
Requirements to pass control posted	3	4
Fines and other sanctions posted	2	3
Statutory time limits for inspections posted	1	4
Reasons for unplanned inspections posted	3	2
Schedule of legal investigations posted	3	3
Addresses, phone numbers, names of superiors posted	4	6

Number of 25 municipalities with key information posted.

The lack of clarity of rules and procedures, complexity, and the amount of documentation can make businesses turn to intermediaries to deal with government agencies. Figure 9 shows the average number of intermediary firms reported by agency officials. Vladivostok reports the

highest number, although Chelyabinsk was the region where the most businesses reported using an intermediary for registration (Figure 4).

FIGURE 9. AVERAGE NUMBER OF INTERMEDIARY FIRMS



Average number of intermediary firms reported by agency officials.

In short, while agency officials report high levels of internal transparency, businesses lack key information regarding applicable rules and procedures. In some regions, there is widespread use of intermediaries, which can be a reflection of business frustration in dealing directly with opaque agencies, and/or a mechanism for channeling informal payments.

ACCOUNTABILITY

“Accountability” refers to rules specifying the relationships between public officials’ behavior and performance, and rewards and punishments. Appendix B shows the results of the key questions “According to law, how severe are the consequences for a person who has been identified as having taken the action?” and “If someone reported to you that a colleague had taken this action, how easily could you fire this person or get the person fired?” asked about a variety of corrupt practices. Agency respondents reported that the acceptance of voluntarily offered payments carried the lowest penalties and that it would be comparatively more difficult to have an employee fired for accepting.

Employee performance evaluations hold employees accountable to their agencies. Most respondents were aware that their performance is evaluated: about 86% of tax officials, 93% of fire agency officials, and 75% of sanitary officials.

TABLE 17. BUSINESS RECOURSE FROM AGENCY DECISIONS (ACCORDING TO AGENCIES)

	If businesses have a complaint, how easily can businesses complain to each of the following agencies/organizations? Please answer on a scale of 0-10 where 0 means “this would be impossible” and 10 means “this would be very easy.”	How effective are these complaints likely to be. Please answer on a scale of 0 to 10, where 0 means “they would have no effect” and 10 means “they would always lead to a satisfactory resolution to the problem”
Region Administration	8.63 (F) 8.98 (S) 7.93 (T)	7.17 (F) 6.98 (S) 6.42 (T)
Municipal Administration	8.83 (F) 9.05 (S) 8.14 (T)	6.78 (F) 7.21 (S) 6.57 (T)
Higher Authority	9.52 (F) 8.86 (S) 9.24 (T)	8.40 (F) 8.10 (S) 7.85 (T)
Court	9.11 (F) 9.26 (S) 9.12 (T)	8.35 (F) 7.43 (S) 7.22 (T)
Other (specify)	8.63 (F) 8.98 (S) 0.00 (T)	4.00 (F) 6.98 (S) 0.00 (T)

TABLE 18. BUSINESS RECOURSE FROM AGENCY DECISIONS (ACCORDING TO BUSINESSES)

	If businesses have a complaint, how easily can businesses complain to each of the following people? Please answer on a scale of 0-10 where 0 means “this would be impossible” and 10 means “this would be very easy.”	How effective are these complaints likely to be. Please answer on a scale of 0 to 10, where 0 means “they would have no effect” and 10 means “they would always lead to a satisfactory resolution to the problem”
Directors of other businesses	6.84	3.99
Judge	5.99	4.64
Mayor	4.41	3.58
Other regional official	4.27	2.91
Member of Chamber of commerce	3.88	2.69
Governor	3.66	3.24
Member of parliament	3.39	2.77
Other (specify)	1.60	1.62

Another accountability mechanism that helps ensure proper behavior is an effective recourse for business complaints, which helps hold agencies accountable to businesses.

All agencies reported easy and effective avenues of recourse for businesses in case of complaint (Table 17). Businesses were much less optimistic and had less faith in the efficacy of their complaints (Table 18) but put the most faith in the courts.

Some 30.2% of officials reported that some entrepreneurs had appealed the refusal of registration; 7.0% reported that there had been cases where tax officials had received administrative sanctions for violating the rules of state registration (Table 19). Fire officials reported that 10.6% of appealed decisions resulted in a decision in favor of the inspected business. Sanitary officials reported that some 17.3% of court-appealed decisions resulted in a decision in favor of the inspected business.

TABLE 19. CONSEQUENCES OF INSPECTIONS

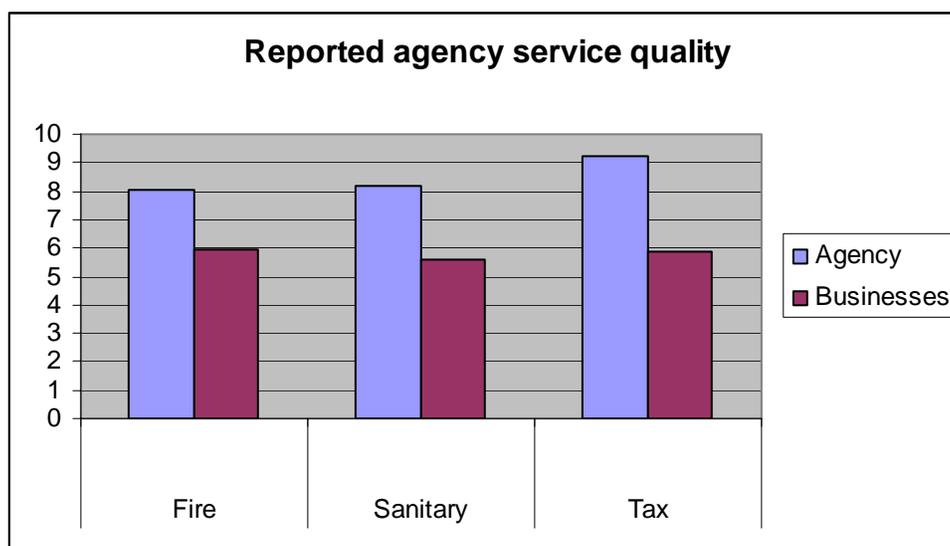
Consequences of inspections	Fire (percentage)	Sanitary (percentage)
Inspections which resulted in revelation of non-fulfillment of due requirements	69.93	62.33
Inspections which resulted in imposition of a fine	31.82	30.69
Inspections appealed in your agency to a higher authority	3.57	7.21
Inspections appealed in court	1.05	3.64

Another mechanism to ensure accountability is regular audits by a superior authority, provided that this authority is not itself engaged in corrupt activities. Tax officials estimated that the agency's overall performance was evaluated by a higher authority 6.6 times in the previous year. Fire officials reported that their agency's overall performance was evaluated by a higher authority 4.9 times, while sanitary officials reported that their performance was evaluated 3.0 times. Some 89% of fire agencies, 93% of sanitary agencies and 88% of tax agencies reported that they had been audited at least once in the past year.

TABLE 20. NUMBER OF FINANCIAL AUDITS OF THE FIRE, SANITARY AND TAX AGENCIES

Auditing Agency	Fire	Sanitary	Tax
Higher authority	3.22	2.00	3.42
Control department of the Ministry of Finances	1.13	1.29	1.30
Exchequer	1.51	1.97	1.91
Auditing agency of RF	0.59	0.92	1.35

FIGURE 10. REPORTED AGENCY SERVICE QUALITY



Agency officials gave high marks to the professionalism and performance of their agencies (Table 21). Perhaps not surprisingly, business evaluations of agency service quality were much lower than the agency’s self-assessment of their service quality (Figure 10). Either officials are deliberately inflating their statements regarding the performance of their agencies or they are unaware of the perception of their work. A regular public mechanism for feedback about service quality from businesses to agencies might be helpful.

In sum, most surveyed employees reported that employee performance is evaluated and that the agencies are subject to regular audits. They are aware of instances where businesses have successfully contested administrative decisions in court, but the percentage is very low. Businesses and agencies have substantially different perceptions of agency quality of service. They also have very different views of the ease and efficacy of business complaints regarding administrative practices. This suggests that the accountability link between businesses and agencies is relatively weak.

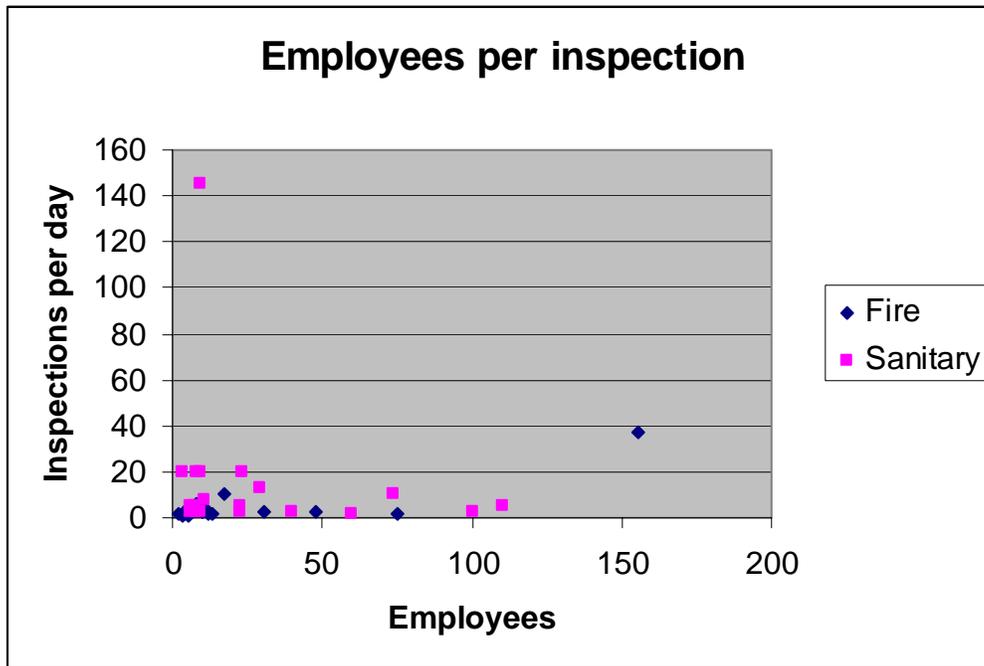
PREVENTION

“Prevention” refers to the systemic reform of institutions so as to decrease opportunities for corruption. Appendix B shows the results of the key question “How easily could a typical official of your Agency arrange to do this on a regular basis,” asked about a variety of corrupt activities. Respondents reported that it was easiest to arrange for the acceptance of voluntarily offered informal gifts.

One aspect of prevention is ensuring that there are sufficient employees to the task. Where employees are overloaded, there is an incentive for businesses to pay speed or facilitation payments. Figure 11 shows the number of inspection employees per agency and the average number of inspections conducted in a day for the sanitary and fire agencies for the different municipalities. The clustering of points near the x axis reflects the number of municipalities that have a high number of employees compared the number of daily inspections conducted. For example, the fire inspection in one municipality reported 75 employees concerned with

inspections carrying out an average of 1.5 inspections per day, compared with another municipality that reported 5 employees carrying out 2 inspections per day.

FIGURE 11. EMPLOYEES PER INSPECTION



Employees that feel that they are underpaid may use this to justify their engagement in corrupt activities. Agency officials gave low ratings when asked about wages, benefits, staffing and equipment (Table 21). Tax agency officials reported an average monthly salary of 4550 rubles per month. Fire employees reported an average monthly salary of 6000 rubles per month, while sanitary employees reported an average monthly salary of 3,827 rubles per month. About 51% of fire employees surveyed, 72% of tax agency employees and 86% of sanitary employees reported that earnings in the private sector for persons of similar qualification and position were substantially higher. But 98% of fire employees and 68% of sanitary employees reported that employees received bonuses during 2003.

TABLE 21. STATEMENTS ABOUT PREVENTION IN AGENCY PERFORMANCE

Statements about performance, administration, and policies within your Agency	Fire	Sanitary	Tax
Professional experience is a very important factor in decisions on <i>personnel management</i> within our Agency.	9.41	9.31	9.19
Merit and performance are very important factors in decisions on <i>personnel management</i> within our Agency.	9.55	9.36	9.15
Level of education is a very important factor in decisions on <i>personnel management</i> within our Agency.	9.30	9.05	9.27
All employees within our Agency are very satisfied with their wages.	3.61	2.33	2.95
All employees within our Agency are very satisfied with their benefits (pension, health, etc.)	3.73	2.63	3.41
The quantity of employees in our Agency is adequate to the load of work in the field of inspection process	7.34	6.90	6.63
The professional level of employees in our Agency is adequate to the load of work in the field of inspection process	8.32	8.90	8.85
Technical equipment of our Agency is adequate to the load of work in the field of inspection process	5.14	6.45	6.58

Respondents signaled their agreement with each statement on a scale from 0 to 10 where 0 indicates complete disagreement and 10 indicates complete agreement.

TABLE 22. CRITERIA FOR RECRUITMENT

Criteria for recruitment	Fire	Sanitary	Tax
Solid theoretical background	8.23	8.62	7.49
Solid practical knowledge (skills)	8.11	9.21	8.37
Personal qualities of the candidate	8.09	7.95	7.22
Recommendations from well-known (authoritative) people	4.07	5.31	5.68
Recommendations from the present Agency employees	6.66	5.95	5.41
Prior experience	8.82	8.95	7.93
Informal monetary payments	0.55	0.81	0.10
Other	5.00	5.29	3.50

Respondents signaled their agreement with each statement on a scale from 0 to 10 where 0 indicates complete disagreement and 10 indicates complete agreement.

Transparent meritocratic hiring practices help prevent corruption. Corrupt recruiting practices contribute to the establishment of cells and networks of corruption within agencies, as those hired as a favor are called upon to return favors. Officials reported that experience, merit, performance and education are all very important factors in hiring. However, while positions in the agencies are not usually bought, recommendations from current agency employees and politically influential others play a significant role (Table 22). In particular, officials reported that pressure from higher authorities to employ a particular candidate is difficult to resist, although this pressure is rarely used to insist on hiring a candidate other than the best qualified (Table 23).

TABLE 23. PRESSURE IN HIRING

	Suppose the following organization pressured you into hiring someone who is clearly <i>not</i> the best candidate for a job. Could you resist these pressures? Please answer on a scale of 0 to 10 where 0 refers to “I can easily ignore them” and 10 to “I would have to follow their proposal”	How often does the organization pressure you to hire someone who is clearly <i>not</i> the best candidate? Please answer on a scale of 0-10 where 0 refers to “never”, and 10 refers to “every time a position is being filled”	If someone was hired because they were recommended by this organization, and is afterwards caught taking bribes, how easy is it to fire this person. Please answer on a scale of 0 to 10, where 0 refers to “it’s no more difficult than firing someone hired without this recommendation” and 10 means “it is completely impossible”
Regional Administration	4.43 (F) 2.56 (S) 4.00 (T)	0.13 (F) 0.81 (S) 0.33 (T)	3.63 (F) 2.46 (S) 2.74 (T)
Municipal Administration	3.74 (F) 2.49 (S) 3.70 (T)	0.06 (F) 1.53 (S) 0.41 (T)	3.15 (F) 2.70 (S) 2.54 (T)
Higher Authority	6.04 (F) 4.02 (S) 5.92 (T)	1.29 (F) 2.35 (S) 2.50 (T)	3.40 (F) 2.77 (S) 2.34 (T)
Powerful people from the region	2.59 (F) 2.38 (S) 3.15 (T)	0.37 (F) 1.64 (S) 0.51 (T)	2.67 (F) 2.33 (S) 2.23 (T)

F – fire agency; S – sanitary agency; T – tax agency.

In short, agencies report a high number of employees compared to the number of daily inspections, which suggests that there is not a problem of inadequate staffing leading to speed payments (although it may mean that there is shirking, depending on other responsibilities of staff). Surveyed employees were uniformly dissatisfied with their remuneration, which can provide a rationale if not an actual reason for engaging in corrupt activities. Surveyed employees

reported transparent meritocratic hiring practices, but also signaled vulnerability to political pressures in hiring.

ENFORCEMENT

“Enforcement” refers to whether the rules defined in accountability are enforced once they are detected. Appendix B shows the results of the key questions “How likely is it that the person who observed the action will actually report it to the relevant authorities?” and “In practice, to what extent are the official rules applied in punishing a person who has been identified as having taken the action?” asked about a variety of corrupt actions. Agency respondents reported the lowest levels of enforcement for the acceptance of voluntarily offered informal payments. The Tax Agency reported the highest level of enforcement overall, while the Sanitary Inspection reported the lowest.

TABLE 24. AGENCY STATEMENTS ABOUT ENFORCEMENT

Statements about performance, administration, and policies within your Agency	Fire	Sanitary	Tax
The violations that are exposed are always punished.	8.45	8.36	8.85
The policy/guidelines/regulations of <i>budget management</i> within our Agency are strictly enforced (violations are always punished).	8.95	9.02	9.82

Respondents signaled their agreement with each statement on a scale from 0 to 10 where 0 indicates complete disagreement and 10 indicates complete agreement.

Surveyed agency officials agreed strongly with statements that rules are always enforced (Table 24). But their responses to other questions indicate that agency enforcement against employees is limited. Tax officials reported that they were aware of rebukes and deprivation of bonuses, but no officials reported that they were aware of demotions, fines, firing or obligatory leave (Table 25). No tax officials reported cases where the agency had to pay reparations to businesses. Some 35% of fire officials reported that they aware of disciplinary measures taken against fire inspection employees for improper behavior, but none reported cases where fire inspection employees had to pay damages to a business. Only 25% of sanitary officials reported that they are aware of disciplinary measures taken against sanitary inspection employees for improper behavior, but none reported cases where sanitary inspection employees had to pay damages to a business.

TABLE 25. PERCENTAGE OF OFFICIALS REPORTING THAT ADMINISTRATIVE SANCTIONS IMPOSED

Administrative sanction	Fire	Sanitary	Tax
Rebuke	54.4	27.3	9.3
Deprivation of bonuses	45.7	11.4	11.6
Demotion	2.2	4.6	0
Fines	0	6.8	0
Firing	0	0	0
Divestiture for holding a post during certain period of time	0	0	0
Not imposed	30.4	59.1	74.4

In sum, agency respondents reported the lowest level of enforcement for the acceptance of voluntarily offered informal payments. The Tax Agency reported the highest level of enforcement, while the Sanitary Inspection reported the lowest. Some agency respondents are aware of rebukes and deprivation of bonuses, but are not aware of more strenuous consequences for violation of relevant laws and regulations. Many employees are not aware that administrative sanctions are imposed at all: this was true for 74% of tax officials surveyed, 59% of sanitary officials, and 30% of fire officials. This suggests either that internal enforcement is weak or that sanctions are not well publicized.

EDUCATION/VALUES

“Education/Values” refers to the intrinsic motivations of public officials to avoid corruption even when a simple cost-benefit analysis would induce them to be corrupt. Appendix B shows the results of the key questions “Estimate the proportion of the Agency officials who are so honest that they would not take the action even if they had a chance and knew they would not get caught?” and “If you knew that one of the Agency officials had taken this action, how uncomfortable would this make you feel?” asked about a variety of corrupt practices.

Agency respondents reported that only about half of their colleagues were so honest that they would not accept voluntarily offered informal payments. They also reported high levels of personal discomfort with all of the corrupt activities listed, but reported the least discomfort with the acceptance of voluntarily offered informal gifts or payments.

THE RELATIONSHIP BETWEEN TAPEE AND CORRUPTION

Figure 12 shows the TAPEE factors by agency, where each factor was calculated by normalizing the average of the responses per municipality for questions related to each TAPEE factor. Differences between the fire and sanitary agencies were highly significant for all questions, and only slightly less significant for the question asking how easily an official could arrange to

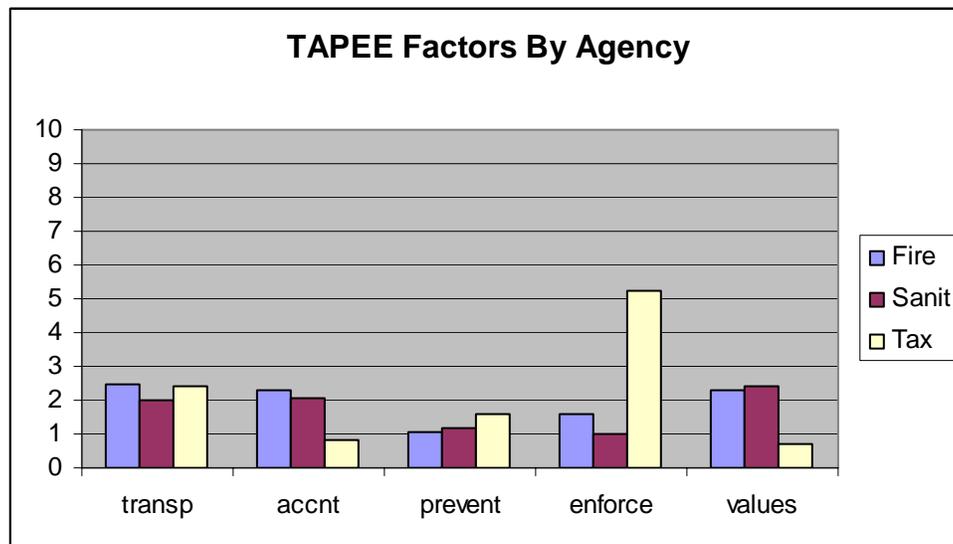
demand an informal payment for the concealment of violations. The Tax Agency reports a very high level of enforcement and a comparatively low level of values.

Acceptance of informal gifts was reported to be the easiest act to do regularly, the act that made respondents the least uncomfortable, the one that was least likely to be observed (in fire and sanitary), the one least likely to be reported, the one with the least severe punishment (in fire and sanitary), the one for which rules were least likely to be applied, and the one for which you were least likely to be fired. This suggests that more needs to be done to change attitudes about the acceptance of voluntary gifts. Asked which act made respondents most uncomfortable, fire officials pointed to concealment of violations, and tax and sanitary officials pointed to delaying competitors.

We explored the relationships between the agency officials' reports of TAPEE variables in their agency and the business reports of levels of corruption. Appendix C shows the results of statistical analysis. We do not find a strong relationship between agency officials' reports of TAPEE factors and the reported levels of corruption even when aggregating all available data; the relationships are certainly not reliably detectable at the level of the individual agency. This means that agency officials' reports of institutional

integrity are not reliable guides to levels of corruption. The result is the consequence of one or more of the following factors: the model is improperly specified, it is not applicable to these Russian agencies, or data measurement errors obscure the relationship. A deeper analysis may be needed to design reform measures that should be undertaken to prevent corruption or lower current corruption levels.

FIGURE 12. TAPEE FACTORS BY AGENCY



IV. BIAS, CONSISTENCY AND TRUTH TELLING

One of the concerns in surveying about sensitive topics is the risk that respondents may not tell the truth. We experimented with several means of encouraging respondents to tell the truth and identifying respondents who did not. First, we ran consistency checks on each observation to see whether respondents were telling internally consistent stories. We also ran consistency checks to

see whether businesses dealing with the same agency tended to make the same reports, and whether agency respondents in the same municipality tended to give similar answers. We are satisfied both that the data is consistent and that there is strong municipal variation in the data.⁴

We also attempted to ask a series of sensitive test questions to establish the reliability of individual respondents. However, some respondents refused to answer these questions, and we did not find a relationship between the respondents' answers to these test questions and their answers to the substantive questions.

We asked some respondents about their own firm, and others about "firms like yours" to see whether respondents would be more forthcoming when questions were framed more generally. We conclude that there is no evidence that asking about "a firm like yours" is more efficient at eliciting frank answers than asking about "your firm."

One of the interesting aspects of studying corrupt behavior is examination of the values and perceptions of those who may be engaged in such behavior. In the survey of businesses, respondents were asked whether they considered a number of different behaviors to be corrupt (Table 26). Some 19% of respondents did not believe that accepting a gift was a form of corruption, and more respondents thought that raising prices was a form of corruption than that shirking was a form of corruption.

Respondents' definitions of corruption were strongly related to how they estimated the percentage of corrupt officials at a variety of agencies. For example, those who considered accepting an informal payment for service to be corrupt were likely to report higher levels of corruption in the tax, sanitary and fire agencies, but lower in the central government. Those who considered shirking to be corrupt were likely to report lower levels of corruption in agencies across the board. This exercise gives insight into which behaviors are occurring at which agencies, but also emphasizes the way in which respondents' personal definitions of corruption affect the way they answer perception-based questions about corruption.

⁴ This remains true even after very similar observations were eliminated.

TABLE 26. DEFINITIONS OF CORRUPTION

Actions	Percentage who agreed that this action is corrupt	Percentage who did not agree that this action is corrupt
To take an informal payment or gift from a citizen for a service	78.6	18.83
To take an informal payment from a company in return for buying its products	81.64	15.91
Intimidation of a private citizen or business to obtain money	85.85	11.7
Stealing funds or equipment from the government	72.4	25.03
Favoritism, that is, showing preference to relatives and other close persons	54.62	41.05
Shirking, that is being systematically absent from work for no reason	26.67	70.99
Raising the prices of essential items like electricity when people can't pay for it	38.01	58.83
Buying goods from foreign firms when Russian firms are operating below capacity	31.93	65.15

Note: Totals do not sum to 100% because some respondents did not answer the question.

V. WHAT HAVE WE LEARNED?

This assessment attempted to look at a variety of corrupt activities and their drivers at the municipal level. The answers of businesses surveyed in the same municipality were reasonably consistent, suggesting that businesses are reporting about shared experiences with the agencies in their municipality. The answers of businesses yield a number of insights useful for anti-corruption programming and possible reforms:

- *Businesses do not prioritize corruption in their list of business concerns, and a substantial percentage of informal payments are made voluntarily.* This suggests that corruption is so endemic that it is taken for granted as part of doing business. Anti-corruption efforts aimed at helping the business community may need to include demand-building efforts before the business community will take ownership and sustain anti-corruption campaigns.
- *Business respondents had a wide variety of personal definitions of corruption.* Nearly 19% did not consider accepting an informal payment from a citizen for a service to be corruption; others considered raising prices or buying from foreign firms to be corruption. This suggests that anti-corruption efforts may need to include educational components to form a consensus definition of corruption.
- *Levels of corruption vary significantly by region and municipality.* Anti-corruption efforts may be targeted to municipalities with higher reported levels of corruption in addition to other considerations such as the damage caused by corruption and the likelihood that AID-supported efforts could reduce corruption.
- *Agencies signaled out as particularly problematic for businesses included the tax agency and the fire inspectors.* Anti-corruption efforts could be targeted to these agencies.
- *The most frequently reported types of corrupt activity were official acceptance of voluntarily offered gifts and the use of personal relations.* Anti-corruption campaigns might target these types of activities through educational campaigns. Examples of reforms that attempt to reduce opportunities for personal intervention in service delivery include: better control of outside visitors to agencies; the use of computer terminals as the primary point of contact; improved tracking of the order of handling dossiers. Anti-corruption efforts might investigate whether and where such reforms would be appropriate.
- *Nearly 35% of businesses said that they would be willing to report corruption if they could do so anonymously.* The creation of anonymous reporting mechanisms would increase reports of corruption; however, such mechanisms are also subject to abuse. Anti-corruption efforts might investigate whether the creation of such mechanisms is appropriate.

While agency officials' reports on TAPEE factors were internally consistent – indeed, some were dropped because they were too similar – they likely show inflated values. This could explain why there is no evidence of a strong relationship between TAPEE factors and corruption at the municipal levels. The likely inflation of agency officials' reports on TAPEE may mean that they are not the best guide to identifying reforms to undertake. Nevertheless, the surveys flagged potential problem areas:

Transparency

- *Most municipal offices do not post key information such as requirements to pass inspection, fines and sanctions, or statutory time limits.* Anti-corruption efforts might focus on ensuring that both regulators and regulated know the rules.

Accountability

- *Business evaluations of service quality were much lower than agency self-assessments of service quality.* This suggests the need for better feedback mechanisms from clients to agencies.

Prevention

- *Most agency employees registered a high degree of dissatisfaction with their wages and benefits.* Most studies show that raising wages does not reduce corruption, once entrenched. But dissatisfaction with wages can provide a self-justification for engaging in corrupt activities.
- *Recommendations from powerful people and present agency employees play an important role in hiring.* This may reflect patronage hiring practices, which in turn can contribute to systemic corruption. Anti-corruption efforts might consider whether a review of hiring procedures is in order to establish more objective and neutral criteria.

Enforcement

- *Most agency employees were not aware of cases where agency employees had been sanctioned for improper behavior.* Both good and bad examples can help agents better understand expectations. Anti-corruption efforts might consider better publicizing both sanctions and rewards for agency performance.
- *Agency officials reported that accepting voluntary gifts or payments was more acceptable and less likely to be observed, reported or punished than other types of corrupt behaviors.* Anti-corruption efforts might target the widespread acceptance of the practice of accepting voluntarily offered informal payments.
- *The statistical relationship between TAPEE and reported corruption levels was tenuous.* Possible explanations are that the model was improperly specified, it is not applicable to these Russian agencies, or data measurement errors – such as inflated TAPEE values reported by agency officials -- obscure the relationship.

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APPENDIX A. MEASURES OF RUSSIAN CORRUPTION

	Concept	Source	Definition	Russia "score"	Points of Comparison	Additional comments and notes
1	Governance ratings	Freedom House (2004)	An overall rating of governmental quality, capturing stability, legislative and executive transparency; the ability of legislative bodies to fulfill their responsibilities, decentralization of power, and the freedom of the civil service from excessive political interference and corruption.	5.25 on a 1-to-7 scale, with 1 being highest	Slovakia = 2.25 Hungary = 2.50 Bulgaria = 3.75 Croatia = 3.75 Romania=3.75 Eastern Europe = 3.29 FSU = 5.13	Russia has the lowest score of transition countries.
2	Constitutional, Legislative, and Judicial Framework ratings	Freedom House (2004)	Measures constitutional framework for protecting rights (including business and property rights), equality before the law, treatment of suspects and prisoners, judicial independence, and compliance with judicial decisions.	4.75 on a 1-to-7 scale, with 1 being highest	Slovakia = 2.00 Hungary = 1.75 Bulgaria = 3.25 Croatia = 4.50 Romania=4.25 Eastern Europe = 3.21 FSU = 4.82	Places Russia as the second lowest of transition countries; better than the FSU overall.
3	Index of Economic Freedom	Miles et al. (2004)	An aggregation of 50 variables capturing trade policy, fiscal burden of government, government intervention in the economy, monetary policy, capital flows and foreign investment, banking and finance, wages and prices, property rights, regulation, and informal market activity.	3.46 on a 1 to 5 scale, with 1 best	Slovakia = 2.44 Hungary = 2.6 Bulgaria = 3.08 Croatia = 3.11 Romania=3.66 Eastern Europe = 2.93 FSU = 3.30	Russia is second worst next to Romania. Economic freedom = “the absence of government coercion or constraint on the production, distribution, or consumption of goods and services beyond the extent necessary for citizens to protect and maintain liberty itself.”

	Concept	Source	Definition	Russia "score"	Points of Comparison	Additional comments and notes
4	Degree of state intervention	Hellman et al (2000)	Percent of firms responding “frequently” or more to the question on how often the state directly intervenes in investment, employment, sales, prices, mergers, dividends and wages.	11.5% of firms	Slovakia = 30.4 Hungary = 27.3 Bulgaria = 10.2 Croatia = 7.1 Romania=13.2 Eastern Europe = 15.64 FSU = 14.56	Russian government appears less interventionist than Eastern Europe, Slovakia or Hungary. Based on the 1999 Business Environment and Enterprise Performance Survey (BEEPS). Averages taken across the seven dimensions of intervention.
5	Capture economy index	Hellman, Jones and Kaufman (2000)	The percentage of firms declaring a significant or very significant impact of corruption in influencing laws and policies (parliamentary legislation, presidential decrees, central bank, criminal courts, commercial courts, and party finance).	32% of firms	Slovakia = 24 Hungary = 7 Bulgaria = 28 Croatia = 27 Romania=21 Eastern Europe = 17 FSU = 21.46	Transition countries fall into two groups: low capture (most and least advanced reformers) and high capture (partial reformers). Russia is a high-capture country. Based on the 1999 Business Environment and Enterprise Performance Survey (BEEPS). Averages taken across firms, not weighted.
6	Accountability of state officials	World Bank (2002), own calculations	Percentage of “never” and “seldom” responses to the question: “If a government agent acts against the rules I can usually go to another official or to his superior and get the correct treatment without recourse to unofficial payments/gifts.”	47.3% of firms	Slovakia = 49.1 Hungary = 45.2 Bulgaria = 45.7 Croatia = 42.2 Romania=45.5 Eastern Europe = 42.5 FSU = 44.5	Russia is a poor performer among transition countries. (Higher values indicate worse economic environments created by state officials.)

	Concept	Source	Definition	Russia "score"	Points of Comparison	Additional comments and notes
7	Regulatory quality	Kaufmann, Kraay, and Mastruzzi (2003)	Regulatory quality includes the incidence of market-unfriendly policies as well as perceptions of the burdens imposed by excessive regulation in business development. Higher scores indicate better quality.	-0.30 (on a 0 mean, 1 standard deviation scale)	Slovakia = 0.76 Hungary = 1.21 Bulgaria = 0.62 Croatia = 0.19 Romania=0.04 Eastern Europe = 0.29 FSU = -0.36	Russia fares badly compared to EE and only slightly better than the FSU overall. Constructed by aggregating ratings from various sources (polls of experts and surveys of businesspeople).
8	Burden of regulation	World Economic Forum (2002)	Position in ranking of 75 countries (1= lightest burden)	23 rd of 75 countries	Slovakia = 45 Hungary = 20 Bulgaria = 37 Romania=73 Eastern Europe = 38 FSU = 37	Russia is one of the less regulated countries included in this data base. Based on opinions of business executives questioned directly about the burden of regulations
9	Burden of regulation	Johnson et al. (2000)	% of managers' time spent on governmental/regulatory matters	18% of managers' time	Slovakia = 12 Romania=8	The survey was on small businesses and conducted in 1997.
11	Control of corruption	Kaufmann, Kraay, and Mastruzzi (2003)	Success in controlling corruption. Scores are estimated for 199 countries. The distribution of scores approximates a standard normal distribution. Higher scores indicate less corruption.	-0.9 (on a 0 mean, 1 standard deviation scale)	Slovakia = 0.28 Hungary = 0.60 Bulgaria = -0.17 Croatia = 0.23 Romania=-0.34 Eastern Europe = -0.06 FSU = -0.67	Russia scores worse than the comparators. Constructed by aggregating ratings from various sources (polls of experts and surveys of businesspeople).

	Concept	Source	Definition	Russia "score"	Points of Comparison	Additional comments and notes
12	Corruption perceptions index	Transparency International (2003a)	The level of corruption in the public sector as perceived by business people, academics and risk analysts (poll of polls). Higher scores indicate less corruption.	2.7 out of 10	Slovakia = 3.7 Hungary = 4.8 Bulgaria = 3.9 Croatia = 3.7 Romania=2.8 Eastern Europe = 3.6 FSU = 2.9	Russia scores worse than the comparators.
13	Burden of corruption	World Bank (2002), own calculations	Percentage of firms stating that corruption is a moderate or major obstacle to operation and growth.	29.1 of firms	Slovakia = 50.0 Hungary = 23.5 Bulgaria = 53.7 Croatia = 44.5 Romania=56.1 Eastern Europe = 44.53 FSU = 38.26	A comparatively low percentage for Russia compared to most other transition countries. (Higher values indicate worse economic environments.)
14	Business costs of corruption	World Economic Forum (2002)	Position in ranking of 75 countries (1= country with smallest costs of corruption)	63 rd of 75 countries	Slovakia = 29 Hungary = 23 Bulgaria = 46 Romania=62 Eastern Europe = 36 FSU = 48	Costs of corruption are worse in Russia than in the other comparator countries. Based on opinions of business executives questioned directly about the burden of regulations
15	Place of corruption in relative ranking of problems facing businesses	Gray et al (2004)	Average over firms of their ranking of corruption among 22 obstacles of conducting business	11 th of 22	Slovakia = 6 Hungary = 11 Bulgaria = 7 Croatia = 6 Romania=5 Eastern Europe = 7 FSU = 8	Corruption appears to be a significant problem in Russia. (Lower values denote a higher importance of corruption.) From the BEEPS2 sample data (2002)

	Concept	Source	Definition	Russia "score"	Points of Comparison	Additional comments and notes
16	Size of shadow economy	Schneider and Klinglmair (2004)	The ratio of informal economy to total GDP, in percentage points.	46.1%	Slovakia = 18.9 Hungary = 25.1 Bulgaria = 36.9 Croatia = 33.4 Romania=34.4 Eastern Europe = 29.0 FSU = 46.1	Estimates of the size of the shadow economy are produced using indirect econometric methods. The estimates are for 1999/2000.
17	Proportion of businesses in the informal sector	World Economic Forum (2002)	Position in ranking of 75 countries (1= country with smallest informal sector)	53 rd of 75 countries	Slovakia = 37 Hungary = 38 Bulgaria = 56 Croatia = Romania=71 Eastern Europe = 42 FSU = 37	Informal sector ranked very large, according to this criterion, the proportion of businesses that are not registered. Based on opinions of business executives questioned directly about the burden of regulations
18	Cost of starting a business	World Bank (2004b)	Percentage of per capita national income needed to start a new business (excluding bribes).	6.7% of per capita income	Slovakia = 5.6 Hungary = 22.9 Bulgaria = 9.3 Croatia = 14.4 Romania=7.7 Eastern Europe = 16.88 FSU = 13.59	This is a measure of formal costs, which appear less burdensome in Russia than in other transition countries. (Higher values indicate worse economic environments.)
19	Number of procedures for starting a business	World Bank (2004b)	The total number of procedures that need to be taken to obtain the necessary permits and licenses a company to start operation.	9 procedures	Slovakia = 9 Hungary = 6 Bulgaria = 10 Croatia = 12 Romania=5 Eastern Europe = 9.9 FSU = 10.3	This is a measure of the complexity of formal requirements. Russia is in the middle of the pack. (Higher values indicate worse economic environments.)

	Concept	Source	Definition	Russia "score"	Points of Comparison	Additional comments and notes
20	Minimum capital for starting a business	World Bank (2004b)	Minimum capital needed to start a business as a percentage of per income capita	6.8% of per capita income	Slovakia = 50.3 Hungary = 96.4 Bulgaria = 123.8 Croatia = 25.5 Romania=0 Eastern Europe = 101.9 FSU = 38.6	This is a measure of a barrier to entry, which appears less burdensome in Russia than in most other transition countries. (Higher values indicate worse economic environments.)
21	Permits to start a firm	World Economic Forum (2002)	Median of the survey responses on number of permits to start a business	6 permits	Slovakia = 5 Hungary = 5 Bulgaria = 7 Romania=5 Russia = 6 Eastern Europe = 4.9 FSU = 5.5	Russia scores worse than most of the comparators. Based on opinions of business executives questioned directly about the burden of regulations
22	Days to start a firm	World Economic Forum (2002)	Median of the survey responses on number of days needed to start a business	26 days	Slovakia = 30 Hungary = 45 Bulgaria = 30 Romania=15 Eastern Europe = 38.6 FSU = 25.2	By this criterion, Russia is in the middle of the pack. Based on opinions of business executives questioned directly about the burden of regulations
23	Administrative burden for start up business	World Economic Forum (2002)	Position in ranking of 75 countries (1= country with lightest burden)	64 th of 75 countries	Slovakia = 72 Hungary = 16 Bulgaria = 75 Croatia = Romania=70 Eastern Europe = 47 FSU = 52	Russia scores poorly compared to most countries included in this data base. Based on opinions of business executives questioned directly about the burden of regulations

	Concept	Source	Definition	Russia "score"	Points of Comparison	Additional comments and notes
24	Importance of problems in the licensing and permitting process	World Bank (2002), own calculations	Percentage of firms stating that business licensing and permitting is a moderate or major obstacle to operation and growth	31.8% of firms	Slovakia = 39.1 Hungary = 19.9 Bulgaria = 35.5 Croatia = 33.1 Romania=43.9 Eastern Europe = 33.7 FSU = 30.6	Russia is in the middle of the pack. (Higher values indicate worse economic environments.)
25	Size of administrative corruption	Hellman, Jones and Kaufman (2000)	Average estimated proportion of revenues typically paid by firms to state officials in order to “get things done” (e.g., licenses, tax collection, connection to public services)	2.8% of revenues	Slovakia = 2.5 Hungary = 1.7 Bulgaria = 2.1 Croatia = 1.1 Romania=3.2 Eastern Europe = 2.2 FSU = 3.7	Russia scores poorly. Administrative corruption is “the extent to which firms make illicit and non-transparent private payments to public officials in order to alter the prescribed implementation of administrative regulations placed by the state on the firm’s activities.”
26	Frequency of bribes in the licensing and permitting process	World Bank (2002), own calculations	Percentage of firms responding “usually” or “always” to how frequently they would make unofficial payments/gifts to obtain business licenses and permits.	9.4 % of firms	Slovakia = 10.1 Hungary = 1.3 Bulgaria = 9.2 Croatia = 2.6 Romania=9.4 Eastern Europe = 6.3 FSU = 8.0	Russia’s percentage is high compared to those in most transition countries. (Higher values indicate worse economic environments.)

	Concept	Source	Definition	Russia "score"	Points of Comparison	Additional comments and notes
27	Importance of bribes in the awarding of government contracts	World Bank (2002), own calculations	Average response to "When firms in your industry do business with the government, how much of the contract value would be typically paid in additional or unofficial payments/gifts to secure the contract?"	3.2% of a contract value	Slovakia = 3.75 Hungary = 3.56 Bulgaria = 3.72 Croatia = 2.92 Romania=3.63 Eastern Europe = 3.60 FSU = 3.34	Russia scores better than most of the comparator countries. (Higher values indicate worse economic environments.)
28	Relative importance of bribes for licenses	Hellman et al (2000)	Bribes paid to get licenses and permits as a percent of total bribes paid by a firm.	20.4% of bribes	Slovakia = 33.2 Hungary = 43.6 Bulgaria = 22.6 Croatia = 6.7 Romania=39.8 Eastern Europe = 26.65 FSU = 20.13	Russia scores in the middle of the pack. Based on the 1999 Business Environment and Enterprise Performance Survey (BEEPS). Averages taken across firms, not weighted.
29	Relative importance of bribes for government contracts	Hellman et al (2000)	Bribes paid to gain government contracts as a percent of total bribes paid by a firm.	11.3% of bribes	Slovakia = 18.3 Hungary = 11.1 Bulgaria = 6.6 Croatia = 44.7 Romania=7.8 Eastern Europe = 23.19 FSU = 10.53	Contrast to previous line of table for interpretation. Based on the 1999 Business Environment and Enterprise Performance Survey (BEEPS). Averages taken across firms, not weighted.
30	Importance of corruption in business licensing, relative to other forms of corruption	Transparency International (2003b)	Percent of individuals who would rank business licensing as the type of corruption (of 12 types) that they would most like eradicated.	5.3%	Slovakia = Hungary = Bulgaria = 9.9 Croatia = 12.9 Romania=15.1 Eastern Europe = 11.1 FSU =	Russia scores better than the comparators. Individuals were asked "If you had a magic wand and you could eliminate corruption from one of the following institutions, what would your first choice be?"

	Concept	Source	Definition	Russia "score"	Points of Comparison	Additional comments and notes
31	Prevalence of payments for licenses	Johnson et al. (2000)	Percent of firms making unofficial payments for licenses	92% of firms	Slovakia = 42 Hungary = Bulgaria = Croatia = Romania=17 Eastern Europe = FSU =	Nearly all Russian firms make unofficial payments for licenses. The survey was on small businesses and conducted in 1997.

Notes:

1. Eastern Europe = Average of all former communist (or socialist) countries in Central and Eastern Europe, for which data was available. If estimates are available for fewer than five countries, no Eastern European average is given.
2. FSU = Average of all the countries that were formerly part of the Soviet Union. If estimates are available for fewer than five countries, no FSU average is given.

APPENDIX B. TAPEE VARIABLES

TAPEE Factors	Corrupt Behaviors						
	Accepting a gift or informal monetary payment voluntarily offered by a company official	Proposing to a company official to make an informal payment in order to speed up inspection/ registration (tax) process	Demanding to make an informal payment for concealment of violations in the Protocol of inspection	Simplification of the procedure of inspection for the businessmen who have personal (informal) relations with the Agency officials	Imposing certain firms for conducting works needed to satisfy due requirements and eliminating revealed violations	Conducting repeated or pre-term inspections to obtain informal payments for concealment of violations in the protocol	Accept informal payments from the existing firms to delay the licensing of potential competitor
PREVENTION	2.67(F)	1.09(F)	0.52(F)	2.33(F)	1.61(F)	0.54(F)	0.59(F)
How easily could a typical official of your Agency arrange to do this on a regular basis?	2.77(S)	1.89(S)	1.16(S)	2.50(S)	1.77(S)	0.86(S)	1.36(S)
Please answer on a scale of 0-10 where 0 means “this would be impossible” and 10 means “this would be very easy.”	2.33(T)	0.33(T)	. (T)	2.44(T)	1.28(T)	. (T)	0.72(T)
VALUES	5.11(F)	4.52(F)	4.33(F)	5.11(F)	5.27(F)	4.78(F)	4.98(F)
On a scale of 0-10 with 0 referring to “none” and 10 referring to “all”, estimate the proportion of the Agency officials who are so honest that they would not take the action (that is, A to G) even if they had a chance and knew they would not get caught?	5.91(S)	5.72(S)	5.98(S)	6.53(S)	6.23(S)	5.91(S)	5.74(S)
	5.33(T)	3.56(T)	. (T)	5.00(T)	4.74(T)	. (T)	4.00(T)

TAPEE Factors	Corrupt Behaviors						
	Accepting a gift or informal monetary payment voluntarily offered by a company official	Proposing to a company official to make an informal payment in order to speed up inspection/ registration (tax) process	Demanding to make an informal payment for concealment of violations in the Protocol of inspection	Simplification of the procedure of inspection for the businessmen who have personal (informal) relations with the Agency officials	Imposing certain firms for conducting works needed to satisfy due requirements and eliminating revealed violations	Conducting repeated or pre-term inspections to obtain informal payments for concealment of violations in the protocol	Accept informal payments from the existing firms to delay the licensing of potential competitor
VALUES	6.74(F)	9.11(F)	9.50(F)	7.35(F)	7.45(F)	8.57(F)	9.35(F)
If you knew that one of the Agency officials had taken this action, how uncomfortable would this make you feel? Please answer on a scale of 0-10 where 0 means “it would not bother me at all” and 10 means “I would do what is possible to make sure the person got punished”	7.98(S)	8.55(S)	8.41(S)	8.23(S)	8.30(S)	8.52(S)	8.68(S)
	7.47(T)	8.93(T)	. (T)	7.98(T)	8.42(T)	. (T)	9.02(T)
TRANSPARENCY	4.63(F)	5.41(F)	5.50(F)	4.63(F)	5.02(F)	4.98(F)	5.37(F)
If one of the Agency officials were to do this, how likely is it that they would be observed by someone who could report to the relevant authorities?	3.95(S)	4.49(S)	4.56(S)	4.37(S)	4.26(S)	4.53(S)	4.44(S)
Please answer on a scale of 0-10 where 0 means “this would never happen” and 10 means “this would always happen.”	5.22(T)	5.44(T)	. (T)	4.95(T)	5.37(T)	. (T)	5.41(T)

TAPEE Factors	Corrupt Behaviors						
	Accepting a gift or informal monetary payment voluntarily offered by a company official	Proposing to a company official to make an informal payment in order to speed up inspection/ registration (tax) process	Demanding to make an informal payment for concealment of violations in the Protocol of inspection	Simplification of the procedure of inspection for the businessmen who have personal (informal) relations with the Agency officials	Imposing certain firms for conducting works needed to satisfy due requirements and eliminating revealed violations	Conducting repeated or pre-term inspections to obtain informal payments for concealment of violations in the protocol	Accept informal payments from the existing firms to delay the licensing of potential competitor
ENFORCEMENT							
How likely is it that the person who observed the action will actually report it to the relevant authorities? Please answer on a scale of 0-10 where 0 means “this would never happen” and 10 means “this would always happen.”	3.74(F)	4.96(F)	5.17(F)	4.02(F)	4.66(F)	5.15(F)	4.98(F)
	3.49(S)	3.95(S)	3.91(S)	3.74(S)	3.86(S)	4.09(S)	3.95(S)
	4.93(T)	6.26(T)	. (T)	5.17(T)	5.93(T)	. (T)	5.83(T)
ACCOUNTABILITY							
According to legislation rules how severe are the consequences for a person who has been identified as having taken the action (that is, A to G)?	4.91(F)	7.35(F)	7.39(F)	5.04(F)	5.04(F)	6.93(F)	6.89(F)
	5.16(S)	6.52(S)	6.50(S)	5.86(S)	5.28(S)	6.00(S)	6.43(S)
Please answer on a scale of 0-10 where 0 refers to “nothing would happen”, and 10 to “the person would get imprisoned for more than 1 year.”	5.64(T)	7.52(T)	. (T)	5.40(T)	5.45(T)	. (T)	7.24(T)

TAPEE Factors	Corrupt Behaviors						
	Accepting a gift or informal monetary payment voluntarily offered by a company official	Proposing to a company official to make an informal payment in order to speed up inspection/ registration (tax) process	Demanding to make an informal payment for concealment of violations in the Protocol of inspection	Simplification of the procedure of inspection for the businessmen who have personal (informal) relations with the Agency officials	Imposing certain firms for conducting works needed to satisfy due requirements and eliminating revealed violations	Conducting repeated or pre-term inspections to obtain informal payments for concealment of violations in the protocol	Accept informal payments from the existing firms to delay the licensing of potential competitor
ENFORCEMENT In practice, to what extent are the official rules applied in punishing a person who has been identified as having taken the action? Please answer on a scale of 0-10 where 0 means “nothing would actually happen” and 10 means “the maximum punishment would always be applied”	5.37(F)	7.15(F)	7.52(F)	5.89(F)	6.30(F)	7.41(F)	7.28(F)
	4.71(S)	6.41(S)	6.54(S)	5.80(S)	5.15(S)	5.26(S)	5.40(S)
	5.55(T)	7.49(T)	. (T)	6.51(T)	6.77(T)	. (T)	7.28(T)
ACCOUNTABILITY If someone reported to you that a colleague had taken this action, how easily could you fire this person or get the person fired? Please answer on a scale of 0-10 where 0 means “this would be impossible” and 10 means “this would be easy.”	5.61(F)	7.50(F)	7.85(F)	5.63(F)	6.28(F)	7.67(F)	7.61(F)
	5.79(S)	6.84(S)	7.30(S)	6.05(S)	6.26(S)	6.69(S)	6.93(S)
	6.02(T)	8.07(T)	. (T)	6.79(T)	7.56(T)	. (T)	7.95(T)

TAPEE Factors	Corrupt Behaviors						
	Accepting a gift or informal monetary payment voluntarily offered by a company official	Proposing to a company official to make an informal payment in order to speed up inspection/ registration (tax) process	Demanding to make an informal payment for concealment of violations in the Protocol of inspection	Simplification of the procedure of inspection for the businessmen who have personal (informal) relations with the Agency officials	Imposing certain firms for conducting works needed to satisfy due requirements and eliminating revealed violations	Conducting repeated or pre-term inspections to obtain informal payments for concealment of violations in the protocol	Accept informal payments from the existing firms to delay the licensing of potential competitor
Calculated probability of being detected, reported and punished	0.09 (F)	0.21 (F)	0.22 (F)	0.13 (F)	0.15 (F)	0.22 (F)	0.21(F)
	0.09 (S)	0.19 (S)	0.19 (S)	0.14 (S)	0.17 (S)	0.18 (S)	0.18 (S)
	0.17 (T)	0.22 (T)		0.16 (T)	0.18 (T)		0.21 (T)

“F – “Fire inspection” “S” – “Sanitary inspection” “T” – “Tax”

APPENDIX C. THE RELATIONSHIP BETWEEN TAPEE AND CORRUPTION

Stacking. Table 27 and Table 28 show the results of random effects regression of TAPEE variables at the regional level on an average of the corruption levels, stacking the observations and using dummies for type of corruption and region. The regressions for the Fire and Sanitary inspections have been placed side-by-side for ease of comparison. The regression for the Tax Agency follows, as Tax has different listed types of corruption.

TABLE 27. STACKED REGRESSIONS FOR FIRE AND SANITARY

Dependent variable	Corruption (Fire)	Corruption (Sanitary)	Expected Sign
Corruption Dummy 2 (speed payment)	-0.72	-1.82	
	(2.23)*	(6.28)#	
Corruption Dummy 3 (concealment of violations)	-0.27118	-1.74982	
	(0.80)	(5.89)#	
Corruption Dummy 4 (simplifying for friends)	-0.00	-0.26	
	(0.01)	(0.91)	
Corruption Dummy 5 (imposing third party)	-1.58	-2.33	
	(5.13)#	(7.94)#	
Corruption Dummy 6 (repeated inspections)	-0.97	-1.95	
	(2.96)#	(6.45)#	
Corruption Dummy 7 (delay competitor)	-1.57	-2.73	
	(4.73)#	(9.24)#	
Region Dummy 2	-0.63	-0.96	
	(2.03)*	(2.65)#	
Region Dummy 3	3.71	4.20	
	(9.88)#	(15.71)#	
Region Dummy 4	1.54	1.89	
	(5.58)#	(6.61)#	

Dependent variable	Corruption (Fire)	Corruption (Sanitary)	Expected Sign
Region Dummy 5	1.58	2.81	
	(5.02)#	(10.96)#	
Prevention (How easily could this be done regularly?)	-0.01	0.02	+
	(0.18)	(0.49)	
Education (Proportion of honest officials)	0.01	0.07	-
	(0.38)	(2.44)*	
Education (How uncomfortable would you feel if you knew?)	-0.10	-0.04	-
	(1.95)+	(0.89)	
Transparency and Enforcement (Probability of being observed, reported and punished)	-0.25	-1.10	-
	(0.46)	(1.83)+	
Accountability (How easily could person be fired?)	-0.16	0.23	-
	(3.51)#	(6.60)#	
Log of population	0.24	0.24	
	(2.52)*	(2.74)#	
Constant	2.23	-0.69	
	(2.04)*	(0.61)	

Number of regions=5. Absolute value of z statistics in parentheses * significant at 5%; # significant at 1%

TABLE 28. STACKED REGRESSION FOR TAX

Dependent variable	Corruption (Tax)	Expected Sign
Corruption Dummy 2 (speed payment)	-2.36	
	(7.01)#	
Corruption Dummy 3 (demanding informal payment to register)	-3.33475	
	(9.81)#	
Corruption Dummy 4 (simplifying for friends)	-0.49	
	(1.55)	
Corruption Dummy 5 (imposing third party)	-3.30	
	(10.24)#	
Corruption Dummy 6 (delaying competitor)	-3.38	
	(10.21)#	
Region Dummy 2	-1.78	
	(4.90)#	
Region Dummy 3	3.18	
	(9.55)#	
Region Dummy 4	0.48	
	(1.40)	
Region Dummy 5	2.49	
	(8.36)#	
Prevention (How easily could this be done regularly?)	0.02	+
	(0.22)	
Education (Proportion of honest officials)	0.08	-
	(2.56)*	
Education (How uncomfortable would you feel if you knew?)	0.26	-
	(3.80)#	
Transparency and Enforcement (Probability of being observed, reported and punished)	0.36	-
	(0.88)	
Accountability (How easily could person be fired?)	-0.03	-
	(0.56)	
Log of population	0.16	
	(1.26)	
Constant	-0.06	
	(0.03)	

Number of regions=5. Absolute value of z statistics in parentheses * significant at 5%; # significant at 1%

We examined the relationship between the TAPEE variables and average corruption scores reported by the business community, controlling for regional differences, differences due to the type of corruption (for example, some types of corruption may be more readily observable), and the population density (as corruption levels tend to go up when there is a larger population). Indeed, the regressions show that there are differences due to the type of corruption, the region, and in the case of the fire and sanitary regressions, due to population density.

However, the relationship between the TAPEE variables and the average corruption levels is tenuous. The Education variable “What proportion of your colleagues are so honest that they would not . . .” is significant for the Sanitary and Tax agencies, but has the wrong sign. The Education variable “How uncomfortable would you feel . . .” is significant for the Fire and Tax agencies; however, only the regression for the Fire agency has the right sign. The variable Transparency and Enforcement, which captures the likelihood of being observed, reported and punished, is significant only for the Sanitary agency. The Accountability variable, “How easily could this person be fired?” is significant for both the Fire and Sanitary agency, but only has the right sign in the regression for the Fire agency. Overall, these regressions do not show a strong relationship between TAPEE variables and corruption levels.

There are two possible categories of explanations for these weak results. Either they have to do with the nature of the underlying relationships, or they have to do with problems in measurement. The relationship itself may be non-existent or weak at the municipal level. We checked for correlation of the variables and found some to be highly correlated. The data from public officials may not be sufficiently reliable to show the relationships that exist.

We supposed that the differences between agency offices were slight compared to the amount of data that we had, and so relationships were masked by noise. Accordingly, we generated average TAPEE variables that drew on a broader number of questions in the questionnaire.

Averaging TAPEE variables. We created TAPEE variables by normalizing and averaging the different results of a number of questions related to the TAPEE theme and regressed these averages on the different reported types of corruption for each agency.

TABLE 29. REGRESSION OF AVERAGE TAPEE IN THE FIRE INSPECTION

Fire	(1)	(2)	(3)	(4)	(5)	(6)	(7)	
Dependent variable	Accepts voluntary payments	Demand speed/facilitation payments	Payment for concealment of violations	Use personal relations to facilitate	Imposes third parties	Repeated inspections	Delay competitor	Expected Sign
Transparency	-0.43	-0.45	-0.26	-0.52	-0.45	-0.18	-0.27	-
	(0.67)	(0.71)	(0.45)	(0.76)	(0.79)	(0.28)	(0.47)	
Accountability	-0.52370	-0.32743	0.07418	-0.55227	-0.08366	-0.32708	-0.08688	-
	(0.46)	(0.30)	(0.07)	(0.46)	(0.08)	(0.29)	(0.09)	
Prevention	3.59	3.25	2.91	3.07	3.08	3.72	2.94	-
	(3.10)#	(2.87)#	(2.77)*	(2.49)*	(3.00)#	(3.23)#	(2.86)#	
Enforcement	-0.99	-0.24	-0.14	0.26	0.12	-0.02	-0.05	-
	(0.72)	(0.18)	(0.11)	(0.18)	(0.10)	(0.01)	(0.04)	
Education/Values	-0.51	-1.30	-1.78	-1.44	-1.70	-2.10	-1.83	-
	(0.59)	(1.52)	(2.25)*	(1.55)	(2.20)*	(2.42)*	(2.36)*	
Constant	5.85	5.17	5.44	6.86	4.62	5.32	4.55	
	(5.07)#	(4.58)#	(5.21)#	(5.60)#	(4.53)#	(4.65)#	(4.45)#	
Observations	25	25	25	25	25	25	25	
R-squared	0.40	0.45	0.49	0.43	0.52	0.54	0.52	

TABLE 30. REGRESSION OF AVERAGE TAPEE IN THE SANITARY INSPECTION

Sanitary	(1)	(2)	(3)	(4)	(5)	(6)	(7)	
Dependent variable	Accepts voluntary payments	Demand speed/ facilitation payments	Payment for concealment of violations	Use personal relations to facilitate	Imposes third parties	Repeated inspections	Delay competitor	Expected Sign
Transparency	-1.32	-1.73	-1.33	-1.11	-2.37	-2.21	-1.86	-
	(1.65)	(2.04)+	(1.69)	(1.11)	(2.64)*	(2.46)*	(2.50)*	
Accountability	-1.16556	-1.39442	-1.49371	0.17109	-1.08799	-0.69438	-0.87102	-
	(1.05)	(1.19)	(1.37)	(0.12)	(0.88)	(0.56)	(0.84)	
Prevention	3.49	3.34	3.14	3.33	2.48	3.16	2.50	-
	(3.60)#	(3.25)#	(3.29)#	(2.73)*	(2.28)*	(2.89)#	(2.78)*	
Enforcement	2.30	2.79	2.55	2.90	3.43	3.19	2.64	-
	(1.92)+	(2.20)*	(2.17)*	(1.93)+	(2.56)*	(2.37)*	(2.37)*	
Education/Values	-0.52	-0.32	-0.53	-2.19	0.19	-0.54	-0.10	-
	(0.54)	(0.32)	(0.56)	(1.83)+	(0.18)	(0.50)	(0.11)	
Constant	4.88	3.67	4.28	5.18	2.81	3.37	2.54	
	(4.68)#	(3.32)#	(4.18)#	(3.95)#	(2.40)*	(2.88)#	(2.62)*	
Observations	25	25	25	25	25	25	25	
R-squared	0.50	0.51	0.52	0.47	0.46	0.52	0.49	

Absolute value of t statistics in parentheses

*** significant at 5%; # significant at 1%**

Combining the available data in these regressions, only Prevention in the fire inspection and Transparency, Prevention and Enforcement in the sanitary inspection are significant. All but Transparency have the wrong signs.

TABLE 31. REGRESSION OF AVERAGE TAPEE IN THE TAX AGENCY

Tax	(1)	(2)	(3)	(4)	(5)	(6)	
Dependent variable	Accepts voluntary payments	Demand speed/ Facilitation Payments	Demand payment to register	Uses personal relations to facilitate	Imposes third parties	Delay competitor	Expected Sign
Transparency	0.34	0.16	-0.42	0.08	-0.26	-0.28	-
	(0.44)	(0.19)	(0.65)	(0.09)	(0.42)	(0.41)	
Accountability	1.03381	0.76385	0.50453	0.92616	- 0.11920	0.70376	-
	(1.01)	(0.68)	(0.59)	(0.73)	(0.15)	(0.77)	
Prevention	0.19	0.10	0.53	0.35	0.15	-0.03	-
	(0.30)	(0.15)	(1.01)	(0.45)	(0.30)	(0.06)	
Enforcement	0.34	0.31	0.24	0.50	0.19	0.23	-
	(0.89)	(0.75)	(0.75)	(1.05)	(0.62)	(0.67)	
Education/Values	-4.63	-3.61	-2.28	-4.99	-1.68	-2.11	-
	(2.97)#	(2.11)*	(1.75)+	(2.59)*	(1.36)	(1.52)	
Constant	4.65	2.69	2.23	4.09	2.74	2.53	
	(5.17)#	(2.73)*	(2.97)#	(3.68)#	(3.83)#	(3.16)#	
Observations	25	25	25	25	25	25	
R-squared	0.42	0.26	0.32	0.38	0.22	0.17	

Absolute value of t statistics in parentheses * significant at 5%; # significant at 1%

In similar regressions for the Tax Inspection, only Education/Values is significant; it has the correct sign, indicating that the stronger values against corruption are held, the less corruption is reported.

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