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# TOOLS FOR ASSESSING CORRUPTION & INTEGRITY IN INSTITUTIONS

A HANDBOOK

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**ABSTRACT**

Developed for practical field use, this handbook outlines a methodology that provides reliable quantitative, qualitative, and comparative information that can be used to design, implement, and evaluate sector- or government agency-specific anti-corruption programs. Steps in the methodology include reviewing available information, conducting an expert assessment, conducting quantitative surveys of both users and government officials, and using the assessment findings to inform program design. A series of annexes provide technical depth, as well as a model scope of work to implement the assessment.

**KEY WORDS**

Corruption, anticorruption, institutions, principal-agent theory, Europe, Eurasia, USAID, government integrity, governance, survey, assessment, institutional reform, transition economies.

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# INTRODUCTION

## BACKGROUND

To better address the development challenges posed by corruption, USAID's *Anticorruption Strategy* (2005a) calls for a more strategic use of existing resources. More specifically, it calls for

- Mainstreaming anticorruption efforts, encouraging Missions and Bureaus to incorporate anticorruption components into sectoral programs — including health, energy, agriculture, and education, in addition to broader economic growth, democracy and governance, and social transition programs
- Focusing economic growth and democracy and governance resources more explicitly on anticorruption, as well as increasing the share of funds dedicated to specific anticorruption initiatives
- Updating USAID's assessment framework so that Missions can better identify institutional areas where anticorruption programs may be most needed or most likely to succeed

These are ambitious goals. To accomplish them, USAID Missions need tools to help them collect good-quality information about corruption and integrity particular to targeted sectors, analyze it, and translate it into effective programs. Improving USAID's assessment framework, and developing and refining these tools, was the objective of the "Enhancing USAID Anticorruption Programming in the Europe and Eurasia Region" (EECOR) project, implemented by the IRIS Center from October 2002 to August 2005. More specifically, EECOR aimed to improve the effectiveness of USAID anticorruption programming and support the development of well-designed anticorruption components within sectoral programs.

## HOW TO USE THIS HANDBOOK

This handbook is designed to help USAID Mission staff to assess institutional integrity at the micro-level. It guides the user through five steps to identify and select integrity failures and vulnerabilities for which donor interventions should be considered. Each step corresponds to a handbook chapter. In order to make the handbook user-friendly and concise, while still providing technical depth, detailed discussions and additional resources have been placed in a series of annexes.

**I. Understanding Corruption & Integrity.** Before conducting the assessment, the programmer must define the integrity standards — and, conversely, the corrupt practices — in the institutional context of the host country and government function(s) or agency(ies). At this stage, one should consider questions like:

- What do we mean by “integrity” and “corruption”? How can we operationalize these terms in the context of the specific government functions or agencies in our host country?
- How might the meanings of these words differ between the context of our host country versus that of the United States?
- Based on what we already know, which government agency(ies) is (are) in particular need of assistance?
- To what extent does corruption, if it exists, arise solely from incentives for individual government officials and private sector players? Alternatively, to what extent does corruption seem to be systemic?

**2. Review of Existing Materials.** Chapter 2 explains how to conduct the first phase of the assessment: compiling information from existing materials, including data in the public domain, such as the general assessment of country integrity or corruption levels prepared by Transparency International, the World Bank Institute, and Freedom House. Information on specific sectors may also be available, for instance, in the World Bank’s *Business Environment and Enterprise Performance Survey (BEEPS)* and in the *Doing Business* surveys on the governance problems faced by enterprises. Previous experience in sectoral programs is also highly relevant. To help define the research parameters, Annex 5 summarizes potential governance problems and remedial measures in several key sectors.

**3. Expert Evaluations.** Chapter 3 details how to carry out expert evaluations, the second phase of the assessment. Expert evaluations should provide detailed information about the specific government agencies or sectors of interest to the Mission. Such evaluations are based on sources that include

- Domestic studies, reports, laws, and other documentation
- Interviews (informal and structured)
- Focus groups
- Direct observation
- Forensic accounting and statistical analysis

**4. Quantitative Surveys.** The final stage of the assessment involves implementing quantitative surveys. Surveys of a government agency’s services (and, if feasible, agency officials) can establish the frequency, magnitude, and therefore the actual *significance* of different types of corruption, and may thus also help identify the precise nature of government integrity failures. Surveys are costly, but their findings can dramatically increase the chance of program success. Without surveys, judgments must rest on anecdotal evidence and the views of a relatively small number of individuals, some with clear biases.

**5. Designing a Program.** Chapter 5 describes how to use the assessment findings to design and evaluate an anticorruption program.

## TESTING THE METHODOLOGY

The IRIS Center carried out four pilot studies to test the assessment methodology outlined in this handbook:

1. Pharmaceutical procurement in Bulgaria
2. The judicial sector (commercial litigation) in Georgia
3. Business registration and licensing approvals in Romania
4. Business registration and inspections in Russia.

Each pilot study attempted to measure the extent of corruption in a particular government agency, activity, or set of activities. Lessons learned from the studies are reflected throughout the handbook.

## COMPLEMENTARY RESOURCES

In addition to this handbook, the IRIS team produced several other resources to assist USAID Missions with anticorruption programming:

**Web Site** — [www.IRISprojects.umd.edu/Anticorruption](http://www.IRISprojects.umd.edu/Anticorruption) contains electronic versions of all of the EECOR project deliverables, as well as links to other resources.

**Model Scope of Work** — This is a template for USAID Missions that plan to assess corruption and integrity in a particular sector or government agency. The *Model Scope of Work* complements this handbook, outlining the tasks to be carried out by the expert firm contracted to undertake the assessment. A customizable template, in Word format, is available on the project web site. (A printed version is attached in Annex 9.)

**Anticorruption Reader** — Designed as a quick reference source, the *Reader* collects and summarizes key books and articles on corruption and anticorruption programs. It is intended to provide USAID field and headquarters staff, as well as USAID contractors and interested persons from other government agencies, with background analysis and information to deepen their understanding of the symptoms, causes, and effects of corruption, as well as successful strategies for attacking it.

**Analytical Tools for USAID Anticorruption Programming in the Europe and Eurasia Region** — This paper explains the state-of-the-art social science understanding of corruption in its various forms and dimensions, the implications of different types of corruption, and the social and political environments conducive to successful donor interventions.

A further document — produced by the USAID's Europe and Eurasia Bureau — is *Transparency, Accountability, Prevention, Enforcement, Education: An Analytical Framework for Combating Corruption & Promoting Integrity in Europe & Eurasia* (TAPEE). This document is a key source of information on linking diagnosed institutional weaknesses with a menu of possible reform initiatives.





# UNDERSTANDING CORRUPTION & INTEGRITY

The analytical framework employed in this handbook is built around the concepts of *corruption* and *integrity*. Sometimes the term *good governance* is used in place of *integrity*, but the latter is more precise, indicating honesty and lack of corruption in government. Good governance refers not only to integrity, but also to efficient management of public resources and, for some commentators, to adequate public participation in decision-making. This chapter discusses the meaning and forces underlying corruption and integrity in government institutions.

## UNDERSTANDING CORRUPTION

Anticorruption strategies can only add value to the extent they are based on a realistic understanding of corruption phenomena and their causes. The following section presents key concepts in this area and suggests how they fit into a framework for understanding and addressing corruption — particularly in transition settings.

### DEFINING CORRUPTION

The first step in assessing corruption is to define what, exactly, is being assessed. Corruption is defined by Merriam-Webster as “inducement to wrong by improper or unlawful means (as bribery)” and by the Oxford English Dictionary as “perversion or destruction of integrity in the discharge of public duties by bribery or favor.” The USAID *Anticorruption Strategy* defines corruption broadly as “the abuse of entrusted authority for private gain” — which includes corruption in both the public and private sectors. A narrower, widely used definition is “the abuse of public power (or public office) for private gain,” which focuses on the activities of government agencies and their interaction with the general public.<sup>1</sup> This definition is sometimes understood differently by the various scholars and practitioners in the field of governance:

- *Abuse* could be defined as including some or all of the following: a crime, an administrative violation, the infringement of a political standard, or an ethical lapse.
- *Public power* could be defined as the authority of any arm of the state, including executive bodies, the legislature, and the judiciary — and any agent of these branches. More expansively, one might include any organization or activity that is funded or supervised by the state (e.g., a public foundation or a bank), or perhaps any structure in which decision-making power over policies and resources is exercised by some representative, delegate, or fiduciary (e.g., a corporation or labor union).

1. This approach originated with Klitgaard (1988).

- Lastly, *private gain* simply refers to personal, kin, partisan, or other narrow interests that benefit instead of the relevant public (or that benefit at the public's expense).

Defining corruption is important because effective anticorruption or government integrity programs depend on establishing clear targets and standards. From the outset, program designers must articulate what success will look like, as well as what indices will be used to monitor and evaluate the program. The checklists in Annexes 2 and 3 (originally developed as investigative tools) implicitly contain some examples of possible targets and standards.<sup>2</sup>

## TYPES OF CORRUPTION

Corruption is a broad concept that covers a wide range of practices and transactions.<sup>3</sup> In examining the operation of institutions, it is important to be aware of the range of possible corrupt transactions that could occur — and that each form of corruption may have different causes and consequences. A disaggregated, multi-dimensional view of corruption helps to

- Design reforms that combat the most virulent forms of corruption
- “Corruption-proof” foreign assistance projects
- Develop a method to measure corruption for purposes of assessment, monitoring, and evaluation

Transactions that are considered corrupt in some societies may be considered normal in others, depending on local traditions and values. However, most agree that the following types of behavior are corrupt:

**1. Bribery.** Informal payments or gifts demanded by, or offered to, public officials. These could be demanded for services that public officials are supposed to provide, for licenses, or in exchange for choosing a contractor (kickbacks) or arranging favorable privatization deals. When bribery takes place in the contexts of getting hired or promoted, it is probably better catalogued as patronage.<sup>4</sup> In many languages, the word for corruption is synonymous with bribery. Bribery is the core concept for corruption and the other categories frequently overlap with it.

**2. Extortion.** The threat of the use of force or other forms of intimidation to extract payments; for example, a regulator who threatens to shut a

2. Whether explicitly or implicitly, most programs of foreign assistance are geared to help a host country improve some aspect of its economy, society, or government, according to standards set in countries with higher incomes (typically the donor countries themselves). This is especially true of government reforms, which typically aim to replicate aspects of governmental functions as they are carried out in the United States, Western European countries, or other advanced nations.

3. The following discussion does not touch on the broad taxonomies of state capture vs. administrative corruption (World Bank, 2000a) and grand corruption vs. administrative corruption (USAID, 2005a), nor on the dichotomy between centralized and decentralized corruption (Shleifer & Vishny, 1993). Clearly, these dichotomies imply different approaches that an anticorruption program might take. Here, the question of proper reform approach is addressed in the context of specific institutions, in cases where systemic corruption is or is not present.

4. Cataloguing the sale of jobs as bribery rather than patronage creates problems with intermediate cases like people sharing corrupt gains with those who appointed them. There is some arbitrariness in where one draws the line between different forms of corruption.

factory down based on the violation of some standard if a payment is not made. Because threats can be implicit, the distinction between extortion and bribes is not always clear.

**3. Misappropriation.** The theft or private use of public funds or equipment. This can vary from relatively innocuous practices like asking your official driver to pick up your children from school, to sinister ones like the theft and dilution of vaccines that lead to the proliferation of resistant strains of diseases. At high levels of government, theft can take place directly from treasury and involve large amounts of money.

**4. Self-Dealing.** The practice of hiring one's own firm — or a firm belonging to close relatives or friends — to provide public services. The definition can be extended to selecting such a firm as the purchaser of a privatized company.

**5. Patronage.** Hiring one's own friends and relatives, even when they are not the most qualified, or accepting bribes in exchange for government jobs. The sale of jobs, which is related to shirking, appears to be a widespread practice in some transitional countries like Georgia (Anderson et al., 1999). Offering government jobs in exchange for political support is also a questionable practice, but there is some debate about whether it is a form of corruption.

**6. Shirking.** Shirking is a widespread practice in the public sectors of many developing and transitional countries, where public officials routinely come late to work, leave early, are routinely absent from work, or perhaps never come to work at all. Sometimes these workers purchased their jobs and never intended to actually work (and those who hired them were aware of this). In some cases, they may have other jobs, so that the government "job" is simply an income supplement financed by the taxpayer.

**7. Political Corruption & Campaign Finance Improprieties.** Certain interactions between the elite and politicians, particularly those that lead to the former being favored in terms of policy, are categorized by some commentators as corrupt. These might include exchanges of campaign financing for political favors like procurement or privatization deals. However, other commentators insist that these types of interactions are, for the most part, legitimate forms of political exchange (Huntington, 1968).

These seven categories capture most of the types of corruption described in the literature. There may, however, be certain acts that correspond to people's intuitions of corruption and do not fit neatly into one of these categories.

It is also important to note that people affected by corruption may define these behaviors differently. For example, IRIS's pilot assessments in Romania and Russia revealed that businesspeople in both countries agreed with some of the definitions above, but differed on others (see Annex 1). Moreover, there were significant differences in views between the two countries. This suggests that caution is needed when interpreting cross-national survey results.

## SECTOR-SPECIFIC FORMS OF CORRUPTION

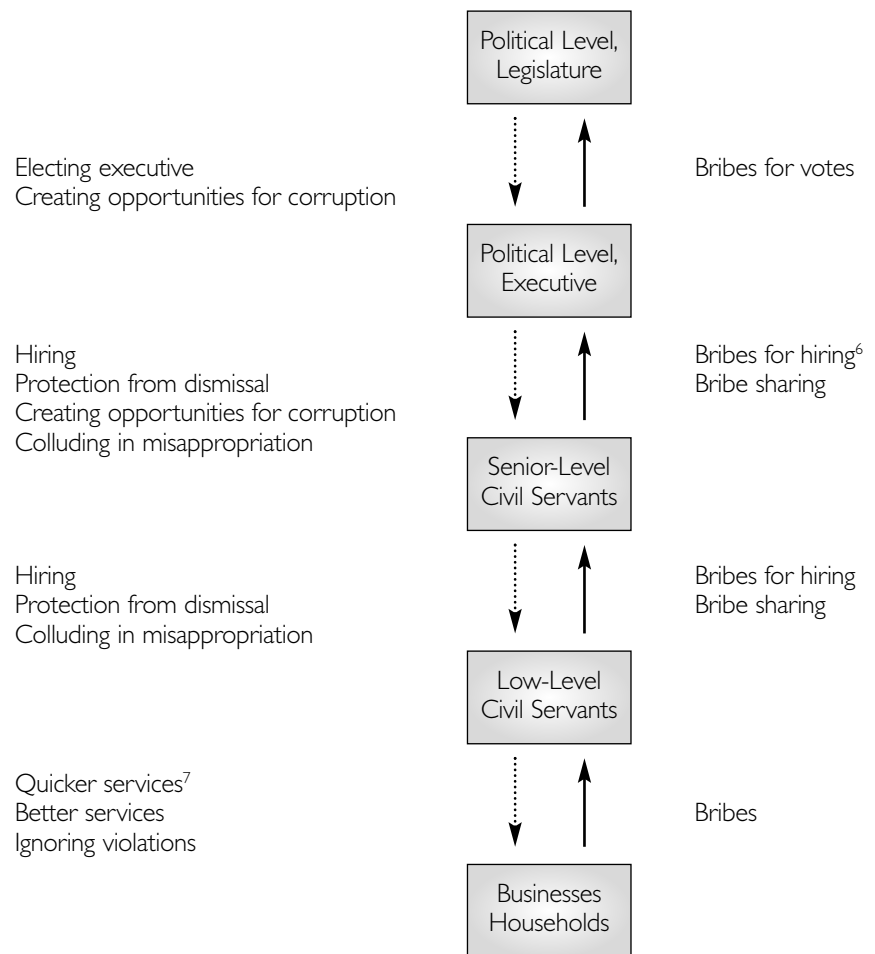
While assessing corruption and integrity in a governmental institution requires awareness of the general corruption types outlined above, the precise forms and mechanisms of corruption vary within each government agency or sector. It is useful to review studies or reports on the experience of corruption in similar institutions in other countries to get a sense of the range of possible behaviors and transactions. Examples of sector-specific practices, prevalent in the Europe and Eurasia region, are as follows:

- Corporate bank officials collude to engage in fraud and self-dealing
- State mineral revenues are diverted to personal and campaign accounts
- Government budgetary funds are misused and embezzled
- Customs transactions are accompanied by bribery and fraudulent invoicing of merchandise
- Business registration and licensing is “facilitated” by bribery and extortion
- Government procurement is subject to bid-rigging, kickbacks, and official collusion in over-invoicing
- Judicial decisions are affected by favoritism and bribery
- Officials responsible for delivering public services — such as education, health, or public utilities — are involved in theft, self-dealing, and bribery.

## SYSTEMIC CORRUPTION

Donors tend to analyze corruption and design anticorruption measures on the assumption that corrupt transactions result from wrong incentives facing government officials and service users. This *individualist* approach to analyzing corruption, which discounts the influence of the broader context or environment, may need to be supplemented with a *systemic* approach. In the systemic view, corruption emerges as a core feature of parallel structures of organization and allegiance, which have only a tangential relationship with formal state structures. If we set aside the formal roles of voter-official-bureaucrat and look at the social, economic, and political relationships among these actors, we might see elected officials who owe allegiance to narrow business or ethnic interests, and who distribute benefits accordingly. In short, formal and informal roles may diverge substantially. Thus, two officials who relate formally as principal (e.g., high-ranking supervisor) and agent (e.g., line bureaucrat) may also hold positions in a network of kinship or patronage that is more important in practical terms, and that implies certain exchanges (for example, personal and family preferment in return for bribe shares and delivery of voting blocs). In such cases, formal principal-agent roles may not apply — or at least not in the same way — when we take overriding social factors into account.<sup>5</sup> When this occurs, the desire to maintain secret and illicit informal exchanges, particularly when they are supported from the top of the government hierarchy, explains the lack of

5. See Thomas and Meagher (2004) for a review of literature in this area.



**FIGURE I. MAPPING SYSTEMIC CORRUPTION**

political will to bring about reform. Figure I shows how the interaction between informal transactions and the formal political-administrative structure affects the kinds of de facto relationships that exist within a government in systemically corrupt countries. This structure exists in many organizations separated by time and space: Noonan (1984) contains an account of a similar structure in the Medieval Catholic Church, IRIS staff members encountered examples in Bolivia, and IRIS-World Bank research on Georgia found that the government agencies where bribery is thought to be the most common are also the agencies where jobs are thought to be sold most often.

Systemic corruption has important implications in terms of assessment and program design. It encompasses the notions of both *grand corruption* (involving members of the political and economic elite) and *administrative corruption* (which involves the interactions of mid- and lower-level officials with small and medium-size businesses and ordinary citizens).

6. In some instances, these bribes may take the form of contributions to political parties rather than individuals.

7. An official may create deliberate delays so he can charge speed payments.

In the presence of systemic corruption, particular acts of corruption have little meaning on their own — their policy implications turn on whether or not they form part of a larger system. For example, take the exchange of a bribe for an unjustified benefit (such as a construction contract or state bank loan). Formally, the corrupt official is betraying his political superior and the public trust. In some circumstances, this is essentially the end of the story — an official seizing a special opportunity for personal gain. But this analysis can hold only if the political and administrative systems are relatively well-developed and autonomous, generally clean, and effectively monitored by courts and watchdog agencies. In transition countries, this is rarely the case. So we have to consider another dimension — this exchange of bribe for favor is not simply localized or opportunistic, but embedded in a larger system.

In terms of countering corruption, the presence of such a system means that administrative fixes (targeting the “bribe” arrows on the lower levels of Figure 1) are not likely to be effective — either they will not be adopted or will not be enforced. And some reforms at lower levels, like increasing accountability to higher levels, may even be counterproductive. In this case, change requires reforms at higher levels, such as improving the transparency and accountability of the executive branch of the government vis-à-vis the legislature and the general public.<sup>8</sup>

This is another way of making the often-emphasized point that successful administrative reform requires political will. Demonstrating that reform can be effective, when political will is present, helps persuade individuals and organizations to change, by making it more politically costly for them not to reform.

## **DIAGNOSING CORRUPTION**

A full understanding of the causes of corruption depends on an accurate analysis of its political and economic features. It is important to know whether corruption is primarily individualistic or systemic because a different diagnostic approach should be used depending on which category dominates — in some cases, the principal-agent approach may suffice, while in others it will need to be complemented by the wider political economy approach needed to combat systemic corruption. Table 1 illustrates these diagnostic approaches with respect to eight sample sectors or government activities.

With the individualist approach, corruption is frequently conceptualized as a principal-agent problem (Rose-Ackerman, 1978; Klitgaard, 1988; Bardhan, 1997). Line employees act on behalf of superiors, firm managers on behalf of owners, bureaucrats on behalf of elected officials and ultimately the electorate. Principals need to select, monitor, and motivate their agents to act in accord with the former’s interests (such as productive work, company profit, or effective public policies and services). The agents, being the implementers, are closer to the realities on the ground and therefore have access to information and opportunities that can benefit them — instead

8. See the TAPEE framework paper (USAID, 2005b) for examples of such reforms.

of (or at the expense of) their principals. Corruption happens when the agent acts for his or her own gain in ways inconsistent with the interests of the principal. In some societies, certain types of advantage-taking behavior are considered innocent, but others — embezzlement, bribery, and cronyism, for example — are mostly considered corrupt and are outlawed in whole or in part. Principal-agent analysis highlights individual incentives, which reflect the flow of information, the range of the agent's unrestricted power and discretion, and the tools available for principals to impose accountability.

The principal-agent paradigm is a powerful tool for understanding corruption and for organizing efforts to combat it, but its focus on individual incentives limits its analytical utility. The more complex are individual interests, and therefore incentives, the more difficult they are to analyze. Elected officials have multiple interests — as policymakers, politicians, entrepreneurs, family heads, individuals — and these interests can come into conflict. Likewise, citizens are diffuse and diverse as principals. They usually have little material reason to inform themselves in detail about the workings of government, which can give officials and narrow interests wide scope to ignore or disserve public interests. Citizens — the supposed principals — have no real control over the agents' incentives, yet many countries successfully avoid (or reverse) serious corruption.

As noted earlier, where systemic corruption is prevalent there exist networks and alliances that rely on exchanges to meet their objectives. These networks may use elements of the state and the political system to mediate their exchanges. Many, perhaps most, such exchanges are corrupt. In some systems — many of them long-standing democracies — electoral politics and policymaking provide the primary means of exchange (through campaign contributions or bribes influencing policy decisions, for example). In other systems, interest articulation through the political system is either impossible (authoritarian regimes) or not highly developed (quasi- or new democracies). Here, exchange tends to occur by means of bribery in return for favorable administrative decisions, diversion of state resources, favoritism in hiring and tender awards, and the like.

If state institutions can be used as instruments to carry out corrupt exchanges, then these institutions can also be suborned or weakened in order to facilitate, hide, or protect such transactions. In such a system of widespread state corruption, it follows that any person, system, or institution can become involved in corrupt exchanges. This includes not only the usual suspects such as low-level bureaucrats and senior officials controlling revenue streams and administrative choke points. The very institutional safeguards needed to impose checks and balances — from the courts to the supreme audit agency — may be implicated as well. Even civic associations may be compromised.

Diagnosing corruption using the individualist or systemic prism impacts the identification of key weaknesses in integrity factors and, implicitly, the design of reform measures. Table 1 illustrates this in relation to corruption in selected sectors and government activities.



**TABLE 1: ILLUSTRATIVE TYPES & DIAGNOSES OF CORRUPTION**

Location & Type of Corruption	Diagnosis of Causes	
	Individualist	Systemic
<b>Energy</b> — Diversion of state oil revenues to personal and campaign accounts	<p>Weak accounting and auditing systems</p> <p>No controls on campaign finance or money laundering</p> <p>Lack of transparency and criminal enforcement</p>	<p>Network control of state, parties, and firms translates into state fiscal autonomy from political processes and the ability to self-enrich and perpetuate control</p>
<b>Customs</b> — Bribery, fraud, and collusion in customs administration	<p>Lack of transparency, monitoring, and audit control (e.g. via computers) of valuations and levies</p> <p>Low official pay and professionalism</p> <p>Incentive effects of high duties</p>	<p>Patronage system requires bureaucrats to buy positions and pass bribe shares upwards</p> <p>Imbalances mean government is the main employer and can impose will on traders</p> <p>Trade reform would threaten status quo sustained by elite collusion, lack of political competition, and reliance of campaign funds on corruption</p>
<b>Procurement &amp; Infrastructure</b> — Bid-rigging, kickbacks, over-invoicing	<p>Vague design parameters and bid procedures</p> <p>Weak inspection and audit</p> <p>No competition</p> <p>No established bid protest procedures</p>	<p>Elite and mafia networks embedded in state and private sector institutions engage in collusion and self-enrichment</p> <p>Weak corporate governance and absent or inadequate official asset declarations</p> <p>Campaign finance dependent on bribery</p>
<b>Judiciary &amp; Prosecutors</b> — Bribery, favoritism	<p>Low judicial status and pay</p> <p>No checks and balances in appointments and tenure</p> <p>Vague laws and procedures</p> <p>Ineffective appeal system, oversight, and sanctions</p>	<p>Lack of real political challenge and competition</p> <p>Weak norms of legality and accountability</p> <p>Carryover of "telephone justice" from Soviet era</p> <p>Social imbalance and lack of economic restructuring mean no effective constituency for enforcement of contracts, property rights, and civil liberties</p>

## UNDERSTANDING INTEGRITY

Once one has decided to assess a particular government agency — or to carry out a wider assessment in order to identify which agencies might most benefit from donor intervention<sup>9</sup> — the next problem is obtaining actionable information. In assessing and diagnosing the corruption and integrity profile of a specific agency (or several different agencies) precise information and careful analysis are required — broad perceptions provide little basis for designing reform programs.

The diagnosis of institutional corruption, discussed in the preceding pages, leads to the identification of critical institutional factors. If these factors are weak, they can create a political and administrative environment in which corruption flourishes. If they are strong, however, they can discourage corruption. Klitgaard (1988) summarized these factors with an illustrative “equation”:  $\text{Corruption} = \text{Monopoly} + \text{Discretion} - \text{Accountability}$  ( $C=M+D-A$ ). A different formulation, developed in USAID’s Europe and Eurasia Bureau, is summarized by the acronym TAPEE, which disaggregates government integrity into five key factors: transparency, accountability, prevention, enforcement, and education.

### **TAPEE: STRENGTHENING INSTITUTIONAL SAFEGUARDS**

TAPEE aims to strengthen institutional safeguards against corruption by identifying vulnerabilities. It is based on the proposition that corrupt practices flourish when public and private sector institutions operate in institutional environments characterized by systemic weakness in the five factors.

Programmers can use TAPEE to develop a risk profile for a particular sector, indicating its degree of susceptibility to particular forms of corrupt practices and initiating measures to counter them. Each of the factors summarized below is closely interrelated because of the complex nature of the phenomena they describe. And, while some experts see no difference, for example, between transparency and accountability, transparency and prevention, or accountability and enforcement, the TAPEE framework remains a practical way to operationalize anticorruption initiatives. That said, it is important to note that the specific mechanisms that counter corruption in particular government activities are complementary and work closely with each other. This can make it difficult to separate them conceptually.<sup>10</sup>

**Transparency.** The ability of citizens, public officials, and civil society to obtain the material information that they need to make informed decisions and hold public sector agents accountable. Public sector agents include public institutions and organizations, and officials whose mission is to make, implement, and enforce the official rules of the game, provide and allocate public goods, and collect and expend public funds. Principals include the stakeholders who are the customers, users, and intended beneficiaries of these public institutions and organizations.

9. USAID may decide to target its resources toward a specific agency either because it suffers most from corruption (and is therefore most in need of reform), or because it has existing integrity strengths (and therefore has the best chance of being reformed).

10. A much fuller — indeed, essential — analysis of TAPEE is to be found in USAID (2005b).

*Substantive transparency* is the spread of information from public sector agents to the private sector principals most directly interested in the agents' services. *Procedural transparency* refers to open, inclusive, and participatory processes (e.g., freedom of information and sunshine laws) so that political and civil society principals can affect the official rules of the game, the provision and distribution of public goods, and the expenditure of public funds.

**Accountability.** Mechanisms intended to ensure that governing institutions and personnel faithfully perform the duties they owe to citizens, businesses, and other stakeholders. Accountability operates by specifying the relationships between public officials' behavior and performance on one hand, and rewards and punishments on the other. It can be thought of in three layers: between voters and politicians, between politicians and bureaucrats, and between superior and subordinate public officials. Thus, accountability is implemented through systems of internal monitoring and controls within the state apparatus, as well as by interactions with civil society that increase external monitoring and thereby reinforce the duty of public institutions and officials to answer to voters and other stakeholders.

*Horizontal accountability* refers to the checks and balances within the state — internal and external oversight, investigations, and other actions exercised by authorities such as auditors and ombudsmen (or legislative committees) toward other government agencies. *Vertical accountability* comprises checks and balances on state actors exercised by actors outside the state (the electorate, media, NGOs, business associations, etc.).

**Prevention.** The structuring of institutions and organizations so as to decrease opportunities for corruption. This includes reducing monopoly and discretion, rightsizing the civil service, separating private and public actors, and formalizing public-private relationships. It also includes identifying and eliminating perverse incentives by facilitating meritocracies founded on competition, merit, and living wages. Thus, restructuring for prevention eliminates unilateral decision making, promotes competition and choice, curbs the unfettered discretion of public officials, and replaces arbitrary, ambiguous, complex, and otherwise opaque rules with objective standards and mandatory regulations. These modifications trade off flexibility for simplicity, certainty, and uniformity of application.

**Enforcement.** Incentives for compliance with the accountability rules. Effective enforcement typically requires administrative sanctions for negligence, poor performance, or non-compliance, as well as criminal sanctions for corruption. Enforcement can be carried out by both government agencies and private sector actors (civil society watchdogs, an independent media, private businesses, and individual citizens who protest improper government decisions). The presence of effective anticorruption agencies, ombudsmen, and auditors also contribute to enforcement. Enforcement may be enhanced by simplifying, clarifying, and publicizing the legal and regulatory frameworks that apply to compliance and monitoring.

**Education.** Dimensions of awareness, advocacy, and values, which can be promoted through government and the private sector. Education embodies the identification, socialization, and institutionalization of values and related standards of ethical conduct that decrease tolerance for corruption and promote integrity in public and private sector relationships. Ethical standards motivate public officials to avoid corrupt behaviors, even when they are encouraged by a simple cost-benefit calculation. Education involves changing behaviors through public communication that advocates specific reforms and fosters awareness of the nature, causes, dynamics, and consequences of corruption.

**THE RELATIONSHIP BETWEEN TAPEE & CORRUPTION**

Corrupt behaviors are calculated. Accordingly, the incidence of corruption will be governed by the expected costs and benefits of being corrupt, as predicted by the economic theory of crime developed by Gary Becker, Isaac Ehrlich, and others (some classic references are Becker, 1968; Ehrlich, 1973; Ehrlich & Becker, 1972). Box 1 describes the relationship between USAID’s TAPEE factors, the economic theory of crime, and Klitgaard’s  $C=M+D-A$  formula, all of which represent somewhat similar attempts to analyze factors permitting and encouraging corruption. However, it is important to remember that corruption is an *institutional development* issue — and not just a problem of miscreant individuals. In this context, the TAPEE framework provides a way to analyze the factors that influence how institutions and organizations function, and to combat corrupt institutions. Focusing on individuals is problematic because it turns corruption into a narrow, criminal law enforcement issue, which ignores the broader forces at play (and also ignores the fact that criminal law enforcement agencies in many countries are themselves corrupt). The TAPEE framework is based on an augmented cost-benefit analysis, and explicitly allows for the role of values in limiting corruption.

**Box 1. Controlling Corruption**

A theoretical analysis of the gains and losses from corrupt behavior is related to both Klitgaard’s formula  $C=M+D-A$  and USAID’s TAPEE framework.

<b>Theoretical Analysis</b>	<b>Klitgaard</b>	<b>USAID/TAPEE</b>
Potential gains from corruption	Monopoly Discretion	Prevention
Expected costs of corruption	Accountability	Transparency Accountability Enforcement
Values		Education

As mentioned earlier, observing weak TAPEE factors signals the presence of corruption risk. This connection brings up a few important points:

- 1. The functional mechanisms used to reduce corruption, like auditing, must be thought of as chains that only operate if each link is effective.** A mechanism that creates transparency in a particular government agency (like an accounting system), but that has no consequences to observed illegality, because either accountability or enforcement are absent, would be ineffective in countering corruption in that agency — even if certain other mechanisms (like hiring practices) were subject to accountability and enforcement. So it is important to examine each such mechanism in terms of its overall strength within the TAPEE framework.
- 2. In multi-level systems where the honesty of the higher levels is questionable, it may be counterproductive to increase the level of accountability or enforcement in the lower levels.** This relates to the issue of systemic corruption, discussed above. For instance, it can be counterproductive to make civil servants more accountable to politicians in systems where politicians are themselves corrupt.
- 3. In some cases, the most effective way to counter corruption may be to focus on broader measures of performance rather than on corruption itself.** 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. 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. Where negligence or sheer incompetence is difficult to disentangle from corruption — like shirking, or bribes for ignoring tax evasion — the provision of incentives or clear performance standards can be an effective deterrent. This approach may 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, however, that only administrative sanctions (fines, transfers, suspensions, and dismissals) should be used to punish poor performance; criminal sanctions are inappropriate and violate the rule of law without proof of corruption.

# REVIEW OF EXISTING MATERIALS

The starting point of any assessment is to ask “What is known about corruption and integrity in this country?” In a typical case, there are a number of sources of information available to a USAID Mission. Some of these sources are in the public domain, some can be obtained through USAID’s official status, and others can be purchased. This chapter reviews how to find and use existing documentation. Specifically, it provides detailed guidance and caveats on the use of macro data (Transparency International indices and the like), a guide to accessing both macro and sector-specific data, and instructions on how to create baseline indices (for program evaluation) from selected sector-specific data.

## SOURCES OF BACKGROUND INFORMATION

### ASSESSMENT PHASE ONE OBJECTIVES

1. To understand the economic, social, and political context.
2. To find data specific to corruption and institutional integrity in the country as a whole, establish a broad ranking of the country on macro governance and corruption standards, and get a sense of whether corruption is primarily individualistic or systemic.
3. To understand the institutional integrity and corruption situation in specific sectors and locate existing sources of data, as a starting point for the expert evaluation phase.
4. To identify data that can be used to create a baseline index for program monitoring and evaluation (see Annex 8).

General background research for a corruption and institutional integrity assessment should answer these questions:

- What is the level of per capita income — is the country low-income, middle-income, and where in this range is it situated? Have per capita incomes in recent years been rising or falling?
- What kinds of structural changes have been taking place in the economy in recent years? What sorts of dislocations (unemployment, relocation, housing problems, etc.) have been caused by these changes?
- What kinds of macroeconomic and financial policies have been pursued by recent governments? Have these policies tended to stabilize or destabilize output, prices, and employment?
- What is the nature of the involvement of foreign investment in the economy?

Answers to these general questions can be found in documentation produced by the International Monetary Fund (IMF), World Bank, and the regional development banks (the European Bank for Reconstruction and Development (EBRD) and the Asian Development Bank (ADB) are relevant for countries in the Europe and Eurasia region). Some of this documentation is in the public domain in the form of printed and electronic reports, and within them there may be links to further information. Sometimes, however, certain types of reports on individual countries are kept confidential. For example, consultation reports produced by IMF staff can be made public only with the permission of the national authorities of the country in question. In such cases, USAID, as an official agency of a member country, has access (in principle) to such documents through the office of the U.S. Executive Director to the IMF — but this does involve an official request from the USAID/Washington to the U.S. Executive Director’s office. Similar

## DATA & INFORMATION ON CORRUPTION & INTEGRITY

considerations apply to internal World Bank documents. In this case, however, USAID has direct liaison with the office of the U.S. Executive Director in the Bank.

Another source of documentation is private intelligence firms — the most outstanding of which is the Economist Intelligence Unit (EIU), which produces regular (usually annually or quarterly) reports on a large number of countries, including both political and economic developments. A subscription fee is charged, but a USAID Mission would be well-advised to subscribe to the EIU reports for the country(ies) for which it is responsible.

A corruption assessment involves the interpretation and comparison of indices (indicators or scores from various sources).<sup>11</sup> These indices are developed with a range of methodologies. To avoid errors, one must ask the following questions:

- **What definition of corruption is being used?** How broad — or conversely, how precise — is the definition of corruption explicitly or implicitly used in a survey? Is the definition made explicit to respondents? If countries are being compared, how sure are we that “corruption” means the same things to respondents in, say, Zambia, Moldova, and Indonesia?
- **What is being measured?** For example, is it the frequency, prevalence, or cost of bribes? Is it a vague notion of the amount of corruption? Or is it the effect of corruption on some other variable, like political risk or investment climate?
- **Is the index based on perceptions or experiences?** Polling public opinion can yield interesting results but is of limited value in finding out about the types, frequency, and cost of corruption. More accurate data is collected by asking people about their own experience. The latter kind of questioning, however, does encounter the problem of reticence, discussed in Chapter 4 and Annex 7.
- **Is the index based on subjective or objective measures?** Perceptual and informational data are considered subjective — they depend on the answer of individuals to survey questions, and are thus colored by respondents’ incentives to withhold or color information through the filter of their own opinions. Objective measures, when available, are preferable. Examples include price data or objectively recorded events such as response (or lack of response) to requests for publicly available information.
- **Does the index show relative or absolute performance?** There are a number of widely used indices that serve as broad indicators of the levels of corruption and government in a country. Typically, these indices show the performance of a country relative to others. Such indices give no direct evidence about change, and it is wrong to construe a change in

11. The interpretation of indices is discussed in greater detail in Annex 8.

relative position as an absolute improvement. Some indicators, however, do give absolute measures or scores of some type. In these cases, one should beware of analyzing information in isolation from comparators — for instance, how electoral turnout in a country compares to that in other countries at a comparable level of economic and political development, or to that in well-established democracies.

- **What scale and questions are used, and how is that related to other scales and questions used in comparator indices?** In comparing countries (or comparing sectors or agencies within a country) one must make certain that the same scales and questions are being used. Questions can vary among questionnaires, and even be changed (“improved”) on the same surveys over time.
- **What is the significance of statistical differences?** Often in data by which countries are ranked — as with the Transparency International *Corruption Perceptions Index* and the World Bank’s *Control of Corruption Indicator* — small differences in country scores can lead to what appear as significant differences in ranking, when in fact these differences are not statistically significant. A well-known example of this is that a controlling criterion for eligibility for the Millennium Challenge Account was whether a country was above or below the median score of the *Control of Corruption Indicator* — even though the authors of the World Bank report made it abundantly clear that there was a broad range of scores around the median that were not statistically different from each other!
- **What is the possibility of measurement error?** Estimates are subject to various types of measurement error. Measurement error can be particularly problematic if a specific indicator is used to make important decisions (such as allocating donor funding). One should investigate and understand the scope and impact of possible measurement errors. See Annex 8 for more details.
- **What consistency and data checks have investigators used?** Those making use of indicators should understand that there can be issues with consistency and data checks (and so the warning given above for measurement error applies here as well). Sometimes problems arise during survey implementation. It is necessary, therefore, to verify the consistency of answers given by the same respondents, or group of respondents. If these checks show signs of inconsistency, there is a problem with the survey design. A USAID (or other donor) official can find out about such checks for surveys made with USAID funding, but they are more difficult to find out about for outside surveys.

## MAJOR INDICES OF CORRUPTION & INTEGRITY

The major indices of corruption and institutional integrity have been described at length elsewhere (Spector & Duong, 2002; Kaufmann, Kraay, & Zoido-Lobaton, 1999a, 1999b, 2002), and subjected to various critiques (Johnston & Kpundeh, 2002; Galtung, 2005; Lanyi, 2004). These measures give broad-brush indications of such matters as the prevalence of bribery,



perceptions of corruption in the public service, state capture, transparency in the business sector, and the strength of public institutions of accountability and civil responsibility.

Indices fall into two categories: *subjective* and *objective*. Subjective indicators can be derived by (1) surveying a wide sample of people and asking them about their *perceptions* regarding the presence of corruption among government officials, or (2) polling experts on their *opinions* with regard to the characteristics of particular institutions in the public or private sector. There have also been attempts to construct “objective” indices (i.e., based on hard data), described below.

**Perception Surveys.** Among the indicators of corruption perceptions, the best-known is Transparency International’s *Corruption Perceptions Index*, which is based on a weighted average of the results from a number of other surveys, both public and private. By aggregating survey results, Transparency International (TI) can rank a large number of countries. The *Corruption Perceptions Index* is a convenient summary of surveys, whose results tend to be correlated with each other, and it is used to make both inter-country and inter-temporal comparisons. Though the TI index is used to track progress over time, it can do so only for periods of five years or more, because each year’s index includes data from the previous three years. But this is a dubious exercise, since movements from one year to another in values for a country are more likely to represent errors in measurement than genuine changes in the level of corruption.

Another weakness of the TI index is its lack of specificity as to the type of corruption perceived, with the result that inter-country comparisons may be of limited value, and progress over time is biased both by possible changes in the importance of different types of corruption over time, as well as by factors that may bias perceptions (such as changes in media coverage, or changes in corruption awareness or expectations). The same can be said for the World Bank’s *Control of Corruption Indicator*, which forms part of its set of governance indicators, and which is also constructed by calculating a weighted average of different survey results for each country (see Kaufmann, Kraay, & Mastruzzi, 2005). The differing aggregation techniques have interesting implications, which are discussed in Annex 8. While the World Bank and TI numbers are highly correlated, there are differences between the rankings of various country pairs.

**Opinion Surveys.** The second approach surveys *opinions* of experts. It calculates indices that are based on variables related to the quality of governance or institutional integrity. Here, the main sources are private intelligence companies and certain surveys carried out by the World Bank. Some of the main sources of information are the following:

- **Freedom House, *Nations in Transit*.** The ratings by Freedom House, published annually in *Nations in Transit*, cover electoral processes, civil society, independent media, governance, corruption, and the constitutional, legislative, and judicial framework. This index covers 27 countries in Central and Eastern Europe and the former Soviet Union.

- **International Country Risk Guide.** Among the private sources, the *International Country Risk Guide* provides one of the longest statistical series. It includes an explicit corruption variable as well as political risk factors such as democratic accountability, bureaucratic quality, government stability, and law and order (see Kaufmann, Kraay, & Zoido-Lobaton, 1999b, p. 50).
- **Heritage Foundation & The Wall Street Journal, Index of Economic Freedom.** The annual *Index of Economic Freedom* includes corruption-related measures such as government intervention in the economy (which many economists believe is positively related to corruption), property rights (negatively related to corruption), and regulation and the black market (both positively related to corruption). These estimates are prepared for 161 countries, based on expert opinion and research staff assessments.
- **PriceWaterhouseCoopers Institute, Opacity Index.** The *Opacity Index* — where opacity means broadly the absence of transparency — creates indices for legal and judicial opacity (including shareholder rights), regulatory opacity, economic policy, and accounting and corporate governance — in addition to its separate indicator for corrupt practices.
- **The World Bank.** The World Bank has compiled a large database of political institutions that details how many political parties there are, how often governments change, etc., for a large number of countries over several years (Beck et al., 2001). This can be treated as a source of information for certain kinds of integrity (largely political and macro-accountability).
- **Center for Dispute and Conflict Management, Polity IV.** *Polity IV* is a database of political institutions that has data on such variables as the frequency of elections.

While data from the sources summarized above (both perception and opinion surveys) are undoubtedly helpful for deriving a broad picture of the country in question, one should be careful not to claim more for these measures than is intellectually credible, and not to draw improper inferences from them. To look at a series of observations over five years in, say, one of the indices of institutional integrity, and, discerning some slight upward movement, claim that this shows the beneficial effect of a USAID program, may not only ignore the statistical significance of the measure itself, but also violate basic rules of statistical inference in trying to tease out a cause-and-effect relationship from a small number of observations.<sup>12</sup> This kind of claim may hurt USAID's credibility among the better-educated of its clients and peers in the donor community.

It is because of weaknesses in the meaningfulness and statistical robustness of these kinds of measures that one needs to find other means — such as surveys and hard data — to provide more specific evidence that is pertinent

12. Kaufmann et al. point out that because their indicators are averages of indices arising from different sources using different techniques, and because the number of sources vary among countries, the statistical differences between indicator values for countries (and hence rankings among the countries) may not be significant over a broad range of values.

to corruption and institutional integrity, especially at the level of specific sectors and government agencies.

**Objective Indicators.** The major work in bringing together a large amount of data on different aspects of governance has been performed by Daniel Kaufmann and his colleagues at the World Bank.<sup>13</sup> In this work, the World Bank economists gather together the largest number of ratings and scores available for each country and aggregate them under six main governance indicators: voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption. Country scores are not strictly comparable, however, since the number of sources on which the score is based differs from country to country.<sup>14</sup> The authors themselves point out that these data need to be interpreted with great caution, as standard deviations are large relative to the units in which governance is measured. This seems to be particularly true for the indicators for rule of law and corruption (Kaufmann, Kraay, & Mastruzzi, 2003).

Knack and Kugler (2002), in a report prepared for the World Bank and Britain's Department for International Development, argue that the type of governance indicators just described have several failings: they do not lead to the clear targeting of reform measures, are unspecific, and are difficult to accept politically. Knack and Kugler try to develop second generation indicators that are replicable, available across many countries and over time, accurate, and specific to particular institutional arrangements.<sup>15</sup> Such indicators can be defined as *process measures* — for example, budget processes and legislative oversight — and *performance measures*, such as budgetary stability and quality of service delivery. These indicators can at least in part be measured in strictly quantitative terms. Among the indicators regarded by the authors as most promising are the timeliness of audited financial statements, budgetary volatility, the ratio of average government wages to average wages in non-governmental sectors, international trade tax revenue, and contract-intensive money.<sup>16</sup> A large number of these measures, combined with the kinds of survey data already described, can be combined into “governance scorecards” for countries. This attempt to create sets of “hard” data relevant to governance, to supplement the “soft” data derived from surveys, is certainly laudable. From the viewpoint of measuring corruption, however, the connection between corrupt practices and governance measures may be quite unclear. Poor scores on many of these indicators can be the result of weak government organization and capacity, or just plain bad economic policies and management, rather than corruption per se.

The World Bank carries out other types of studies that have information on institutional integrity. Institutional and governance reviews cover certain

13. See especially Kaufmann, Kraay, and Mastruzzi (2003) and earlier reports on the same indicators, such as: Kaufmann, Kraay, and Zoido-Lobaton (1999a, 1999b, 2002).

14. This is because of differences in country coverage among the various surveys on which the Bank's scores are based.

15. See also Azfar and Knack (2004), who also discuss new work on “objective” indicators.

16. The last of these measures is, essentially, the ratio of bank deposits to total money supply. Knack and Kugler (2002) believe this is an excellent proxy for the rule of law in a country; the author disagrees with the use of this variable as a reliable governance indicator.

## INSTITUTIONAL INTEGRITY OF SPECIFIC SECTORS

types of corruption and report on the integrity of a broad range of government institutions. These reviews are (in principle) available through the U.S. Executive Director's office. Likewise confidential but available through official channels are the public expenditure management reviews, conducted on a country-by-country basis, which reveal the integrity of the budgetary and expenditure control processes within the government — an area that is potentially vulnerable to various types of corruption (misappropriation of funds, bribery for procurement, and other types of bribery as well).<sup>17</sup>

Assessing corruption and integrity in a particular sector or government institution requires careful investigation into its structures and operations. Since this handbook is designed to help USAID Missions with this task, Annex 5 provides a summary of accumulated experience with governance problems in selected sectors (or government activities) and discusses the nature of possible corruption and integrity weaknesses, as well as the ways in which corruption and integrity can be assessed. The sectors (or government functions) included are listed below, along with examples of how each sector or activity presents special types of governance problems, and consequently corruption opportunities.

- **Business Registration & Regulation** — In business registration and regulation, the normally face-to-face contact (between client and official) involved in applying for registration, and the often long delays involved, present a typical opportunity for bribery. In business regulation, there are often many government agencies involved in granting periodic approvals (e.g., sanitation, fire, police, labor), with numerous possibilities for bribery (“speed money” or overlooking violations), as well as extortion.
- **The Health Sector** — The health sector is usually entirely, or mostly, state-run. Shortages of medical personnel and supplies create the opportunity for bribery as a means of market competition for nominally subsidized services. Pharmaceutical procurement (like all procurement involving the government) creates other integrity problems.
- **The Judiciary System** — In the judicial system, the often slow and inefficient process of dealing with commercial litigation invites the use of “speed money,” as well as bribery to influence the outcome of cases.
- **Tax Administration** — In tax administration (not including customs), traditional face-to-face methods of paying taxes, coupled with outmoded data systems, create opportunities for bribery — and, at higher levels, political corruption.
- **The Energy Sector** — The energy sector often either is state-run or has a large state presence. State involvement often means special deals for favored companies, in exchange for gifts to key officials. There are also ample opportunities for embezzlement and self-dealing.

17. Other sources of information, and bibliographical web sites, are provided in Annex 4.

## EXISTING DOCUMENTATION ON SECTOR-SPECIFIC INSTITUTIONAL INTEGRITY

The international financial institutions and the regional development banks make it their business to give technical assistance to, and write reports on, particular economic and social sectors, as well as certain governmental functions not directly related to those sectors. The sectors include banking (or, more broadly, the financial sector), energy, health, education, agriculture, and transport infrastructure. The government functions include tax administration, budget formulation and expenditure control, law enforcement (police, prosecutors, and judiciary), and business regulation.

The kinds of questions such information can answer are:

- What are the laws and rules that render a sector or public agency transparent in its operations and accountable to the public? What kind of government regulatory mechanisms are in place? How effective have these mechanisms been thus far?
- In the case of public services, what mechanisms are in place for clients (the public) to give feedback and criticism? What measures are available to gauge the efficacy of these services?
- What evidence is there of corruption in the sector or public agency? If there is corruption, what precise forms does it take?
- Is there recourse for victims of corruption? Can violations be effectively prosecuted? Can the police be counted on to enforce laws that are within its scope? Is the judiciary effective and honest?
- What is the state of business ethics? How much transparency is there in business transactions? How are contracts enforced?
- Have any sectors or public functions been unduly influenced (or taken over) by criminal groups?

Sectoral information on governance factors is often difficult to find. In the area of governance of the private business sector, however, there is information available from a number of sources:

- **World Business Environment Survey.** The World Bank administers the *World Business Environment Survey* to a large, global sample. It measures firms' perceptions on the constraints imposed upon them by government actions (or inaction), such as taxation, bribery, regulation, and the construction and maintenance of infrastructure.
- **Business Environment & Enterprise Performance Survey (BEEPS).** Co-supported by the World Bank and the EBRD, the BEEPS is more detailed and restricted to enterprises in 22 transition countries. The survey assesses various types of corruption affecting the business sector, including the impact of corruption on business regulation, licensing, and taxation. At the same time as it reports administrative corruption, it also documents the prevalence of state capture — that is, undue influence exercised by businesses on governmental actions.<sup>18</sup>

<sup>18</sup> State capture is a type of political corruption, as defined in Chapter 1.

- **Doing Business.** The World Bank's *Doing Business* publications provide information on government effectiveness and integrity in agencies dealing with private enterprises, suggesting possible vulnerabilities to corruption without reporting on corruption per se.
- **Investment Climate Survey.** The World Bank's *Investment Climate Survey*, presented in the 2005 *World Development Report*, builds on the above-mentioned sources with additional questions that add some corruption-related information.<sup>19</sup>

Other documentation relevant to specific sectors can be found in the following sources:

- **World Bank Occasional Reports.** The World Bank publishes occasional reports on sectors (health, education, infrastructure, energy, agriculture) or government activities for which it has programs, in particular countries. These are generally in the public domain and can be found on the Bank's web site. In addition, there may be confidential reports, such as project evaluations from the Bank's Operations Evaluation Department, which are not publicly available but could be obtained, on request by USAID/Washington, from the office of the U.S. Executive Director for the World Bank. Such reports cover many topics other than institutional integrity, but contain a lot of information that is necessary background to probing more deeply into the corruption and institutional integrity aspects of the sector.
- **Financial Sector Assessment Program.** The IMF, in collaboration with the World Bank, makes available reports under the Financial Sector Assessment Program. As of 2005, some 25 assessments have been completed, of which 11 are for transition countries. Easily downloaded from the IMF's web site, these reports cover such issues as whether, and to what extent, international accounting and banking standards are adhered to. They also point out areas that may be vulnerable to poor integrity.
- **Program Reports.** USAID archives documentation relating to previous program efforts. Occasionally, such documentation can also be found from the regional development banks (EBRD, ADB) and other donors.
- **Special Studies, Reports & Articles.** It is sometimes possible to obtain from various sources — reports from the country under study, USAID's Development Experience Clearinghouse, World Bank publications, academic journals, and magazines devoted to business, economics, and public affairs — special studies, reports, and articles on the sector and country being investigated. Google and other electronic information services (such as ProQuest or LexisNexis) are helpful in finding these sources.

While the kind of documentation just discussed may often be only indirectly related to corruption, or even to institutional integrity in its narrowest sense, it is a good indication of the extent to which a sector or government agency is being run according to standards of efficient output and public service, versus being used as an instrument of the political and personal policies of the leading groups.

<sup>19</sup>. Access to all these sources of information is detailed in Annex 4.



# EXPERT EVALUATIONS

## ASSESSMENT PHASE TWO OBJECTIVES

1. To acquire detailed knowledge of institutional structures and mechanisms required for understanding governance of the targeted government agency(ies) and its(their) interactions with the sector of interest.
2. To acquire enough information on corrupt practices, corruption vulnerabilities, and integrity strengths and weaknesses to be able to design surveys of clients and officials.
3. *In the case of a second round of expert evaluations:* To follow up survey results with further inquiry into new issues raised by the survey.

Expert evaluations provide detailed information about the specific government agencies or sectors of interest to the USAID Mission. The results of this phase of the assessment, which takes anywhere from three to eight weeks, can be used to make decisions about program targets and resource allocation. If time and resources permit, however, the results should be used to inform the design for the final phase of the assessment, the quantitative surveys described in Chapter 4.

This chapter provides guidance on how to tailor expert evaluations to a particular sector or government agency. IRIS's methodology emphasizes the use of structured interviews (versus informal, open-ended interviews). Most of this chapter, therefore, describes how to conduct the structured interviews, with protocols based on checklists derived from previous sectoral experience in the country and elsewhere. Other research methods — focus groups, direct observation, forensic accounting, and statistical analysis — are also discussed.

The results of the expert evaluation phase should provide Mission staff with some understanding of specific corrupt practices, as well as a solid understanding of

- The institutional structure of the sector
- The day-to-day operation of the bureaucracy
- The ability of internal and external control procedures to control corruption risk

## HIRING AN EXPERT CONTRACTOR

Typically, an expert contractor — with experience in anti-corruption programming and research methods — is hired to conduct the evaluation. Because of the sensitive nature of this inquiry, the contractor should not be based in the country being investigated.

The expert contractor will, in turn, hire one or two local investigators for the study. Local investigators should have in-depth knowledge and understanding of the sectors and issues, as well as the ability to inspire trust and collect sensitive information. In the course of the evaluation, the local investigators will also serve as translators, and are thus trained to conduct structured interviews. Continued interaction with the local investigator is typically required, because additional questions emerge in the process of writing the evaluation report and designing the survey.



## INITIAL INQUIRY

The purpose of the initial inquiry is to learn how the bureaucracy operates and where some of the trouble spots lie. This information is then used to develop a structured interview guide.

**Background Research.** To begin, the contractor will review the findings from the first part of the assessment and then gather and review any secondary literature on corruption in the government institution being evaluated and the economic or social sector with which it interacts. Secondary literature includes published papers, donor working papers, the press, parliamentary reports, and audit reports.

The contractor should then study the laws and regulations that govern the structure and operation of the government institution, including laws and regulations that

- Establish the institution and its parent institutions
- Describe its hierarchy and the roles of the bureaucrats who carry out the institution's functions
- Establish its relationship with other institutions, such as laws and regulations that control the institution's hiring and personnel administration, and financial management (including purchasing)

**Informal Interviews.** After reviewing the literature, a team of outside experts (one or two) and local investigators will conduct informal interviews. First, the team should visit the relevant ministries, followed by three or four micro-organizations (municipal courts, hospitals, municipal offices of regulator agencies). The experts will need USAID assistance to obtain appointments with well-informed people and buy-in from the government and other stakeholders.<sup>20</sup> Persons outside of the institution — beneficiaries, former employees, internal or external auditors, donor sectoral experts — should also be interviewed to get a sense of how well the institutions' administrative systems are functioning and identify known corruption problems.

**Report Findings.** The assessment team will report on the findings of the initial inquiry. At this point, they should determine whether it would be feasible and useful to conduct structured interviews.<sup>21</sup> If it is, they should use what they have learned to prepare the first draft of the interview protocol. At this point, the team may also recommend using other methods to collect information, including focus groups, direct observation, or forensic accounting.

20. Corruption is a sensitive topic. When discussing the assessment with local counterparts, Mission personnel should emphasize the ultimate goal of this effort — to bring about improvements in efficiency and management practices — rather than focusing on the combating corruption.

21. For example, the initial inquiry may have elicited a basic unwillingness of the relevant government ministry. In that case, it is up to the Mission whether the assessment should proceed on the basis of interviews and surveys solely with nongovernment persons and groups.

## STRUCTURED INTERVIEWS

### ORGANIZING & CONDUCTING INTERVIEWS

This section explains how to conduct structured interviews. It is important to first test the interview protocol with a small subset of micro-organizations. Pre-testing the protocol helps to avoid potential pitfalls, ensures that the instructions are clear, and familiarizes the interviewers with the process and content of the protocol.

**Identify Interviewees.** Determine the internal structure of the micro-organization and identify the persons to be interviewed. Select people whose responsibilities give them knowledge about human resources management, financial management, assets management, information flow, and service provision. (In a small micro-organization with few personnel, the same person may play multiple roles.) Table 2 suggests which people are likely to be able to answer questions on a particular topic. This list is not exhaustive, and the actual interview protocol would have to be tailored to the particular sector under review. (Features of selected sectors are described in Annex 5.)

**Get Permission.** A high degree of administrative cooperation is required to conduct structured interviews, as they impinge on the time of busy public servants and subject them to questioning about uncomfortable issues. Get permission at the highest level before beginning the assessment (a letter of permission may be required to gain access or to reassure interviewees). Resist requests for prior submission of questions, as this opens the possibility that superiors may tell subordinates how to answer questions.

**Select Test Set & Pre-Test the Protocol.** Conduct test interviews among three to six diverse organizations, which vary in size, geographic region, rural or urban location, etc.

**Finalize the Interview Protocol.** Based on the test interviews, finalize the interview protocol. The final protocol should be accompanied by detailed instructions to the interviewers. Format the protocol into a form that clearly lists each of the questions to be answered. This form will be used after each interview to systematically record participant responses.

**Establish a Schedule.** Prepare an interview schedule, matching names against areas of inquiry to ensure that key points are covered. Conduct interviews with beneficiaries and lower-level staff before interviewing higher-level staff. These groups tend to be more forthcoming, which will allow the assessor to build knowledge of the institution before speaking to higher-level supervisory personnel, who are likely to be more protective.

Interviews should be scheduled individually because the subject matter is sensitive and persons discussing criminal activities are putting themselves at risk. Respondents are more likely to be forthcoming if they know that they are speaking in confidence. Allow two hours per interview to ensure that respondents are not hurried and that there is time to build rapport before broaching more sensitive questions.

**Conduct Interviews.** Interviews are ideally conducted by a single person. Nevertheless, it may be useful, at least at the initial stage of the inquiry, for the expert to conduct interviews with the local investigator. (Sometimes

this is necessitated by language problems.) If there are two people present, one should play the role of a silent note taker. Respondents are less likely to be forthcoming when three or more people conduct an interview.

## CHARACTERISTICS OF GOOD INTERVIEWERS

Interviewers should ask questions that do not implicate the interviewee directly in punishable activities. It is best to ask about general procedures and practices at the institution, or about practices in other divisions. For example: Are official vehicles ever used for personal purposes? ... How frequently does that happen? ... Do you personally know of any cases? ... How is this regarded? ... Has anyone ever been punished for this?

The quality of the expert doing the interview is vital to its success. A good interviewer inspires trust, acts professionally, and has a low-key, informal manner. Ideally, the interviewer should have a good enough short-term memory to be able to wait until the conversation is over before taking notes. (Note-taking during the conversation can make the respondent reticent and interrupt the flow of the conversation. However, notes must be taken if they are needed for post-interview recall.) Filling out the pre-prepared form immediately after the interview ensures that the maximum amount of information is collected.

Another highly beneficial characteristic of a good interviewer is the ability to read the sincerity of the respondent. One useful way of doing this is asking for corroborating information. Additionally, some interviewers are savvy enough to be able to determine the sincerity of the respondent by paying attention to body language, facial expressions, tone of voice, emphasis given to denials, and other non-verbal cues.

The techniques of how to conduct a good interview and the characteristics of a good interviewer are described in Box 2.<sup>22</sup>

## FIELD EXPERIENCE WITH STRUCTURED INTERVIEWS

IRIS conducted structured interviews for each of its pilot assessments. The interviews provided critical information about the forms and modalities of corruption, as well as about the strength of integrity structures. IRIS used this information to improve the research design of the next assessment phase. Specifically, IRIS used the results of the structured interviews to:

**Tailor Survey Questions.** Evaluation findings can be used to incorporate questions about these specific practices in survey instruments. For example, in Bulgaria, the IRIS learned that hospital directors were sometimes involved in the evaluation process even though, as designers of the tender documents, they should not be. Using this information, the IRIS team:

- Asked evaluation committee members how many hours different people, including the hospital director, spent in each step of the procurement process

### Box 2. Interview Techniques

- Interview one person at a time with no one else present except for a translator
- Take the minimal amount of notes for post-interview recall
- Be professional, but low key
- Try to position yourself so you can observe the respondent's body language (for example, it is better if the respondent is not behind a desk)
- Shake hands before the interview begins
- Place respondent at ease that this is not an incriminating process, explain protections, etc.
- Establish purpose of interview and get a commitment to cooperate
- Begin with asking questions that build value, i.e., that show the importance of study and don't require disclosure of sensitive information
- Once your sense of the respondent's position and perspective has improved (and the respondent has warmed up) ask a limited number of sensitive questions

22. Adapted from Albrecht and Albrecht (2002).

- Asked evaluation committee members what they would do if they felt other members were making the wrong choices (“complain to the director” was included as an answer option)
- Asked whether the director’s secretary also served as the secretary of the evaluation committee

**Incorporate Direct Observation.** Expert evaluations can be used to determine whether direct observation should be included in the survey instrument. For instance:

- If the expert evaluation indicated that there was a widespread problem of government offices not opening on time, the survey teams could be instructed to go to the government office and note whether or not it opened on time.
- If the quality of the cars of government officials was considered a good indicator of the level of corruption, the survey team could be asked to note the number of luxury cars in the official parking lot.
- If the experts find that audit reports have interesting information that can feasibly be codified, then the survey firm or other local partner can be asked to request the audits from a large number of micro-organizations.

**Determine Sampling Frames.** In Romania, IRIS learned that both old and new firms interact with the regulatory agencies, so it was decided to sample both new and old firms. However, in Bulgaria, IRIS found that some hospitals did not conduct their own procurement, so these hospitals were excluded from the frame. The expert evaluations were also vital in establishing who in the hospital should be interviewed, as well as what questions to ask.

**Uncover Corruption Networks.** The existence of corruption networks or pyramids in particular sectors is often an open secret. In one country, IRIS found that a number of respondents frankly stated that there used to be such a network (before recent reforms). It is difficult to be absolutely sure of the existence of such networks, but USAID does not require a high standard of proof in the design of its programs. The existence of networks also has implications for how to conduct a study. Senior officials may try to interfere with survey implementation, and USAID and the contractor will have to find ways to resist such interference. Corruption networks also have important implications for the design of anticorruption programs. Increasing accountability of low-level officials to high-level officials is likely to be ineffective (at best) if the low- and high-level officials are part of a corruption pyramid.<sup>23</sup>

23. If structured interviews reveal the existence of corruption networks, Mission staff should consider following up with unstructured, “smart” interviews to learn more about how the network functions. This approach is discussed in the following chapter (see *Surveys & Corruption Networks — Using Follow-up Interviews*).

## **THE SUBSTANCE OF STRUCTURED INTERVIEWS**

IRIS's structured interview methodology divides the information sought according to the main systems of a bureaucracy: human resource management, financial management, asset management, external oversight, and services and authority. The reasons for investigating these systems, the persons to be interviewed, and the information sought, are summarized in Table 2. A complete discussion of the importance and features of each of these systems, and a list of the questions to be addressed can be found in Annex 6. A complementary approach is the use of checklists, which provide more details on both corrupt practices and corruption vulnerabilities being investigated. The lists in Annex 2 cover possible forms of corruption in two key sectors. Annex 3 provides a checklist for assessing integrity either in the government as a whole or in a particular government agency.

## **OTHER METHODS OF OBTAINING INFORMATION**

The expert evaluation may find that structured interviews should be supplemented with other qualitative and quantitative methods. Focus groups, direct observation, forensic accounting, and statistical analysis may be needed to collect more information about the presence, structure, and mechanisms of corruption and integrity.

### **FOCUS GROUPS**

Focus groups are a useful way to elicit information quickly from many people, and to identify issues that need further exploration in a quantitative survey. Effective focus groups require an experienced moderator.<sup>24</sup> While initially people are somewhat reticent in these settings, they often become energized after a few people break the ice and start talking about sensitive topics. In one of the IRIS pilot studies, businesspeople were asked whether they “knew anyone who paid all their taxes” — all members of the focus group replied “No!” Focus group discussions conducted in the Bulgarian pharmaceutical study revealed that medicine quality and availability were not important issues, but that physicians going on drug company-sponsored trips needed further investigation.

### **DIRECT OBSERVATION**

In some situations it is possible to directly observe corruption. For instance, when crossing the border from Guatemala to Mexico, an IRIS employee observed that the Guatemalan border guards were charging \$5 per person. He later found out that the charge was not required (which may explain why no receipts were given). The simple recording of such behavior is a valid way to assess corruption. In fact, observing what people do may be more valid than recording what people say. For example, in 2003 IRIS helped a Romanian NGO design and implement a test of governmental compliance with a freedom of information (FOI) law. A series of information requests were made to a range of public authorities, and responses were tracked to ascertain which agencies provided information as specified by the law.

24. Techniques for running a good focus group are described in Morgan (1996).

**TABLE 2: TOPICS TO BE COVERED IN A SECTOR-SPECIFIC EXPERT EVALUATION**

	<b>Human Resource Management</b>	<b>Financial Management</b>	<b>Asset Management</b>	<b>External Oversight</b>	<b>Services &amp; Authority</b>
<b>Why investigate?</b>	<p>First line of defense against corrupt practices</p> <p>Can be used to build corruption networks</p>	<p>Contain important checks designed to ensure that financial resources are properly used</p> <p>Abuse leads to a range of corrupt practices</p>	<p>Inventory and tracking systems may be a safeguard against abuses</p>	<p>To determine the strength of external disciplines an organization faces — weakness in this area signals corruption vulnerabilities</p>	<p>An institution that provides services to outsiders, or has authority of interest to outsiders, has a marketable commodity</p> <p>Employees who provide services or exercise the authority can extract payments</p>
<b>Whom to interview?</b>	<p>Supervisors responsible for hiring, assignment and promotion, employee performance evaluation, discipline and firing</p> <p>Workers of different classes</p>	<p>Employees responsible for budgeting, revenue collection and management, payroll management, procurement, expenditure, and auditing and record keeping</p> <p>Suppliers of goods and services</p> <p>Users who pay fees (if applicable)</p>	<p>Employees responsible for the purchase, stocking, storing and tracking and disposal of institutional assets and supplies</p> <p>Representative employees</p>	<p>Officials at oversight agencies</p> <p>Members of NGOs, business associations and citizens' committees</p>	<p>Those who have direct contact with outsiders as furnishers of services or exercisers of authority</p> <p>Outsiders (citizens or other government agencies) who have contact with the institution as seekers of services or the exercise of authority (i.e., beneficiaries or clients)</p>
<b>Information sought?</b>	<p>General administrative structure</p> <p>Hiring processes</p> <p>Assignment and promotion processes</p> <p>Conditions of work</p> <p>Shirking behavior</p> <p>Processes of evaluation</p> <p>Procedures for employee discipline and termination</p>	<p>Budgeting format and procedures</p> <p>Sources of revenue</p> <p>Processes for revenue collection and accounting</p> <p>Payroll administration</p> <p>Procurement procedures</p> <p>Expenditure administration and control</p> <p>Auditing and recordkeeping procedures</p>	<p>Procedures for tracking inventory</p> <p>Procedures for allocating and properly using equipment and materials</p> <p>Audit processes</p> <p>Sales policies and practices</p>	<p>Identification of organizations involved in oversight</p> <p>Any mechanisms for complaint in the agency being overseen</p> <p>Policies and real practices with regard to legal redress</p> <p>The role of civil society</p>	<p>Specification of services the government agency provides and the authority it exercises</p> <p>The "clients" of these services and authority</p> <p>Other sources of these services/authority</p> <p>How the agency meets the demand for services (is there a need for queuing?)</p> <p>Type of private exchange relationships between public officials and private actors</p>

The IRIS field studies attempted, in some instances, to assess the effectiveness of FOI laws on public access to audits. For instance, IRIS asked its Bulgarian sub-contractor to submit FOI requests for the audit reports of hospitals. It was found that access to audits was both physically and analytically difficult. Staff had to travel to where the audits were, and audits lacked summaries. Because of all these difficulties, it was possible to analyze the audits of only 25 hospitals. Thus, one can assess one aspect of integrity, FOI laws, by attempting to use them.

### **FORENSIC ACCOUNTING & STATISTICAL ANALYSIS**

As just discussed, the ease of getting audit reports, and the clarity of the reports, is one aspect of integrity that can be observed directly. Analysis of (non-survey) statistical and accounting data — for example, what audit reports actually reveal — can also be used to assess corruption and integrity. In the pilot study of pharmaceutical procurement in Bulgaria, IRIS recorded how extensive the audits were and the depth of the improprieties they found. The audits were rated on two one-to-five scales: one rating was on the breadth of the audit, and another on the extent of improprieties. The resulting rating on improprieties was correlated with the corruption ratings given to the procurement process by doctors and nurses at the hospital. Hence, IRIS was able to assess integrity by examining the audit reports, albeit with some difficulty.

Another way to assess integrity is to examine procurement prices. Suspiciously high prices might indicate kickbacks or favoritism in procurement. This approach was pioneered by Di Tella and Savedoff (2001) in their study of Latin American hospitals.<sup>25</sup>

Forensic accounting as a means of detecting corruption in the energy sector is discussed in Annex 5.

## **THE NEXT STEP: QUANTITATIVE ASSESSMENT**

Ideally, corruption in micro-organizations such as health clinics, courts, or business licensing offices should be assessed using both quantitative and qualitative methods (such as the expert evaluation methodology outlined in this chapter). While the expert evaluation gives indications of the targeted agency's corruption vulnerabilities, corrupt practices, and integrity strengths and weaknesses, quantitative surveys provide objective confirmation and give a clearer picture of the frequency and extent of problematic practices. But surveys do not substitute for qualitative methods — they complement them. For example, if the Mission has decided to conduct a survey, the results from the expert evaluation can be used to:

- **Determine who to survey** — Evaluations can help researchers to select appropriate survey populations.

25. Another example of forensic analysis of data is the examination of multiple bids in procurement or privatization. For example Stancil (2000) found statistical patterns in bids that suggested there was substantial collusion in the Czech privatization auctions of small businesses.

- **Get a clearer picture of what to ask about** — Crafting an effective survey instrument (questionnaire) requires knowledge of the institutional structure of the sector and the routine operations of the government agency (e.g., it may be appropriate to ask questions about corruption in procurement if procurement is handled at the micro-organization level, but the evaluation may reveal that procurement is actually handled by the central ministry).
- **Understand how to ask each question** — Identifying specific problematic practices allows researchers to tailor survey questions.

Finally, qualitative methods, such as interviews and focus groups, provide the Mission with insights into how corruption and integrity are conceptualized, perceived, and discussed in the host country. These details, which reveal cultural norms and attitudes, are essential to effective program design — particularly for behavior-change communications and outreach components.

## **SECOND-STAGE EXPERT EVALUATION**

In some assessments, the Mission will decide to survey only clients. The survey findings may reveal corruption vulnerabilities and integrity weaknesses in a specific government agency (or agencies). If these vulnerabilities and weaknesses were not thoroughly investigated as part of the previous expert evaluation, a post-survey follow-up evaluation may be required to allow the USAID Mission to properly allocate resources and tailor program activities. Likewise, a follow-up evaluation is called for when surveys of clients and officials reveal problems not dealt with adequately either in the survey questions or the prior expert evaluation. One such problem is the presence of corruption networks (see *Surveys & Corruption Networks — Using Follow-up Interviews*, in Chapter 4).





# SURVEYS OF CORRUPTION & INSTITUTIONAL INTEGRITY

## ASSESSMENT PHASE THREE OBJECTIVES

1. To collect objective data, derived from a nationwide sample of respondents, in order to test assertions and suppositions that have emerged in the expert evaluation stage.
2. To establish statistical patterns (and, importantly, regional and interagency variations) that may be important for identifying where the greatest corruption vulnerabilities lie, and therefore to what institutions, problems, regions, etc. reform programs should be directed.
3. To discover new questions that may arise — e.g., from an unexpected pattern of responses — and that may indicate hitherto unknown directions in which the investigation ought to be pursued.

The final stage of the assessment involves implementing quantitative surveys. Surveys can identify and document the specific types, mechanisms, frequency, and costs of corruption. Taken together, this gives a fuller picture of the actual *significance* of corrupt practices. Surveys may thus also help identify the precise nature of government integrity failures. The advantages of using surveys include:

- **Objective Confirmation.** Surveys explore the experiences and views of a large number of people. Survey results, therefore, are more representative of the broader population than the findings derived from selected interviews. One is on firmer ground if expert evaluation findings can be compared to survey results.
- **Baseline Data.** Surveys provide a baseline that program designers can use to monitor program effectiveness (and, if necessary, make crucial mid-point corrections) and evaluate final outcomes.
- **Uncover Variations.** Because they systematically cover an entire country (or agency), surveys can uncover important regional and interagency differences. This information can be used to strategically target Mission resources.
- **Uncover Gaps Between Rules & Implementation.** Expert evaluations find out what the rules are, and officials being interviewed may claim that the rules are being followed. Gaps in implementation, however, may only be discovered by surveying the clients of a government agency.

Surveys are costly, but their findings can dramatically increase the chance of program success. Without surveys, judgments must rest on anecdotal evidence and the views of a relatively small number of individuals, some with clear biases.

## USING SURVEYS TO MEASURE CORRUPTION

Corruption surveys ask large numbers of people questions about their own experience and their perceptions of the behavior of others. This methodology, first applied in the mid-1990s, is now standard and has been used by the World Bank, IRIS, and other organizations in many countries. When fully developed and standardized, surveys yield comparable cross-country information at a relatively low cost. Despite considerable initial skepticism that this methodology would yield useful information, most respondents are willing to complain about having to pay bribes, and the results tend to get a fair amount of press coverage.

IRIS uses a different approach to measuring corruption — surveying clients about their experiences (or perceptions) as well as asking government officials about the integrity characteristics of their agencies. Surveying both clients and officials provides a way to check different kinds of information against each other. That said, during the pilot studies, IRIS found that surveys of agency clients are likely to be more informative than those of officials. Officials, however, were better informed than clients about how integrity factors operate (or don't operate) within their agency. Surveying both clients and officials is ideal, but if resources are scarce it is best to only survey clients and use the results to design a follow-up round of expert evaluations of the government agency.

## **ORGANIZING A SURVEY**

USAID should use the same contractor to conduct the expert evaluation and survey phase of the assessment. Typically, the contractor will hire a local firm to implement the survey. Because a number of technical details have to be negotiated, it is vital to have a sub-contractual relationship between the contractor and the survey firm, rather than a parallel contract between USAID and the survey firm. The prime contractor must maintain close control over the process of both designing and implementing the survey. The design of survey instruments should not be subcontracted to local partners, although the local firm may participate in the design process. Finally, it is best to have a single firm conducting the surveys, as a more complex sub-contractual relationship can lead to implementation problems.

Depending on the scope of the surveys, the last phase of the assessment can take from five to nine months. Ideally, after the survey questionnaires (one for the officials and another for clients) have been drafted, they will be field tested in the presence of experts from the contractor. These experts will then refine the questionnaires based on how respondents answered the questions. This process can take two to three weeks. It can then take between six to twelve weeks to collect the data after the survey instruments are finalized. Subsequently, it takes another six to twelve weeks to clean and analyze the data and write a draft report. This report should be circulated, peer reviewed, and revised, a process that takes a further three to six weeks.

As can also be seen from this brief summary, conducting a survey can be relatively lengthy and costly. Unfortunately, as the remainder of this chapter makes clear, the scope for shortcuts is limited. However, surveys that are done “on the cheap” — such as asking local participants and stakeholders in a project for their own evaluation of the project's success — are of limited value because of the biases of the interviewees. If resource constraints prohibit use of properly designed and implemented surveys, it is best to undertake a careful expert evaluation, rather than try to buttress anecdotal findings with a phony survey of non-representative respondents.

## MEASURING CORRUPTION WITH SURVEYS

There are essentially two alternative survey design methodologies in the corruption field: (1) asking the respondents about their own experiences, or (2) asking respondents about their perceptions of others' experiences. This choice is exemplified by IRIS's pilot study in Romania, which aimed at estimating the proportion of businesses that make various kinds of informal payments to regulatory officials during the registration process. One could ask the question in two ways: (1) asking about the firm's own experience, or (2) asking about the experience of other firms "like yours."

- **Introduction 1:** What was the cost to your business of the various elements of the registration process? I will read you a list of possible expenses. If this happened more than one time in 2002–2003, please answer the questions for the last time it happened.
- **Introduction 2:** Please estimate the costs of the registration process for businesses like yours for the various elements of the registration process.

These introductions can be followed by a list of actions, such as informal payments, gifts demanded by officials for facilitating and expediting the process, and sales of goods or services to the official (or an associate at preferential terms).

In the Romania study, IRIS asked questions *both ways*, and the responses were then compared to examine how the question phrasing affected the answers.

Asking the question about the respondent's own experiences has several advantages. It forces the respondent to recall the most recent instance of contact, and to answer a specific question. However, forcing the respondent to give precise answers can also induce reticence in nervous respondents (see Box 3, on next page, as well as Annex 7). For most kinds of behavior it is probably best to ask direct questions about one's own actions. For example, asking a sample of people "How many cups of coffee do you drink every day?" is likely to lead to a much better assessment of coffee drinking than asking the same sample group "How many cups of coffee do most people drink every day?" However, this rule is not necessarily true for sensitive behaviors — rates of admission to sensitive behaviors have been shown to be as low as 25 percent for respondents who have actually engaged in the behavior being investigated (Tourangeau & Smith, 1996).

Thus, whether to ask questions on corruption about the respondent herself or about others like the respondent remains open to debate. The IRIS study in Romania found that respondent's answers on questions about their own firms were not statistically different from their answers about "firms like theirs." More broadly, IRIS found little evidence that the technique of asking about "people like you" provided more truthful answers. Even reticent respondents were consistently reticent with regard to both types of question phrasing.

### Box 3. Reticent Respondents

Corruption is a highly sensitive topic, so many survey respondents are *reticent* — they prefer to give incomplete or non-truthful responses. The reliability of respondents is the number one problem with surveys in the corruption area, especially with those who might be personally involved in corrupt practices.

To mitigate the effect of reticence, IRIS developed an innovative technique. A standard survey technique to encourage candor — the technique of *randomized responses* — is to blend “filler” questions on non-sensitive topics with questions on a sensitive topic. Then, when analyzing the results, the filler responses are disregarded. But IRIS does exactly the opposite — using the filler responses to estimate respondents’ overall degree of reticence. The underlying question thus shifted from “How can we get people to tell the truth?” to “How can we identify people who are lying and remove them from the data?”

IRIS’s technique provides a simple way to sort out the reticent (and “possibly reticent”) from those who are apparently candid. This, in turn, allows analysis of survey answers in a way that provides both a firm minimum value for each answer, plus a range of possible values, depending on assumptions that are made about the reticent respondents.

## SELF-ADMINISTERED VS. FACE-TO-FACE SURVEYS

Another key question raised by the literature on sensitive questions is whether self-administered surveys elicit more honest answers than face-to-face surveys. In many countries where USAID works, literacy rates are too low for self-administered surveys to be practical, but in most countries in the Europe and Eurasia region, literacy rates are high enough that self-administered surveys are a viable method. Table 3 summarizes the advantages and disadvantages of each type of survey.

IRIS used self-administered surveys in Georgia and Bulgaria and found that they worked reasonably well. It is important to point out that these surveys were not mailed. Rather, a representative of the survey firm was present at the organization. Mail-in surveys have a low response rate.

## BIAS IN SURVEY RESULTS

Bias is an error, a mistake that affects survey results. All surveys are affected by bias and researchers are constantly searching for ways to mitigate and measure its effects. At a minimum, researchers must acknowledge bias, and take it into account when analyzing and drawing conclusions from survey results.

There are two kinds of bias, *sampling* and *non-sampling*. Sampling bias is a problem with *who* is being surveyed; it includes issues with the sampling frame and non-probability samples and is difficult to measure. There are several kinds of non-sampling bias:

- **Interviewer** — *Deliberate* interviewer bias is an attempt by the interviewer to impact the research results. (This does not often happen with a firm because it would ruin their reputation.) *Non-deliberate* interviewer bias includes mistakes, such as checking the wrong box.
- **Questionnaire** — The framing or phrasing of questions impacts survey results.
- **Order or Position** — How the questions are positioned in relation to others can affect responses.
- **Non-Response** — People who respond are different from those who do not. This happens at a survey level as well as on an individual-question level. A “no answer” response on more than 10 percent of questions indicates a potential problem with the questionnaire design.
- **Systematic** — Bias in the overall research design.

More specifically, there are several possible sources of bias in corruption data, particularly at the level of an individual respondent:

- **Misdefinition** — Respondents have differing definitions of “corruption.” Concerns about misdefinition are most serious for questions that do not specify a form of corruption (see Chapter 1). One method of dealing with this problem is to provide the respondent with a definition of corruption and then ask about its prevalence (which appears to have worked in the IRIS survey in Romania).

**TABLE 3: ADVANTAGES & DISADVANTAGES OF SELF-ADMINISTERED VS. FACE-TO-FACE SURVEYS**

Type of Survey	Advantages	Disadvantages
<b>Self-Administered</b>	<p>Low cost</p> <p>The rate of admission to performing certain sensitive behaviors rises, and can even double (Tourangeau &amp; Smith, 1996)</p>	<p>Self-selection bias</p> <p>Respondents may neglect to answer some questions, or even the entire survey</p> <p>Cannot clarify or probe</p> <p>Cannot control question sequence (respondents can look ahead and then go back and change answers)</p> <p>Possible collusion among respondents in the same organization or locality<sup>26</sup></p>
<b>Face-to-Face</b>	<p>Can size people up, note hesitation or other non-verbal cues</p> <p>Interviewer controls the flow and sequence of questions and can clarify, probe, and confirm</p>	<p>Expensive</p> <p>Time-consuming</p>

- **Ignorance & Optimism** — The respondent may simply not know the answer, or be optimistic about the prevalence of corruption. To deal with biases caused by optimism or ignorance, respondents can be asked questions designed to capture their optimism with regard to corruption and their ignorance of corrupt acts, and the researcher can then examine whether optimism or knowledge is correlated with answers about corruption. The IRIS study in Romania found no systematic relationship between answers on the prevalence of corrupt acts and optimism or ignorance variables.
- **Reticence** — A respondent may not wish to answer the question frankly or completely. Since reticence is a major problem in corruption surveys, IRIS’s pilot studies paid special attention to this problem (see Box 3 and Annex 7).
- **Self-Interest** — A respondent may have a personal interest in the outcome of the survey. The self-interest problem arises especially in surveys evaluating the impact of a project, when respondents are drawn from those participating in that project. This would be especially the case if the outcome of the survey has a bearing on continuation of a project benefiting certain respondents.

Several of these sources of bias are likely to occur when surveys are carried out in the presence of systemic corruption. One reason for this is that higher-level officials are likely to interfere with the research and coach lower-level officials on how to respond to questions. Another is that researchers may

26. Can be reduced by having the interviewer physically present at the organization where the survey is being implemented, leave it with the respondent, and pick it up later in the day.

simply be disallowed from undertaking such large-scale research, which requires the cooperation of local officials.<sup>27</sup>

### **SURVEYS & CORRUPTION NETWORKS — USING FOLLOW-UP INTERVIEWS**

The presence of corruption networks or pyramids mean that, while corruption is less likely to be honestly revealed by the average survey respondent, information on the prevalence of corruption may be more widely known — officials are not acting on their own accord (they are part of a system) and businesspeople are not facing idiosyncratic demands (the “prices” and modalities of corrupt transactions are well known). In this case, the effective approach would be to follow up surveys with “smart” interviews among a small number of respondents. “Smart” interviews are open-ended — they do not follow a structured interview protocol. The researcher follows leads and learns facts from one interview, which are then applied to the next in order to corroborate responses. This approach can reveal the structure of corruption networks with relatively few interviews.

## **MEASURING INTEGRITY WITH SURVEYS**

The sources of the institutional integrity characteristics that control corruption — earlier described as the TAPEE factors — operate in two layers. The first is *political*, the ability of citizens to control politicians, and the second is *administrative*, the ability of politicians and senior civil servants to control lower-level officials. Consequently, the main sources of information on integrity are surveys of citizens, private organizations like businesses or NGOs, and those of public officials.

In household surveys, questions about media exposure, use of FOI laws (if they exist), and political activism can be asked. Thus, information can be collected on newspaper readership, access to public information, voting, the reasons for voting, and participation in political action. Information can also be collected on the de facto monopoly power that public offices have (whether citizens can reasonably go elsewhere), or whether citizens know where to complain when confronted with corruption. The responses can often be checked against other publicly available information. For example, it may be possible to find voting rates at the district level and compare the recorded voting rates with the reported rates calculated from the surveys.

Information on integrity can also be collected from firms. Private enterprises can be asked questions about public officials’ power and discretion, and about their knowledge of complaint procedures and the effectiveness of these procedures. They can also be asked if public procurements are widely advertised, about the enforcement of rules on procurement and privatization, as well as whether the reasons for the decisions are explained to them. If the focus of the study is on voting problems or the efficacy of FOI laws, then NGOs may be surveyed.

27. In the pilot studies carried out for the project under which this handbook was prepared, IRIS researchers were, in one country, disallowed from studying a sector because of political sensitivities surrounding corruption. In other case study countries, senior officials tried to involve their organizations in the study in ways that might have compromised our results, had these pressures not been resisted. In some instances, patterns in the data suggest that such interference took place.

Surveys of public officials can produce a lot of information on management practices in the public sector, which include many aspects of administrative corruption and transparency as well as prevention, enforcement, and education. Some of this information can be cross-checked with other sources. For instance, public officials could be asked how often they were audited or evaluated. This information could first be corroborated internally by asking different public officials in the same office the same question, and then corroborated externally by asking the auditing or evaluating agency how many times the office was audited or evaluated, or even asking to see the records of the audit or evaluation.

To evaluate the values of public officials, they could be asked hypothetical questions about “trustworthy behavior” — or some other behavior related closely enough to corruption to make a reasonable inference of corruption resistance (but not so closely related that the respondent is induced to lie).

There are several challenges in measuring integrity across micro-organizations:

- **Formal rules vary little.** Researchers can only measure differences in the implementation of the rules. The answers to these questions on implementation are often impressionistic and unreliable. To achieve more precision about the nature of integrity in micro-organizations, one must ask many detailed questions. For example, questions can focus on particular corrupt acts (“If a colleague took a bribe, how likely is it that he would be seen?” or “If seen, how likely is it that it would be reported?”). Other questions might be about the workings of the organization in general (“In general, is the process of budget management transparent in your organization?”).
- **It is difficult to place certain types of government procedures unambiguously in one of the TAPEE categories.** There is disagreement in the anticorruption literature on whether certain procedures, such as the publication of expenditures of a government agency, are aspects of “transparency” or “accountability.” For instance, the question “If seen, how likely is it that it would be reported?” could be interpreted as transparency, accountability, or enforcement.
- **If there is systemic corruption, the existence or strengthening of TAPEE factors may not result in integrity.** It may be inappropriate to interpret the existence of some TAPEE rules as “increasing integrity,” since the rules may only be measuring the authority of corrupt principals over potentially corrupt agents. For example, if the authority to whom a report would be filed were himself corrupt, the existence of reporting may do little good.
- **Public officials are reticent.** The responses of public officials on many integrity questions seem to be significantly biased due to their reluctance to give frank answers to sensitive questions.



## LESSONS LEARNED FROM PILOT STUDIES

Surveys of firms appear to be a useful and practical way of collecting information on widespread and routine behaviors. The IRIS pilot studies evaluated survey responses in terms of how badly they were affected by biases due to optimism, ignorance, misdefinition, and reticence. Optimism and ignorance biases appear to be unimportant. Misdefinition biases also appear to be unimportant — if the survey provides a definition of corruption. Biases due to reticence do appear to be significant, but not crippling. IRIS's technique for identifying reticent respondents can help estimate the magnitude of the reticence bias and correct for it (albeit imperfectly).

There do, however, appear to be some significant challenges in using surveys to measure integrity factors (TAPEE) or corruption resistance across micro-organizations. The conceptual framework is difficult to translate into survey questions, and the biases due to reticence appear to be larger for public officials than firms.

Nevertheless, surveys fill important gaps in our knowledge about corruption and integrity. For example, surveys reveal differences between *de jure* and *de facto* procedures, and how corruption and integrity problems may vary among geographic regions.<sup>28</sup> Surveys are essential assessment tools. They have significantly advanced the understanding of corruption in many developing and transitional countries and have helped build political support for anticorruption reforms.

As discussed at the end of the previous chapter, the types of surveys described here are not the only source of information about either corruption or integrity. Corruption practices — by their very nature of being illegal, unethical, or both — are inherently carried out in secret and are unrecorded. Likewise, integrity is not easily recorded and measured, in part because of the often wide gap between *de jure* and *de facto* practices (Kaufmann, Kraay, & Mastruzzi, 2005). The difficulties of digging up evidence on both corruption and integrity imply that the best approach is to “triangulate” — i.e., to collect different kinds of data from a range of sources and corroborate the findings and pieces of evidence against each other (like a doctor using multiple tests to diagnose a patient).

The kind of methodological problems outlined in this chapter have led some experts to disagree on how best to measure corruption or integrity. For example, it has been argued (Johnston & Kpundeh, 2002) that corruption is best gauged by measuring its consequences, rather than by attempting direct observation of corruption and integrity using the types of surveys described above. There is much to be said for measuring consequences, and this underlies the statistical and forensic accounting methods described in Chapter 4. These methods, however, are also subject to the criticism that they are based on untested hypotheses about the effect of unobserved corrupt practices on observed outcomes.

28. The IRIS studies found substantial interregional variation in reported corruption in Georgia, Romania, and Russia.

# DESIGNING A PROGRAM

This chapter briefly discusses how the assessment findings can be used to inform program design.<sup>29</sup> The steps of designing an anticorruption (or integrity-building) program for an institution are as follows:

- Determine corruption vulnerabilities, and integrity strengths and weaknesses.
- Make a judgment as to the degree of systemic corruption prevalent.
- Use prior experience to create a menu of reform measure options.
- Choose reform measures appropriate to the problem and feasible within the Mission's resource envelope.
- Take into account strategic considerations.
- Set up benchmarks for measurement and monitoring.

Below are further details on each of these steps.

## **DETERMINE CORRUPTION VULNERABILITIES & INTEGRITY STRENGTHS & WEAKNESSES**

If the assessment has been carried out correctly, the corruption vulnerabilities and integrity features of the government agency under investigation should emerge from careful review, comparison, and analysis of the information collected. This may require some detective work, taking into account the biases and incentives of the various interviewees and informants.

Where surveys have been conducted, the corruption types should be clearly evident — assuming that the survey of clients was properly designed. The integrity environment of the government agency in question should emerge reasonably clearly from the structured interviews and (where conducted) surveys of officials, although the former source may prove the more reliable. While it may prove impossible to correlate statistically specific corruption phenomena with specific integrity gaps, careful analysis of interview findings, together with information about similar situations elsewhere, should allow the program designer to link corruption vulnerabilities with TAPEE factors. Making this link is possible because the actual state of specific TAPEE factors in an agency create an environment that enables certain types of corruption to take place.

For example, in an assessment of business registration, the survey and interviews may have revealed a moderate degree of bribery to facilitate the

29. Detailed guidance on the art of developing programs that build integrity and defeat corruption is beyond the scope of this handbook, but this chapter does include sources of more information.

movement of an application for registration. At the same time, the investigation of integrity factors may have shown that applicants did not have information about the maximum legally permitted waiting period for an application to be either approved or rejected, nor did they know where to go to complain about the service they received. The assessment may have also revealed that applications tended to be made in person, involving face-to-face contact between the applicant and the official receiving the application. These are both factors that obviously create corruption opportunities.

## **MAKE A JUDGMENT AS TO THE DEGREE OF SYSTEMIC CORRUPTION**

The assessment should produce some evidence on the degree of systemic corruption affecting the operations of the government agency. (Sometimes general knowledge of the country can contribute to this broader aspect of the assessment.) Judging the degree of systemic corruption is important for estimating the efficacy of reform measures chosen. If systemic corruption is clearly present and of significance, reform measures aimed at a specific agency may have to be accompanied by measures aimed at the systemic corruption — including initiatives to increase economic and political competition, as suggested in USAID's *Anticorruption Strategy*, and also measures related to the education component of TAPEE.

## **USE PRIOR EXPERIENCE TO CREATE A MENU OF REFORM MEASURE OPTIONS**

There is a lot of information available on previous anticorruption initiatives in other countries. First, the TAPEE framework document lists a number of reform measures for each of the five factors. Further examples of anticorruption reforms are given in two documents produced by the EECOR project — the *Anticorruption Reader* and the *Analytical Tools for USAID Anticorruption Programming in the Europe and Eurasia Region* paper. USAID's Development Experience Clearinghouse also contains a wealth of documentation on governance reform programs. For those seeking further information, some of the classic books on corruption — Klitgaard (1988), Rose-Ackerman (1999), and Klitgaard, Maclean-Abaroa, and Parris (2000) — contain interesting and detailed case histories of anticorruption initiatives, with analysis of reasons for their success or failure. In reviewing this experience, USAID Missions should pay close attention to the institutional similarities and differences between the country whose experience is being reviewed and the country(ies) for which anticorruption programs are being considered.

## **CHOOSE APPROPRIATE & FEASIBLE REFORM MEASURES**

Resources are not unlimited, and there is only so much a single donor can do. An effort should be made to broaden the reform program to include other donors, thereby facilitating the application of more resources to the problem. Once the size of the resource envelope is clear, there is a difficult choice to be made between concentrating on one or two measures, or to try to spread the resources among a larger number of activities. Choosing to work with local partners, rather than bringing in more expatriates, is, of course, another way to economize (it may also promote local ownership of the initiative and enhance sustainability).

The choice of a reform measure depends not only on what seems to best target the problem, and the resources available, but also on whether systemic corruption is an important enough problem to take into account. Corruption in an institution that is explainable in individualist terms (i.e., where it is not strongly embedded in powerful systemic corruption) can be dealt with by measures designed to change the structure, procedures, and incentives within the institution — so as to bring about improved transparency, accountability, prevention, and enforcement. Where systemic corruption is dominant, however, individualist responses must be accompanied (and perhaps preceded) by measures that are designed to deal with the systemic problem by reforming the political and economic structure. This is illustrated in Table 4 on the next page.

## **TAKE INTO ACCOUNT STRATEGIC CONSIDERATIONS**

There are a number of strategic considerations, each of which touch on long-term and political considerations. These include: the dynamics of corruption in the society, governance capability and reform readiness of the host country, the United States' reform leverage vis-à-vis the host country, and USAID's stance as a donor and degree of cooperation with other donors in the governance area.<sup>30</sup> Each of these considerations is discussed below.

### **DYNAMICS OF CORRUPTION IN A SOCIETY**

What causes the level of corruption to change for better or for worse? An understanding of dynamics is central to a truly effective response to corruption. Despite its importance, this area has not been as heavily researched as others, nor has significant consensus been achieved. However, it is possible to point to a few major themes that have emerged in the corruption and governance literature:

- **Changes in Political & Economic Balance.** Johnston (1997) has theorized that changes in two types of balance determine whether corruption remains under control or destabilizes politics. First, the balance between economic and political paths of advancement — a proper balance means that trading wealth for office (or vice-versa) is not a serious temptation. Second, the balance between the accessibility and autonomy of political elites — a proper balance means that private interests can influence policy but not so much as to prevent officials from formulating and implementing policies on their own authority.
- **The Destabilizing Influence of Major Change.** Corruption levels shift when there are periods of rapid social or economic change, consolidation of new regimes, and successful anticorruption campaigns. For instance, the late 19th-century in the United States and the immediate post-Communist years in Russia were periods of rapid change and proliferating corruption opportunities.

30. These issues are discussed in greater depth in the *Analytical Tools for USAID Anticorruption Programming in the Europe and Eurasia Region* paper, written for the EECOR project by Patrick Meagher.

**TABLE 4. ILLUSTRATIVE RESPONSES TO CORRUPTION**

<b>Assessment Finding</b>	<b>Program Focus</b>	
	<b>Individual</b>	<b>Systemic (political, economic)</b>
<b>Energy</b> — Diversion of state oil revenues to personal and campaign accounts	Strengthen accounting and auditing systems	Improve transparency and competition; reduce control rights to cut corrupt linkages
	Establish or tighten controls on campaign finance and money laundering	Tighten regime budget constraint, coordinate external agents to signal zero tolerance
	Improve transparency and criminal enforcement	Support small- and medium-enterprise growth
<b>Customs</b> — Bribery, fraud, and collusion in customs administration	Tighten administrative controls	Restructure political and economic systems to promote competition; support campaign finance reform
	Improve civil service conditions; reduce and rationalize duties	Encourage export-oriented small- and medium-enterprise growth
<b>Procurement &amp; Infrastructure</b> — Bid-rigging, kickbacks, over-invoicing	Tighten design parameters and bid procedures	Tighten regime budget constraints
	Strengthen inspection and audit	Increase political & economic competition
	Introduce competition	Increase transparency
	Establish bid protest procedures	Strengthen corporate ownership incentives and governance
<b>Judiciary &amp; Prosecutors</b> — Bribery, favoritism	Improve judicial status and pay; introduce checks and balances in appointments and tenure	Strengthen political competition
	Revise and sharpen laws and procedures	Influence norms of legality and accountability
	Strengthen appeal system, oversight, and sanctions	Intensify economic restructuring and shared growth
		Foster constituencies for the enforcement of contracts, property rights, and civil liberties

- **The Budget Constraint.** Changes in important fiscal sources and the restraints they impose can also affect the quality of governance. When governments require political consent to raise more revenues, they are likely to use their resources more honestly and effectively. In contrast, sources of rents or money flows that do not depend on political bargaining — like natural resource revenues — tend to make government less accountable for expenditures, hence more wasteful and corrupt.
- **The Normative Dimension.** Good governance involves adherence to laws and other rule-systems that are sanctioned by the state at all levels of government. Socialization, prominent examples set by leaders, and new patterns of behavior that either reinforce or undermine a rule, can change social norms. Examples include public health campaigns and fascist or communist efforts to redirect citizen behavior.

### **GOVERNANCE CAPABILITY & REFORM READINESS**

It is important to consider the current state of integrity of governing institutions in the country. To some extent, the World Bank Institute's Governance Indicators provide a good sense of this. The relevance of overall governance for reforming a particular government institution is that reforms are difficult to carry out without support from other institutions, such as the judiciary, the legislature, government audit agencies, and so forth. Another important factor is the quality of the governing regime — its ability to maintain order; its stability, its commitment to rule of law, and its interest in economic and social development. Finally, the extent to which the political system permits open discussion and democratic participation determines how possible it will be to use civil society as a tool to bring about reform.

### **U.S. REFORM LEVERAGE**

Overall U.S. reform leverage (clear to any USAID Mission Director) will determine the leverage that USAID will bring to bear on any initiative. Factors affecting leverage include

- Host-country dependence on U.S. assistance, or assistance from international financial institutions where the U.S. has major influence
- Budgetary stringency (a country with large oil revenues will not pay much attention to outside advice)
- The desire of the country to participate more actively in global and regional economic and political arrangements
- U.S. dependence on the host country (reform leverage is lessened if the U.S. depends on the host country for diplomatic or military support)

## **USAID DONOR STANCE & COOPERATION WITH OTHER DONORS**

The consistency of the agency's own position on good governance, the stance of other donors, and the ability of USAID to coordinate efforts with other donors, are all factors that will affect the efficacy of a new anticorruption initiative.

## **ESTABLISH BENCHMARKS FOR MONITORING & EVALUATION**

Intensive discussion of aid effectiveness over the past decade lends special importance to designing reform programs that contain built-in monitoring and evaluation benchmarks. Such benchmarks can, of course, be qualitative — such as passing a law, computerizing operations, or setting up a government body — but quantitative indicators, when correctly specified, can be more credible to the political leadership of donor countries.

However, as already noted (in Chapter 2), broad indices — like the World Bank's *Control of Corruption Indicator* — are actually only crude indicators even of a country's relative rank, and it is inherently impossible to make inferences from periodic changes in such indices about the progress of a country's governance over time. More seriously, from the standpoint of this handbook's purpose, broad indicators do not track corruption and integrity changes over time within a single institution. Therefore, anticorruption program designers need to find other ways to monitor progress, which may require creating customized indices.

In some cases, more specific indices may exist. For example, the BEEPS surveys cover such topics as the frequency and cost of bribes, as well as the relative impediments posed to business by different government agencies. But in order to give a reasonably clear idea of the effectiveness on an intervention (or to monitor the impact of specific program components, such as setting up one-stop-shops, requiring publication of all fees and maximum waiting times for applications, providing for internet instead of face-to-face applications, etc.), it is likely that programmers will need more precise information than is currently available.

In order to create a customized index, the programmer must first determine what needs to be measured (which should be linked to program goals and USAID strategic objectives), and then determine what existing or collectible data corresponds to it. If the data is already available, the programmer's task is relatively inexpensive (limited to being careful about aggregating the data). An example, given in Annex 8, is taking the results of three separate questions in the BEEPS survey to construct an index of corruption in the business sector for countries in the Europe and Eurasia region.

If data is not available, the programmer must undertake data collection — using, for example, surveys such as those discussed in Chapter 4. An index can be constructed from a single measure, such as the answers to a single survey question. Alternatively, the programmer can create an index from multiple measures. The ideal is a combination of several measures, each created by a different organization using a different methodology, and each implemented in an identical way across countries. But, in reality, very few

measures are available for all countries, and each of these has drawbacks. Annex 8 explains how to create an index from survey data, giving as an example an index of substantive transparency in one-stop shops and health inspectorates, constructed from data collected in the IRIS pilot study of business registration and licensing approvals in Romania.

There is a trade-off between costs and benefits when choosing monitoring and evaluation indicators. Survey data directly related to the purpose of a USAID program provides a better indication of progress, success, or failure than data that is only indirectly connected to program objectives. However, putting together an index based on existing data is relatively simple and cheap. It is important to note, though, that once a survey has been designed and tested, repeat surveys are relatively inexpensive to administer, because they can be implemented by local firms. The larger the program — the more U.S. taxpayer dollars that are being invested — the stronger is the case for using surveys tailored to a particular institution.





# DEFINING CORRUPTION: INTER-COUNTRY DIFFERENCES

The meaning of corruption varies among different societies, depending on the legitimacy of informal obligations (as opposed to that of the rule of law), the length and depth of historical precedent for informal payments, and, more broadly, a society's values. To get some indication of this variation, even between two countries in the same region and both with a recent communist past, the IRIS Center, as part of its pilot studies in Romania and Russia, asked businesspeople in both countries about their definitions of corruption.

## LINGUISTIC ISSUES

Defining corruption involves, to begin with, purely linguistic problems. In Romania, for example, the word commonly used for "corruption" does not exactly match the connotations of the term as it is understood and used in English. If the semantics of corruption differ substantially between languages, great caution is needed in interpreting cross-national survey results. For instance, the comparability of corruption prevalence data from the World Values Survey is limited by these types of linguistic issues.

## SURVEY OF BUSINESS REGISTRATION & LICENSING

To assess general understandings of the notion of corruption in Romania and Russia, IRIS's surveys of businesses' experience with business registration and licensing (or inspections) included questions that asked respondents which of eight specific acts they considered instances of corruption. These questions, and the percentage of positive responses, are shown in Annex Table I. Respondents were then given two specific definitions to improve the comparability of responses across regions. The first was a narrow definition including bribery and theft and the second was a broad definition that also included shirking and favoritism (two acts that might be considered corrupt under the USAID definition but that are not mentioned in the UN charter). The aim was to examine the impact of these different definitions on responses to a subsequent question on the prevalence of corrupt officials in the various agencies.

There are several remarkable results from the survey data. First, a significant number of respondents were unwilling to classify as corruption some acts that analysts would normally term as corrupt, for example, taking informal payments from a company for buying its products. Second, the opposite scenario also occurs: a significant number of respondents classified acts as corrupt that are usually not considered as corruption — for instance, raising

**ANNEX TABLE I. DEFINITIONS OF CORRUPTION IN ROMANIA<sup>31</sup>**

<b>Responses to the question “Which of the following actions undertaken by a public official do you consider to be an instance of corruption?”</b>	<b>% of respondents who agreed that the action is corrupt</b>
To take an informal payment or gift from a citizen for a service	90.9
To take an informal payment from a company in return for buying its products	91.6
Intimidation of a private citizen or business to obtain money (extortion)	90.8
Stealing funds or equipment from the government (embezzlement)	75.7
Favoritism, that is, showing preference to relatives and other close persons	66.5
Shirking, that is being systematically absent from work for no reason	27.4
Raising the prices of essential items like electricity when people can't pay for it	23.2
Buying goods from foreign firms when domestic firms are operating below capacity	25.0

electricity prices. Both these types of variation from normal classification appear to be more prevalent in Russia than Romania.<sup>32</sup>

The survey responses agreed with the definitions of corruption offered by the dictionaries and international agencies. The area of strongest agreement between survey respondents was that bribery (informal payments) is a form of corruption — all the dictionaries and international agency definitions agree on this point. A similar percentage of respondents considered extortion a form of bribery. Fewer respondents stated that embezzlement is a form of corruption (dictionary definitions do not include embezzlement, but the international agency definitions do). Favoritism, which was considered corrupt by fewer respondents, is not mentioned by the UN charter but is probably subsumed by USAID's definition. Shirking, considered corrupt by only a small minority of respondents, is also not mentioned by the UN charter; nor is it clearly included in USAID's definition.

When respondents in Romania were provided with specific definitions of corruption, their answers to questions on the prevalence of corruption in seven local regulatory and judicial agencies or “all Romania” showed no correlation with their personal definitions of corruption (as revealed by their answers to the questions shown in Annex Table I). This result was surprising, in view of the wide variety of personal definitions.

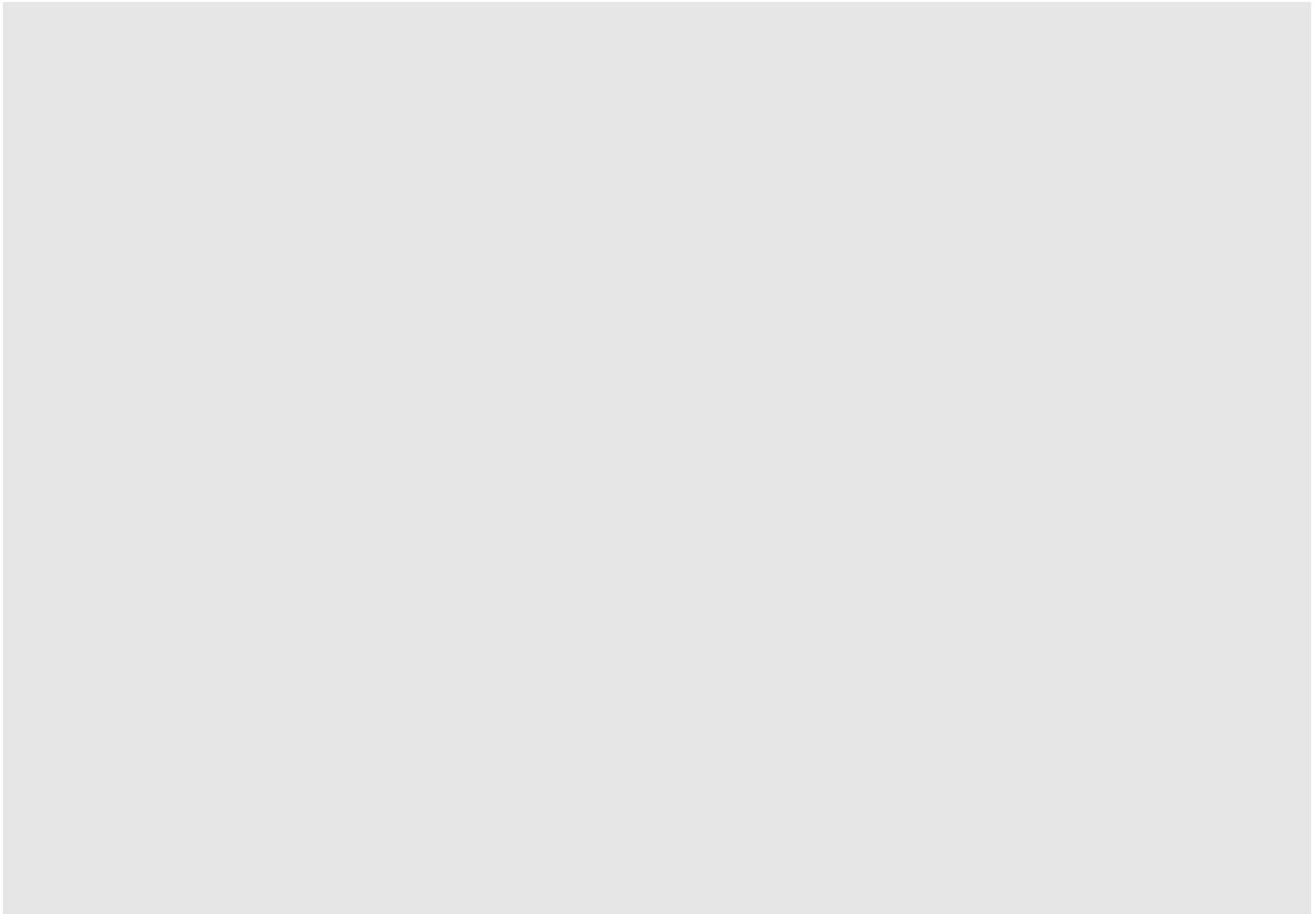
While there is substantial disagreement between individual Russians and Romanians about the definitions of corruption, there appears to be broad agreement between the population averages (see Annex Figure I). The means of the number of acts considered corrupt by the average respon-

31. Only Romanian data is included in this detailed breakdown because of problems with the Russian data (see footnote 32).

32. The Russian data collection effort was seriously flawed, so this statement — like all others about the results from Russia — should be interpreted with great caution. For political and administrative reasons, it was not possible to conduct the survey in a random sample of Russian provinces. Instead, the survey was conducted in five purposely chosen provinces. Subsequently, there were also serious errors in survey implementation. For all these reasons, this analysis pays more attention to the Romanian data than the Russian data.

dent are similar in the two countries. There also appears to be some hint that Russians are more likely to consider market economy practices like price flexibility and trade liberalization as corrupt, and less likely to consider practices like taking kickbacks as being corrupt. Serious data collection problems in Russia (see footnote 32) did not allow IRIS to make any more concrete statements comparing the Russian and Romanian responses.

**ANNEX FIGURE I.TK  
DEFINITIONS OF CORRUPTION, RUSSIA AND ROMANIA**





# CORRUPT PRACTICES & CORRUPTION VULNERABILITIES CHECKLISTS

A breakdown of corruption at the level of government agencies — or, even better, at the *micro-level* (local agency branches) — is needed before attempting to identify and assess the prevalence of corrupt practices. One way to assess micro-level corruption is to develop a checklist of possible corrupt practices and corruption vulnerabilities. Annex 2 provides illustrative checklists for two sectors with a fair amount of corruption in the Europe and Eurasia region: health and the judiciary.

## CORRUPTION IN THE HEALTH SECTOR

Corruption in the health sector can be harmful both for development and for the political support for reform. The transition from communism was followed by a dramatic worsening in health conditions in many transitional countries. Consequently, health spending has increasingly become a focus of USAID strategy and received a large allocation of resources. The health sector is also important because of its large fiscal implications.

The health sector offers plentiful scope for corruption, in procurement (of pharmaceuticals and equipment), recruitment and promotion, theft of money and supplies, absenteeism, and the solicitation of bribes for treatments or appointments. In many countries in the Europe and Eurasia region the health sector is thought to be one of the most corrupt, and bribes prevent poorer people from seeking treatment. Corruption in the health sector can take the following forms (see Azfar (2005) for further discussion):

### **Bribes**

- Do patients pay the doctor to get treatment?
- Do patients pay the nurse/administrator to get an appointment?
- Do patients pay the doctor to get prescriptions?
- Do doctors receive payments for issuing false receipts for reimbursement?
- Do drug companies pay the doctor to prescribe their medicines?
- Do drug companies pay the doctor to buy their medicines?
- Do equipment companies pay the doctor to buy their equipment?
- Do construction companies bribe the doctor to use their services?
- Do construction companies bribe the ministry to use their services?
- Do medical students bribe doctors to get qualified?

- Do ministry officials accept bribes to sell dispensaries and hospitals to private firms?

**Extortion**

- Do doctors and other medical personnel insist on payments before providing treatments/drugs/surgery to deal with life-threatening medical emergencies?

**Misappropriation**

- Do doctors steal equipment and sell it?
- Do doctors steal equipment for their own use?
- Do doctors steal drugs and sell them?
- Do doctors, nurses, or other staff dilute vaccines?
- How carefully are inventories of drugs and equipment maintained and audited?

**Self-Dealing**

- Do doctors prescribe unnecessary procedures to patients?
- Do doctors ask patients to come to their private practice?

**Patronage**

- Do doctors hire their friends and relatives as staff?
- Do doctors accept bribes for hiring staff?
- Do ministry officials accept bribes to hire doctors?
- Do ministry officials accept bribes to hire other staff members?
- Do ministry officials accept bribes to promote doctors?
- Do ministry officials accept bribes to promote other staff members?
- Do ministry officials accept bribes to transfer doctors?
- Do ministry officials accept bribes to transfer other staff members?

**Shirking**

- Do doctors get paid but not work at all?
- Are doctors, nurses, or other staff absent without justification?
- Do doctors come late for work or leave early?
- How much do doctors and nurses work for private patients, during time when they are paid to work in government health facilities?

**Political Corruption**

- Do drug companies bribe politicians through campaign financing to certify their medicines?

## **CORRUPTION IN THE JUDICIAL SYSTEM**

The judicial sector refers to the court system, the offices for court administration, the bureaucracy for enforcing judgments of the court, the administrative hierarchy that runs the court system on a daily basis, and the administrative hierarchy in charge of overall organization of the court system and the appointment of officials (including judges) within that system. The judicial system is often the ultimate source of accountability in a polity and is thus of unique importance.

Corruption in the judicial system can have enormous consequences for corruption in the society in general, and also for economic performance. The judicial system is also, of course, a service provider with unique characteristics, which need to be understood in order to design a corruption assessment for that sector. Corruption can take myriad forms in the judicial sector; an indicative checklist follows.

### **Bribes**

- Do litigants pay judges for favorable judgment?
- Do litigants pay judges for delay?
- Do litigants pay judges for destruction of damaging documents?
- Do litigants pay judges for access to privileged documents?
- Do litigants pay judges for manipulation of procedural rules?
- Do judges threaten plaintiffs with delays or acquittals to collect bribes?
- (repeat for lawyer paying bribes, and/or court administrator collecting bribes)

### **Extortion**

- Do judges threaten defendants with harsh rulings to get bribes?

### **Misappropriation**

- How carefully are inventories of supplies and equipment maintained and audited?

### **Patronage**

- Do judges bribe ministry officials to get hired?
- Do court administrators bribe ministry officials to get hired?
- Do judges bribe ministry officials to get promoted?
- Do court administrators bribe ministry officials to get promoted?
- Do judges bribe ministry officials to get transferred?
- Do court administrators bribe ministry officials to get transferred?
- Do judges pressure private firms to hire their friends and relatives?

### **Shirking**

- Are judges systematically late or absent from work out of laziness?
- Are judges systematically late or absent because of the private legal practice?
- Are bailiffs systematically late or absent because of the private repossession service?



**Political Corruption**

- Are judges appointed in return for political favors?
- Are judges appointed in the expectation of political favors (that they will give pro-government rulings)?
- Are judges promoted in return for political favors?
- Are judges promoted in expectation of political favors?
- Are judges transferred in return for political favors?
- Are judges transferred in expectation of political favors?

# INTEGRITY CHECKLIST

The checklist in this annex can be used as a shorthand diagnostic tool for assessing the relative degree of governmental integrity in a country. This is a broad assessment, designed to provide some understanding of the context within which more specific (sectoral- or agency-level) anticorruption inquiries and diagnostics can be situated.

## PURPOSE & UNDERPINNINGS

The term “checklist” reflects the fundamentally impressionistic nature of this tool and the fact that the methodology is premised on an expert analysis of the governance organizations, institutions, and functions being surveyed. The checklist is based on a subjective judgment of what is important to governmental integrity and accountability, and is not informed directly by any specific political theory or set of empirical evidence. Rather, it is loosely dedicated to the proposition that — in the abstract (and also in connection with the other more micro-level diagnostic tools developed through the EECOR project) — corruption can be countered to a significant degree through the existence and effectiveness of formal and informal mechanisms that prevent abuse of power, promote public integrity, and facilitate access of citizens to government information and procedures. The overall size and detail of the diagnostic, as well as the allocation of inquiries within and among its major sections, are *suggestive*; the checklist can help capture a relatively large number of data points so as to confirm general hypotheses about the state of governance in a country. The checklist is flexible — not all of the questions need to be asked or answered. Rather, it allows USAID personnel, contractors, and grantees to adjust the number of questions according to time, resource, and data availability constraints.

An extensive and detailed examination of integrity mechanisms is necessary to obtain an accurate view of the general state of a country’s governmental integrity, as well as to design more detailed inquiries into the specific state of governmental integrity within a particular sector or agency. This checklist provides a complementary, more fine-grained perspective on certain causes of corruption than those furnished by the perception-based indicators generated by single or aggregated opinion surveys. It should result in an extensive overview of the major features of governance of a country at the national or macro-level, providing background information and a starting point for more detailed inquiries. This tool is similar to the diagnostic tools developed by the Center for Public Integrity (*Global Public Integrity Index*), or Transparency International (*National Integrity Systems Country Study Reports*).<sup>33</sup>

33. This checklist is slightly more extensive than *Global Public Integrity Index* or the *National Integrity Systems Country Study Reports*, but lacks their depth of analysis in certain governance areas.

By contrast, this checklist does not purport to compete with detailed narrative assessments of governance quality, such as those undertaken by the World Bank (*Institutional and Governance Reviews*) or by the Asian Development Bank (*Governance Reviews*). It is also not designed to reach the same level of detail as functional reviews of budgeting or public management processes (such as the World Bank's *Administrative and Civil Service Assessment Tool* or its *Public Expenditure Management* diagnostic).

A few factors distinguish this checklist from other tools:

- It acknowledges the importance of contested government to counter government abuse.<sup>34</sup>
- It emphasizes the significance of the use of accountability mechanisms — ranging from asset disclosure rules to participatory budgeting — not only by the various branches of government (i.e., checks and balances, or *horizontal* accountability), but by civil society through so-called *vertical* accountability.<sup>35</sup>
- It acknowledges dynamic mechanisms and interactions between different power centers and accountability holders, but also stresses the mechanisms that are open — or potentially open — to civil society (such as public hearings, advisory or consultative mechanisms, and notice-and-comment policymaking and rulemaking).

Some may find that the checklist is overly concerned with formal, legally enshrined institutions and mechanisms that may not reflect true power relationships in a country or their amenability to being checked by other centers of power. This tool is focused on various aspects of *governance* per se, rather than with other important (but distinctly separate) inquiries into the strength of civil society or the media, or the nature of government-business ties. The focus on governance obscures the potential importance of these issues, but the checklist contains sufficient up-front questions about contested government, as well as about the use and results of various accountability mechanisms, to collect information about the actual state of affairs with respect to governmental integrity and the genuineness of various governmental institutions and functions. This information can be captured in the “Evaluation” column of the checklist, which, among other things, contrasts the *de jure* laws (“the law on the books”) and *de facto* reality with respect to each topic or mechanism.

34. This is based on the premise that demand for accountability and transparency — and the existence of governance institutions that promote them — is more often found in political systems where a party may find itself out of power (or diminished in power) and needing such tools to police its rivals. See, for example Johnston (1999). Many aspects of a governance integrity assessment can be extrapolated from the determination of whether genuine political competition exists. In particular countries and organizations, however, oligarchic arrangements can exist where parties acquiesce to each other's abuses of power and corruption. See Mair and Katz (1997).

35. Many governance integrity assessments (for example, the USAID-commissioned *Armenia Rule of Law/Anticorruption Assessment*, prepared by ARD, Inc., or TI's *National Integrity Systems Study of Kazakhstan*) ask useful individual questions about important governance institutions, but fail to aggregate the questions and responses into a coherent *cumulative* picture of the strength of the accountability mechanisms that might generate greater integrity — particularly the collective strength of so-called *horizontal* and *vertical* mechanisms that may be used by various government branches and agencies, and the private sector and civil society, respectively. Neglect of vertical accountability mechanisms is particularly problematic in Europe and Eurasia, where political power tends to be overwhelmingly concentrated in government bureaucracies and there is a general lack of horizontal checks and balances.

Finally, it is important to note that although this tool has a large number of questions geared toward formal government accountability mechanisms and *de jure* laws, this does not imply that the questions designed to elicit information about their implementation and enforcement are less important. In fact, the opposite is true. The checklist starts with relatively simple “yes/no” questions about whether certain laws or institutions exist. The smaller number of implementation and enforcement questions reflects the greater difficulty of answering them with quantitative information or expert opinion, as well as an attempt not to overburden USAID personnel (or their contractors and grantees). Most of USAID’s resources should be reserved for more targeted corruption inquiries at the sectoral or agency level. Nevertheless, for each question (whether or not it specifically elicits implementation or enforcement information) the tool provides a place to include detailed qualitative remarks about the quality of the institution(s) in question, including information shedding light on the contrast, if any, between its *de jure* basis and the *de facto* reality.

## STRUCTURE & USE

The checklist will help the assessor to answer questions about governance integrity and quality through the lens of contested government and elections, as well as through the three major kinds of general accountability mechanisms:

1. Hierarchical (internal) bureaucratic accountability<sup>36</sup>
2. Horizontal (checks-and-balances) accountability
3. Vertical (public/popular) accountability

There is a series of sub-topics under each accountability heading, followed by specific questions. In the next column, assessors should insert a brief evaluative shorthand, using a three-level rating scale: favorable, neutral (or mixed), and unfavorable. Given the subjectivity of how the inquiries are worded and how related information may be evaluated, it was decided that a larger scale, or a different kind of scale (numerical, for example), would suggest precision where none is possible. While these ratings may be aggregated to create a general impression, it should be noted that there is no comparability in the numbers of questions or level of detail of questions (individually or collectively) between the different topic areas. Therefore, it is not advised that the assessor attempt to compare the total number of findings in one rating category or another, either between topic areas or between different countries. Once again, the overarching purpose of the checklist is to generate curiosity and more questions about particular integrity problems and successes in areas of governance that will have greater resonance and significance at the micro-sectoral or agency level. The “Explanatory Comments” column of the checklist permits further remarks on these details to be noted.

36. Accountability operates by specifying the relationships between public officials’ behavior and performance on one hand, and rewards and punishments on the other. *Hierarchical* (internal) accountability refers to the oversight of senior public servants over their subordinates. *Horizontal* accountability refers to mechanisms within the state — oversight, investigations, and other actions exercised by authorities such as auditors and ombudsmen (or legislative committees) toward other government agencies. *Vertical accountability* refers to oversight exercised by actors outside the state (the electorate, media, NGOs, business associations, etc.).

The checklist arranges accountability categories in ascending order of remediability (based on considerations of resources, politics, and legal or technical sophistication). In general, if accountability is significantly lacking in a certain category, assistance efforts may need to be targeted to areas lower down on the checklist (involving horizontal or vertical accountability). If political contestation, hierarchical, or horizontal accountability are lacking, program designers should consider incorporating activities that empower civil society through small, but significant, vertical accountability mechanisms. This emphasis on transparency, education, and accountability through civil society strengthening, rather than on formal accountability or enforcement (when state institutions may be significantly compromised), is analogous to the advice given in the USAID's guidance on legal reform (see *Weighing in on the Scales of Justice*) — to concentrate more assistance on civil society empowerment and constituency- and coalition-building when the prerequisites for significant institutional reform are absent.

Together, these features of the governance integrity assessment tool should enable USAID anticorruption specialists and the expert contractor to obtain a clearer initial impression of the nature of the country's integrity deficits, as well as a better sense of the possible kinds of macro anticorruption strategies that may be most successful. To illustrate, in Country Y, the assessment tool may reveal overall weak integrity in hierarchical accountability and only moderate horizontal accountability (something common to most countries in the Europe and Eurasia region). As a result, the tool's findings will tend to suggest that the Mission's program (in the near-term) should be based on a vertical accountability-strengthening strategy with an emphasis on transparency, accountability, and education (e.g., increasing information flows, consultative mechanisms, participatory rulemaking). By contrast, in Country X, the tool's findings may show relative cumulative strength in hierarchical and horizontal accountability mechanisms. In this case, the program strategy should be to support and make use of more ambitious prevention and enforcement interventions that require greater public and civil society capacity.

# ILLUSTRATIVE CHECKLIST FOR ASSESSING INTEGRITY & ACCOUNTABILITY

## ELECTIONS & THE DEGREE OF CONTESTED POLITICS & GOVERNMENT

#	Topic/Inquiry	Predominant TAPEE Emphasis	Evaluation (Favorable, Neutral, or Unfavorable)	Explanatory Comments (de jure/de facto comparisons, degree of enforcement or implementation of laws and regulations, etc.)
<b>A. Elections</b>				
A.1	All citizens are free legally to form political parties	Accountability	[e.g., Neutral]	[e.g., Country X's election laws provide for the liberal formation of political parties, but in practice, a number of administrative barriers are interposed that slow down and sometimes impede the registration of a new party]
A.2	Political parties are free from government interference	Accountability, Prevention	[e.g., Unfavorable]	[e.g., Country X has evidenced a pattern of subjecting new and opposition parties to a wide range of arbitrary tax, auditing, and other inquiries, many of which have resulted in punitive financial measures being taken against such parties]
A.3	National elections are held on a regular basis	Accountability	[e.g., Favorable]	[Elections have been held on a regular basis over the past 15 years, since independence]
A.4	Local elections are held on a regular basis	Accountability		
A.5	In practice, all adult citizens can vote	Accountability		
A.6	In practice, secret ballots are employed	Accountability		
A.7	There is an independent election monitoring agency that operates free of political interference	Accountability, Prevention		
A.8	The election monitoring agency has on occasion imposed penalties for violations of the election laws	Prevention, Enforcement		
A.9	The election monitoring agency can bring offenders to court on behalf of the government	Enforcement		
A.10	The election monitoring agency has regularly made reports to the public and/or legislature after elections	Enforcement		
<b>B. Political Party Finances</b>				
B.1	There are working rules on private contributions to political parties	Prevention		
B.2	There are rules limiting individual donations to candidates and/or political parties	Prevention		
B.3	There are rules limiting corporate donations to candidates and political parties	Prevention		
B.4	There is an agency empowered to monitor political party finances	Prevention		

## ELECTIONS & THE DEGREE OF CONTESTED POLITICS & GOVERNMENT, CONTINUED

#	Topic/Inquiry	Predominant TAPEE Emphasis	Evaluation (Favorable, Neutral, or Unfavorable)	Explanatory Comments (de jure/de facto comparisons, degree of enforcement or implementation of laws and regulations, etc.)
B.5	In practice, the agency empowered to monitor political party finances has initiated investigations into alleged improprieties	Enforcement		
B.6	In practice, the agency empowered to monitor political party finances engages in audits of contributions to political parties	Enforcement		
B.7	In practice, the agency empowered to monitor political party finances has imposed penalties on genuine violations of the rules governing political contributions	Enforcement		
B.8	Substantial private contributions to political parties and candidates are disclosed publicly	Transparency		
B.9	Substantial private contributions to political parties are otherwise made available to the public upon request	Enforcement		
<b>C. Existence/Nature of Contested Government</b>				
C.1	There are strong, established party organizations rather than parties that are fundamentally created around personalities or clans	Prevention, Accountability		
C.2	The last two election cycles have reflected strong political contestation	Prevention, Accountability		
C.3	Any coalition governments during the last two election cycles have reflected strong political contestation within the coalitions	Prevention, Accountability		
<b>D. Constitutional Change</b>				
D.1	The Constitution can be amended only through special procedures involving elected representatives	Prevention		

## HIERARCHICAL (INTERNAL) ACCOUNTABILITY

#	Topic/Inquiry	Predominant TAPEE Emphasis	Evaluation (Favorable, Neutral, or Unfavorable)	Explanatory Comments (de jure/de facto comparisons, degree of enforcement or implementation of laws and regulations, etc.)
<b>E. Civil Service</b>				
E.1	There is a law and detailed implementing regulations governing public employment	Prevention		
E.2	There are rules requiring the political independence of the civil service	Prevention		
E.3	Political appointees are clearly distinguished from career civil servants as a matter of law and policy	Prevention		

## HIERARCHICAL (INTERNAL) ACCOUNTABILITY, CONTINUED

#	Topic/Inquiry	Predominant TAPEE Emphasis	Evaluation (Favorable, Neutral, or Unfavorable)	Explanatory Comments (de jure/de facto comparisons, degree of enforcement or implementation of laws and regulations, etc.)
E.4	There is merit-based recruitment and hiring of civil servants	Prevention		
E.5	Job descriptions are created and used for hiring and promotion	Prevention		
E.6	Positions are advertised publicly to ensure fair and open competition	Prevention, Transparency		
E.7	Job performance is documented	Prevention, Accountability		
E.8	There is merit-based promotion of civil servants	Prevention, Accountability		
E.8.a	Promotions are based on documented performance	Prevention, Accountability		
E.8.b	Raises are based on documented performance	Prevention		
E.9	Training is regularly conducted for civil servants on rules and procedures governing recruitment, hiring, and promotion	Prevention, Education		
E.10	Rules designed to prevent nepotism exist and are enforced	Accountability, Prevention		
E.11	Restrictions on post-public service employment exist and are enforced	Prevention		
E.12	Civil servants dismissed from employment on grounds of corruption or professional malfeasance are barred from public service	Prevention		
E.13	There is an oversight body that reviews hiring and promotion decisions and ensures fairness and professionalism in recruitment	Accountability		
E.13a	The oversight body has ruled against the government on a case involving alleged unfairness in recruitment, hiring, or promotion	Enforcement		
E.14	Criminal sanctions for stealing public funds have been enforced	Enforcement		
E.15	Criminal sanctions for bribery exist and have been enforced	Enforcement		
E.16	There is a high degree of wage compression among civil servants (low ratio of median salary at the top level to median salary at the lowest level)	Prevention		
E.17	Public employment represents a high percentage of the working population	Prevention		
E.18	A large percentage of civil servants were transferred or reassigned shortly after the last change in government	Prevention		
<b>F. Senior Government Officials</b>				
F.1	There are conflict of interest rules for senior government officials	Accountability		



## HIERARCHICAL (INTERNAL) ACCOUNTABILITY, CONTINUED

#	Topic/Inquiry	Predominant TAPEE Emphasis	Evaluation (Favorable, Neutral, or Unfavorable)	Explanatory Comments (de jure/de facto comparisons, degree of enforcement or implementation of laws and regulations, etc.)
F.2	There are financial disclosure rules for senior government officials	Accountability, Transparency		
F.3	There is a registrar or other independent authority charged with registering financial disclosures	Accountability, Transparency		
F.4	There is registrar or other independent authority charged with registering at least some information about government officials' gifts or hospitality	Accountability, Transparency		
F.5	The registrar or other independent authority has legal powers to enforce disclosure	Accountability, Enforcement		
F.5.a	The registrar or other independent authority can investigate allegations	Enforcement		
F.6	The registrar or other independent authority can sanction offenders	Enforcement		
F.6.a	The registrar or other independent authority has sanctioned one or more government officials for financial disclosure violations	Enforcement		
F.6.b	The registrar or other independent authority has sanctioned one or more government officials for violations of rules regarding gifts or hospitality	Enforcement		
<b>G. Parliamentarians</b>				
G.1	There are conflict of interest rules for parliamentarians	Accountability		
G.2	There are financial disclosure rules for parliamentarians	Accountability, Transparency		
G.3	Within a short time after entering public service an official must disclose information	Accountability, Transparency		
G.4	There are rules and registers concerning gifts and hospitality	Accountability		
G.5	There is an independent register for financial disclosures	Accountability		
G.5.a	The register is protected from political interference	Accountability, Prevention		
G.5.b	The registrar has legal powers to enforce disclosure	Enforcement		
G.5.c	The registrar has staff to investigate allegations	Enforcement		
G.5.d	The registrar can sanction offenders	Enforcement		
<b>H. Judges</b>				
H.1	Judges are selected based on objective, published criteria	Prevention, Accountability		
H.2	Judges have at least more than 10 years tenure	Accountability		
H.3	There are objective criteria governing judicial career advancement	Accountability		
H.4	Judges have immunity for actions taken in their official capacity	Accountability, Prevention		

## HIERARCHICAL (INTERNAL) ACCOUNTABILITY, CONTINUED

#	Topic/Inquiry	Predominant TAPEE Emphasis	Evaluation (Favorable, Neutral, or Unfavorable)	Explanatory Comments (de jure/de facto comparisons, degree of enforcement or implementation of laws and regulations, etc.)
H.5	There is a process by which lawyers and the public can register complaints concerning judicial conduct	Accountability		
H.6	There is a judicial code of ethics	Accountability		
H.6.a	Judges cannot be removed from office or otherwise punished for official misconduct for other than objective, published criteria	Accountability, Enforcement		
H.6.b	There are conflict of interest rules for judges	Accountability		
H.6.c	There are financial disclosure rules for judges	Accountability, Transparency		
H.7	Judicial decisions are not subject to significant improper influence from other judges, the government, or private interests	Prevention, Enforcement		
H.8	The ratio of the median judge's salary to that of the median annual wage in society is high	Prevention		
H.9	The judiciary has control over its own budget	Prevention		
H.10	There is an objective method (e.g., lottery) for assigning cases to judges	Prevention Accountability		
H.11	Judicial decisions are a matter of public record	Accountability, Transparency		
H.12	Significant appellate decisions are published	Transparency		
H.13	Courtroom proceedings are open to the public and the media	Transparency		
<b>I. Budget Management</b>				
I.1	The government regularly publishes periodic budget execution reports	Accountability		
I.2	There is a regular, complete accounting of the existence and ownership of the value of all assets and liabilities of particular agencies	Accountability		
I.3	The government's official budget covers virtually all of the government's fiscal operations	Accountability Prevention		
I.4	Off-budget costs of government programs are accounted and reported by the Ministry of Finance or equivalent	Accountability		
I.5	There is an internal audit or inspection unit in each ministry and/or agency	Accountability, Enforcement		
I.6	Ministries regularly perform audits of their own budgets	Accountability, Enforcement		
<b>J. Public Procurement</b>				
J.1	All major procurements must be handled through competitive bidding	Prevention		
J.2	Unsuccessful bidders can seek official review of procurement decisions	Accountability		

## HIERARCHICAL (INTERNAL) ACCOUNTABILITY, CONTINUED

#	Topic/Inquiry	Predominant TAPEE Emphasis	Evaluation (Favorable, Neutral, or Unfavorable)	Explanatory Comments (de jure/de facto comparisons, degree of enforcement or implementation of laws and regulations, etc.)
J.3	Unsuccessful bidders can seek review of procurement decisions in the courts	Accountability		
J.4	There are conflict of interest rules for public procurement officials	Prevention		
J.4.a	The conflict of interest rules for public procurement officials have been enforced in practice	Enforcement		
J.5	Companies have been officially sanctioned for violating procurement rules	Enforcement		

## HORIZONTAL (INTRA-GOVERNMENTAL) ACCOUNTABILITY

#	Topic/Inquiry	Predominant TAPEE Emphasis	Evaluation (Favorable, Neutral, or Unfavorable)	Explanatory Comments (de jure/de facto comparisons, degree of enforcement or implementation of laws and regulations, etc.)
<b>K. Fiscal Accountability</b>				
K.1	There is a supreme audit body/auditor general responsible for fiscal accountability across the public sector	Accountability		
K.2	There are legal provisions protecting the supreme audit body/auditor general from political interference	Enforcement		
K.2.a	In practice, the supreme audit body/auditor general has been protected from political interference	Accountability, Enforcement		
K.3	In practice, the supreme audit body/auditor general makes regular reports to the legislature	Transparency, Accountability		
K.4	In practice, the government has acted on the findings and recommendations of the supreme audit body/auditor general	Enforcement		
K.5	In practice, the government submits budgets to the Parliament for debate and approval	Accountability		
K.6	The government reconciles and justifies to the legislature deviations between budget estimates and actual forward spending estimates	Accountability		
K.7	Audited financial statements are submitted to the legislature on a regular and timely basis	Accountability		
K.8	There is a dedicated legislative committee that provides oversight of public funds	Accountability		
K.9	In practice, this legislative committee has been effective in calling attention to financial irregularities in the government generally or in particular agencies	Enforcement		

## HORIZONTAL (INTRA-GOVERNMENTAL) ACCOUNTABILITY, CONTINUED

#	Topic/Inquiry	Predominant TAPEE Emphasis	Evaluation (Favorable, Neutral, or Unfavorable)	Explanatory Comments (de jure/de facto comparisons, degree of enforcement or implementation of laws and regulations, etc.)
<b>L. Public Prosecutor &amp; Police</b>				
L.1	The public prosecutor or equivalent is protected by law from political interference	Prevention		
L.1.a	In practice, the public prosecutor or equivalent has been protected from political interference	Enforcement		
L.2	There is a special unit of the prosecutor's office dedicated to investigating and prosecuting corruption and fraud by public and private entities	Prevention		
L.3	There has been active enforcement of laws against fraud and corruption by prosecutors	Enforcement		
L.4	There is a legal mechanism for holding prosecutorial personnel accountable for prosecutorial misconduct or corruption	Prevention, Accountability		
L.4.a	In practice, the legal mechanism has been used	Enforcement		
L.5	Prosecutors are not immune from prosecution	Prevention, Accountability		
L.6	The head of the police or equivalent is protected by law from political interference	Prevention		
L.6.a	In practice, the head of the police or equivalent has been protected from political interference	Enforcement		
L.7	There is a legal mechanism for holding police to account for complaints of police misconduct or corruption	Prevention		
L.7.a	In practice, the legal mechanism has been used	Enforcement		
L.8	Police officers are not immune from prosecution	Prevention, Accountability		
<b>M. Judicial Review &amp; Enforcement</b>				
M.1	Certain courts have the power to determine the ultimate constitutionality of legislation and regulations	Accountability		
M.1.a	These courts have found legislation and/or regulations unconstitutional in more than a handful of cases over the past decade	Enforcement		
M.2	Certain courts have the power to review administrative actions/decisions	Accountability		
M.2.a	These courts have ruled against the government in a significant number of administrative cases over the past 5 years	Enforcement		
M.3	Courts have ultimate jurisdiction over civil rights and liberties	Accountability		
M.3.a	Courts have ruled against the government in a significant number of civil rights/civil liberties cases over the past 5 years	Enforcement		
M.4	Judicial decisions cannot be reversed other than through a judicial appellate process	Accountability		

## HORIZONTAL (INTRA-GOVERNMENTAL) ACCOUNTABILITY, CONTINUED

#	Topic/Inquiry	Predominant TAPEE Emphasis	Evaluation (Favorable, Neutral, or Unfavorable)	Explanatory Comments (de jure/de facto comparisons, degree of enforcement or implementation of laws and regulations, etc.)
M.5	Courts have contempt and other enforcement powers to hold public officials and agencies to account	Accountability		
M.6	Courts are obliged by law to give reasons for their decisions	Accountability, Education		
M.6.a	In practice, courts give reasons for their decisions	Accountability, Education		
M.7	Judicial decisions are published	Transparency, Education		
<b>N. Legislative Oversight</b>				
N.1	The legislature has a constitutional role in approving certain political appointments	Accountability		
N.1.a	The legislature has rejected at least one political appointee in the past decade	Enforcement		
N.2	The legislature is able to control its own budget	Prevention		
N.3	Anticorruption agency reports are submitted to the legislature rather than to the executive	Accountability, Prevention		
N.4	Key legislative committees are professional and adequately staffed	Prevention		
N.5	Key legislative committees regularly hold hearings	Accountability, Prevention		
N.6	The legislature has investigatory and subpoena powers	Accountability, Prevention		
N.6.a	The legislature has utilized its investigatory or subpoena powers at least a handful of times over the past 5 years	Accountability, Prevention		
<b>O. Anticorruption Agency</b>				
O.1	There is legislation criminalizing bribery and extortion	Prevention		
O.2	There is legislation criminalizing the use of public resources for private gain	Prevention		
O.3	There is legislation criminalizing money laundering	Prevention		
O.4	There are one or more agencies specifically empowered to investigate corruption in or involving the government	Accountability		
O.5	There are rules protecting this agency(ies) from political interference	Prevention		
O.5.a	In practice, this agency(ies) has been protected from political interference	Enforcement		
O.6	This agency(ies) is professionally and adequately staffed	Prevention, Enforcement		
O.7	This agency(ies) can independently investigate complaints of corruption	Prevention, Accountability		

## HORIZONTAL (INTRA-GOVERNMENTAL) ACCOUNTABILITY, CONTINUED

#	Topic/Inquiry	Predominant TAPEE Emphasis	Evaluation (Favorable, Neutral, or Unfavorable)	Explanatory Comments (de jure/de facto comparisons, degree of enforcement or implementation of laws and regulations, etc.)
O.7.a	This agency's(ies') investigations have resulted in the prosecution of government officials	Enforcement		
<b>P. Ombudsman</b>				
P.1	There is an ombudsman mechanism that provides for investigation and reporting of bureaucratic abuses and wrongdoing	Accountability, Prevention		
P.2	The ombudsman has the power to demand or subpoena documents	Accountability		
P.2.a	The ombudsman has exercised this power and received back documentation from various ministries and agencies	Enforcement		
P.3	An ombudsman report or investigation has resulted in a change in government policy or administrative processes	Enforcement		
P.4	There is an ombudsman mechanism that provides for investigation and reporting of bureaucratic abuses and wrongdoing	Accountability, Prevention		
P.4.a	An ombudsman investigation and/or report of bureaucratic abuses and wrongdoing has resulted in the prosecution of responsible government officials	Enforcement		

## VERTICAL ACCOUNTABILITY (BY CIVIL SOCIETY)

#	Topic/Inquiry	Predominant TAPEE Emphasis	Evaluation (Favorable, Neutral, or Unfavorable)	Explanatory Comments (de jure/de facto comparisons, degree of enforcement or implementation of laws and regulations, etc.)
<b>Q. Affirmative Information Provision</b>				
Q.1	Ministries and agencies publish annual reports containing basic information about their work, organization, and finances	Transparency		
Q.2	There are publicly available reports on public sector employment statistics	Transparency		
Q.3	There are publicly available reports containing information on public sector salaries	Transparency		
<b>R. Access to Information (Responsive)</b>				
R.1	There is a law governing the public's right to obtain access to government records	Transparency		
R.1.a	There are regulations implementing the law	Transparency, Accountability		

## VERTICAL ACCOUNTABILITY (BY CIVIL SOCIETY), CONTINUED

#	Topic/Inquiry	Predominant TAPEE Emphasis	Evaluation (Favorable, Neutral, or Unfavorable)	Explanatory Comments (de jure/de facto comparisons, degree of enforcement or implementation of laws and regulations, etc.)
R.1.b	The law and regulations clearly set forth a presumption in favor of public disclosure of information	Transparency, Accountability		
R.1.c	The law and regulations set forth clear exceptions to the presumption of disclosure that are limited to issues of national security, personal privacy, and business confidentiality	Transparency, Accountability		
R.1.d	The law and/or regulations set forth a balancing test allowing an override of the exceptions based on the greater public interest	Transparency, Accountability		
R.1.e	There are prescribed time limits for government to provide information	Transparency, Accountability		
R.2	The costs of obtaining information from the government are set at a reasonable level	Transparency, Accountability		
R.3	In practice, citizens can access asset disclosure and other non-deliberative and non-confidential records of the legislature	Transparency, Accountability		
R.4	In practice, citizens can access public procurement regulations and the results of public procurement bids	Transparency, Accountability		
R.5	In practice, citizens can access asset disclosure and other non-deliberative or confidential records of the head of state and senior public officials	Transparency, Accountability		
R.6	In practice, citizens can access asset disclosure and other non-deliberative or confidential records of judges	Transparency, Accountability		
R.7	In practice, citizens can access asset disclosure and other non-deliberative or confidential records of the anticorruption agency, if any	Transparency, Accountability		
R.8	One can appeal to the courts a government failure to provide information	Accountability		
R.8.a	Appeals to force government information disclosure have succeeded in the courts	Accountability, Enforcement		
<b>S. Administrative Appeals</b>				
S.1	There is a law on administrative procedure that contains specific provisions on citizens' rights to administrative information, to present their views, and to appeal an adverse determination	Accountability		
S.1.a	Administrative agencies are required to give reasons in writing for decisions taken	Accountability		
S.1.b	In practice, written reasons are generally provided	Accountability, Enforcement		
S.1.c	In practice, agency procedures are publicly available	Transparency, Accountability, Enforcement		

## VERTICAL ACCOUNTABILITY (BY CIVIL SOCIETY), CONTINUED

#	Topic/Inquiry	Predominant TAPEE Emphasis	Evaluation (Favorable, Neutral, or Unfavorable)	Explanatory Comments (de jure/de facto comparisons, degree of enforcement or implementation of laws and regulations, etc.)
S.1.d	In practice, citizens are given an opportunity to provide evidence/arguments in their favor	Accountability, Enforcement		
S.1.e	In practice, administrative hearings are available in which citizens can present evidence/arguments in person	Accountability, Enforcement		
S.2	The government is required to shoulder the burden of proof in an administrative case	Accountability		
S.3	There is a second instance internal administrative review of administrative decisions offered in most ministries or agencies conducted by a separate, superior administrative body or unit	Accountability		
S.3.a	Citizens are able to present evidence and arguments in their favor to the second instance internal administrative review unit	Accountability		
<b>T. Court Access Generally</b>				
T.1	In practice, citizens earning the median annual income can afford to bring a legal suit	Accountability		
T.2	In practice, a typical small retail business can afford to bring a legal suit	Accountability		
T.3	In practice, there is some kind of free or reduced fee legal aid organization that can assist citizens with civil cases (e.g. pension, veterans', or unemployment benefits, social welfare cases, etc.)	Accountability		
T.4	In practice the state provides legal counsel for defendants in criminal cases who cannot afford representation	Accountability		
T.5	Standing rules allow citizens or groups with an indirect legal interest in the subject matter of the suit to join in the proceedings	Accountability		
<b>U. Judicial Review of Administrative Decisions</b>				
U.1	There is a law providing for judicial review of administrative decisions	Accountability		
U.1.a	Civic organizations have standing to appeal an administrative decision if they have an interest in the matter	Accountability		
U.1.b	Under the law, the burden of proof in appeals of administrative cases is on the government	Accountability		
U.1.c	Under the law, a court can annul or reverse an administrative decision made by an administrative body that lacked legal competence or based on an incorrect application of law	Accountability		
U.2	A court can impose sanctions on an administrative agency for failure to obey a court order	Accountability		



## VERTICAL ACCOUNTABILITY (BY CIVIL SOCIETY), CONTINUED

#	Topic/Inquiry	Predominant TAPEE Emphasis	Evaluation (Favorable, Neutral, or Unfavorable)	Explanatory Comments (de jure/de facto comparisons, degree of enforcement or implementation of laws and regulations, etc.)
U.3	Monetary damages against the government are available to successful plaintiffs	Accountability, Enforcement		
U.4	In practice, citizens are treated fairly by courts hearing administrative cases on appeal	Enforcement		
<b>V. Public Participation in Legislative Drafting &amp; Rulemaking</b>				
V.1	There is a law or custom of one or more ministries providing for some kind of public comment on draft legislation	Accountability, Transparency		
V.2	There is a law or custom of one or more ministries providing for some kind of public comment on draft regulations	Accountability, Transparency		
V.3	There is a law or custom of one or more ministries consulting with a range of business and/or civil society organizations on draft legislation	Accountability, Transparency		
V.4	There is a law or custom of one or more ministries consulting with a range of business and/or civil society organizations on draft regulations	Accountability, Transparency		
V.5	There is a law requiring the drafters of legislation to conduct some kind of cost-benefit analysis of proposed legislation	Accountability, Transparency		
V.6	There is a law or regulation requiring the drafters of legislation to conduct some kind of cost-benefit analysis of proposed regulations	Accountability, Transparency		
V.7	There is a law requiring open legislative sessions or hearings on draft legislation	Accountability, Transparency		
V.8	There is a law or regulation requiring public hearings on the proposed adoption of new regulations	Accountability, Transparency		
V.9	In practice, government authorities have exhibited a willingness to hold hearings and consult with the public on proposed legislation	Accountability, Enforcement		
V.10	In practice, government authorities have exhibited a willingness to hold hearings and consult with the public on proposed regulations	Accountability, Enforcement		
<b>W. Consultative Mechanisms</b>				
W.1	Consultative/deliberative councils are mandated by law for certain subject matters (e.g. labor and employment matters)	Accountability, Transparency		
W.2	There are detailed, publicly available rules governing the membership and operation of such councils	Accountability, Transparency		
W.2a	The meetings of these councils are open to the public	Accountability, Transparency		
W.3b	Reports or minutes of the meetings are made available to the public	Accountability, Transparency		

## VERTICAL ACCOUNTABILITY (BY CIVIL SOCIETY), CONTINUED

#	Topic/Inquiry	Predominant TAPEE Emphasis	Evaluation (Favorable, Neutral, or Unfavorable)	Explanatory Comments (de jure/de facto comparisons, degree of enforcement or implementation of laws and regulations, etc.)
W.3c	There are rules requiring disclosure of business and financial interests of members of such councils	Transparency, Accountability		
W.4	In practice, decisions or deliberations of such councils have had an impact on government policy	Accountability, Enforcement		
<b>X. Participatory Budgeting</b>				
X.1	Citizens or civic groups have a right to participate in budget hearings and present their views and information	Accountability, Transparency		
X.2	In practice, the national budgetary process is conducted in a transparent manner allowing for public debate by the legislature	Accountability, Transparency		
X.3	In practice, citizens are able to provide input at budget hearings	Accountability, Transparency, Enforcement		
X.4	In practice, citizens can access information about specific budget allocations	Accountability, Transparency, Enforcement		
<b>Y. Public Petitions</b>				
Y.1	The public has the right to petition government to adopt a new normative act or review, amend, or repeal an existing normative act	Accountability		
Y.1.a	In practice, the right of petition has been successfully utilized	Accountability, Enforcement		
Y.2	The government is required to respond in writing to a petition request and provide reasons for declining to act on a petition	Accountability		
Y.2.a	In practice, the government has responded in writing with reasons for declining a petition	Accountability, Enforcement		



# SOURCES OF DATA & INFORMATION ON CORRUPTION & INTEGRITY

Annex 4 lists sources of data on governance and corruption, as discussed in Chapter 2, *Review of Existing Materials*. The name of each indicator, or set of indicators, is given in the first column, together with the name of the organization that produces it. The second column provides information on where to find the data — in published form, on a web site, or both. In some cases, the data must be purchased (indicated in the table by the \$\$ symbol). In the third column, the indicators and the information on which they are based are briefly described. Finally, the fourth column lists the country coverage. The annex focuses on indicators that cover countries in the Europe and Eurasia region, but many of the indicators described here have a global scope.

The information in Annex Table 2 is organized under three main headings:

- 1. Major Governance Indices:** The major indices commonly used by the donor community to assess overall corruption levels in countries.
- 2. World Bank Governance Indices:** A subset of the indices used to construct the World Bank Institute's *Control of Corruption Indicator* (includes only those indices that pertain to the Europe and Eurasia region).
- 3. Other Governance Indicators:** Other corruption and governance indices that are useful for assessing corruption in the countries of the Europe and Eurasia region.

**ANNEX TABLE 2. SOURCES OF DATA & INFORMATION ON CORRUPTION & INTEGRITY**

<b>Indicator &amp; Source</b>	<b>Reference</b>	<b>Description</b>	<b>Coverage</b>
<b>Major Governance Indices</b>			
<i>Corruption Perceptions Index</i> , Transparency International	www.transparency.org	Based on 17 surveys and 13 expert assessments on corruption, this index is a country-ranking tool that provides data on perceptions of corruption within countries. The CPI is based on “elite” perception of corruption, as it draws from surveys and assessments of international business firms and country experts. The CPI does not include information on countries’ efforts to combat corruption.	Annual since 1995  Global, 133 countries
<i>Bribe Payers Index</i> , Transparency International	www.transparency.org	A survey taken primarily by senior executives of foreign and domestic firms to measure their perceptions of the propensity of companies to pay bribes to senior public officials in emerging market economies. Specific business sectors are highlighted, as well as the size of the bribe and knowledge about the OECD Anti-Bribery Convention.	Last published in 2002  Fifteen emerging market economies including Hungary, Poland, and Russia
<i>Freedom in the World</i> , Freedom House	www.freedomhouse.org/ research/index.htm	Annual comparative assessment of the state of global freedom, measured by evaluations of political rights and civil liberties. Assessments are made by teams of regional experts and scholars.	Annual since 1978  Global, 192 countries and 18 territories
<i>Nations in Transit</i> , Freedom House	www.freedomhouse.org/ research/nattransit.htm	Annual evaluation of the state of political rights and civil liberties based on assessments made by country experts and a central panel of experts. Rating categories include the electoral process; civil society; independent media; governance; constitutional, legislative, and judicial framework; and corruption.	First published in 1995  Global, 27 countries
<i>Countries at the Crossroads</i> , Freedom House	www.freedomhouse.org/ research/crossroads/ cac.htm	Provides a systematic measure of democratic governance in countries at a crossroads in determining their political future. The survey offers a unique comparative tool for assessing government performance in the areas of civil liberties, rule of law, anticorruption and transparency, and accountability and public voice.	Published in 2004  Global, 30 countries
<b>Indices that make up the World Bank’s Governance Indicators</b>			
<i>Governance Matters IV: Governance Indicators for 1996-2004</i> , World Bank Institute	www.worldbank.org/wbi/ governance/govdata/	These indices represent the most extensive study on governance indicators, drawing from 37 separate data sources constructed by 31 different organizations. Data is aggregated and categorized into six dimensions of governance — voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption. Provides point estimates of the dimensions of governance and margins of error for each country for five time periods (1996, 1998, 2000, 2002, 2004).	Published in 2005  Global, 209 countries

## ANNEX TABLE 2. SOURCES OF DATA & INFORMATION ON CORRUPTION & INTEGRITY, CONTINUED

Indicator & Source	Reference	Description	Coverage
<i>The Business Environment &amp; Enterprise Performance Survey (BEEPS)</i> , World Bank Institute	<a href="http://Info.worldbank.org/governance/beeps2002">Info.worldbank.org/governance/beeps2002</a>	Jointly developed by the World Bank and the EBRD, the survey provides comparative measurements of quality of governance, investment climate, and competitive environment based on a survey of managers and owners of firms across Eastern Europe, the former Soviet Union, and Turkey. Indicators include corruption, state capture, lobbying, and business environment.	Published in 1999 & 2002  27 transition economies
<i>World Business Environment Survey</i> , World Bank Institute	<a href="http://www.ifc.org/ifcext/economics.nsf/Content/ic-wbes">www.ifc.org/ifcext/economics.nsf/Content/ic-wbes</a>	Administered to over 10,000 firms, the survey focused on the quality of the investment climate as shaped by domestic economic policy; governance; regulatory, infrastructure, and financial impediments; and assessments of the quality of public services.	Administered in 1999–2000  Global, 80 countries
<i>Business Environment Risk Service</i> , Business Environment Risk Intelligence	<a href="http://www.beri.com">www.beri.com</a>	The Business Risk Service assesses 57 criteria from three distinct indices related to socio-political conditions, bottlenecks for business development, and a country's willingness to allow foreign companies to convert and repatriate profits.	Published since 1966  Global, 50 countries
<i>Qualitative Risk Measure</i> , Business Environment Risk Intelligence	<a href="http://www.beri.com/qlm.asp">www.beri.com/qlm.asp</a>	A financial ethics index that measures factors that have a direct influence on meeting international obligations that cannot be assessed through regularly published statistics. Financial professionals with experience in a particular region submit their assessments each year. Senior staff members of the firm also contribute their viewpoints, which produce country ratings.	Annual since 2000 (also provides ratings for 1985, 1990, 1995, 1997–2000)  Global, 115 countries
<i>State Capacity Project</i> , Columbia University	<a href="http://www.columbia.edu">www.columbia.edu</a>	A survey tool that measures state capacity based on answers provided by 164 country experts. Five categories include political context, state legitimacy, human resources and organizations, institutions, and overall capacity.	Surveys done in 2000 & 2002  Global, 98 countries
<i>Country Policy &amp; Institutional Assessment</i> , World Bank Institute	Not available in the public domain	Assesses the quality of World Bank borrowers' policy and institutional performance in the areas of economic growth and poverty alleviation. Twenty criteria are grouped into four clusters: economic management, structural policies, policies for social inclusion and equity, and public sector management and institutions.	Began in the late 1970s  Global, 136 countries
<i>Country Risk Review</i> , Global Insight's DRI/McGraw-Hill	<a href="http://www.globalinsight.com">www.globalinsight.com</a>	Provides country risk assessments to international investors, assessing effects on the profitability of investments. Identifies 33 "immediate risk events" (policy and outcome risks) and 18 "secondary risks" (domestic and external political risks).	Published since 1982  Global, 111 countries

**ANNEX TABLE 2. SOURCES OF DATA & INFORMATION ON CORRUPTION & INTEGRITY, CONTINUED**

<b>Indicator &amp; Source</b>	<b>Reference</b>	<b>Description</b>	<b>Coverage</b>
<i>Transition Report</i> , European Bank for Reconstruction and Development	www.ebrd.com/pubs/index.htm	Offers assessments of macroeconomic indicators — such as social reform, corruption, democracy, and agriculture — and analyzes the transition to market economies and macroeconomic performance. Data on governance-related indicators are based on assessments done by Freedom House and the Economist Intelligence Unit.	Annual since 1996  Central & Eastern Europe, 26 countries
<i>Country Risk Service &amp; Country Forecasts</i> , Economist Intelligence Unit	www.eiu.com  \$\$	Produces two quarterly publications on governance measures and provides analysis and forecasts on political, economic, and business environments based on contributions from a global network of over 500 information-gatherers.	Country Risk Services, 100 countries  Country Forecasts, 60 countries
<i>Voice of the People Survey</i> , Gallup International	www.voice-of-the-people.net  \$\$	This survey asks an international sample of people their opinions on issues such as the environment, terrorism, general global issues, governance, and democracy.	Annual since 2002  Global, 62 countries
<i>Millennium Survey</i> , Gallup International	www.gallup-international.com  \$\$	The largest survey on world opinion ever conducted. Topics include democracy, environment, human rights, women's rights, religion, and crime.	Conducted in 1999  Global, 60 countries
<i>Global Competitiveness Report</i> , World Economic Forum	www.weforum.org	As background material for the annual report, a global competitiveness survey is conducted among approximately 3,000 enterprises to measure business executives' perceptions of openness, government, finance, infrastructure, technology, management, labor, and institutions.	Published since 1996  Global, 104 countries
<i>Human Rights Dataset</i> , State Department & Amnesty International	www.state.gov/g/drl/hr/  www.amnesty.org/ailib/aireport/index.html	These reports highlight global human rights practices and conditions. Data can be accessed through the State Department's <i>Country Report on Human Rights Practices 2004</i> and Amnesty International's <i>Annual Report 2004</i> .	State Department Annual since 1977 Global, 196 countries  Amnesty International Annual since 1993 Global, 149 countries
Reporters Without Borders	www.rsf.org	A global press freedom index comprised of information provided by journalists, researchers, and legal experts on topics such as censorship, pressure, punishment/murder of press members, and regulation of the media.	Published in 2002 & 2003  Global, 138 countries
<i>International Country Risk Guide</i> , Political Risk Services	www.prsgroup.com  \$\$	Provides political, economic, and financial country risk analysis mainly for business investment. Assessment areas include government stability, corruption, law and order; democracy accountability, and bureaucracy quality.	Annual since 1982  Global, 140 countries
<i>World Competitiveness Yearbook</i> , Institute for Management Development	www.imd.ch	The <i>Yearbook</i> analyzes countries' competitive environments based upon objective data and surveys on the perceptions of over 4,000 local and foreign enterprises.	Published since 1987  Global, 49 countries

**ANNEX TABLE 2. SOURCES OF DATA & INFORMATION ON CORRUPTION & INTEGRITY, CONTINUED**

<b>Indicator &amp; Source</b>	<b>Reference</b>	<b>Description</b>	<b>Coverage</b>
<i>World Markets Online</i> , World Markets Research Center	www. worldmarketsanalysis. com/servlet/pub?page Content=authform <b>\$\$</b>	Provides a risk rating system that allows clients to compare and contrast investment climates. Ratings are based upon quality of conditions and the level of stability experienced by investors regarding the political, economic, legal, tax, operational, and security environment.	Published since 1996  Global, 202 countries
<i>Opacity Index</i> , PriceWaterhouseCoopers	www.pwcglobal.com/ extweb/ncsurvres.nsf/ docid/22CA0D19E1D97 D8A80256BA30035391B	Measures impact of business, economic, legal, and ethical opacity on the cost of capital. Surveys business actors' perceptions of corruption, economy, accounting, regulation, and legal environment.	Survey conducted in 2002  Global, 35 countries
<i>Index of Economic Freedom</i> , Heritage Foundation & Wall Street Journal	www.heritage.org/ research/features/index/  <b>\$\$</b>	Measures economic freedom and prospects for economic growth by assessing foreign investment codes, taxes, monetary and banking policy, and the black market. Allows cross-country comparisons to be made by international investors and aid donors when allocating resources.	Annual since 1995  Global, 161 countries
<i>Bertelsmann Transformation Index</i> , Bertelsmann Foundation	en.bertelsmann-stiftung.de/ index.html	The <i>Bertelsmann Transformation Index</i> is a measuring instrument that examines and evaluates the development and transformation process in 116 countries. The index measures the conditions of democratization and the opening of free markets, and how well countries have managed their transformations. Data are summarized in two indices: the status index and the management index.	Last published in 2003  Global, 116 countries
<i>Global E-Government Report</i> , Brown University	www.insidepolitics.org/ egovt04int.pdf  <b>\$\$</b>	Measures a country's online presence by evaluating government web sites based on more than two dozen criteria, including the availability of publications, databases, disability access, privacy, security, and the number of online services. Other criteria evaluated include overall e-government performance using an assessment of the number of services plus access to information, disability access, privacy, security, and foreign language translation.	Collected annually since 2000  Global, 192 countries
<i>Country Security Risk Assessments</i> , IJET Travel Intelligence	www.ijet.com/solutions/ monitor/index.asp  <b>\$\$</b>	A proprietary intelligence database that provides continuously updated advisories and intelligence for 183 countries and 282 cities worldwide. Information is provided on ten categories, including security, health, transportation, entry/exit, culture, weather/environment, finance, and communications.	Updated on a daily basis  Global, 183 countries



## ANNEX TABLE 2. SOURCES OF DATA & INFORMATION ON CORRUPTION & INTEGRITY, CONTINUED

Indicator & Source	Reference	Description	Coverage
<i>Media Sustainability Index</i> , International Research & Exchanges Board	<a href="http://www.irex.org/msi/">www.irex.org/msi/</a>	The Index analyzes freedom of speech, plurality of media available to citizens, professional journalism standards, business sustainability of media, and the efficacy of institutions that support independent media. The report features country-by-country rankings using a proven methodology and detailed input from local and international media professionals. The annual study also highlights and compares trends from 2001 to 2004 to show where countries have improved, where backsliding has occurred, and what can be expected for the future of independent media in the region.	Annual since 2001 Southeast Europe & Eurasia, 20 countries
<i>Grey Area Dynamics</i> , Merchant International Group	<a href="http://www.merchantinternational.com/MIG/services.html">www.merchantinternational.com/MIG/services.html</a>	Grey Area Dynamics (GAD) are forecasting and risk prediction tools that are used to design risk strategies. GAD tools can assess the economic and political stability of a country, investment, or project.	Constructed in 1994 Global, 155 countries
<b>Other Governance Indicators</b>			
<i>Starting a Business Indicators</i> , in <i>Doing Business 2004</i> , World Bank Institute	<a href="http://rru.worldbank.org/DoingBusiness">rru.worldbank.org/DoingBusiness</a>  \$\$	<i>Starting a Business Indicators</i> is one of six sub-indicators from the Bank's <i>Doing Business 2004</i> publication. Countries are measured on the number of days, cost, and time required to register a business, as well as the minimum capital (or percent of income per capita) required, given the current business environment. Users can compare measurements to estimate potential opportunities for corruption based on information provided.	Published in 2004 Global, 133 countries
<i>World Development Report 2005 — Investment Climate Surveys</i> , World Bank Institute	<a href="http://rru.worldbank.org/investmentclimate/">rru.worldbank.org/investmentclimate/</a>	A survey of over 26,000 firms worldwide that asks about regulation, governance, access to finance, and infrastructure services. Data is gathered from senior managers and accountants and includes both objective (the time required to complete processes) and perception (perception of potential constraints and assessments of risks) data.	Launched in 2001 Global, 53 countries
<i>Civil Society Index</i> , CIVICUS	<a href="http://www.civicus.org/new/default.asp">www.civicus.org/new/default.asp</a>	Includes country reports and expert assessments detailing four dimensions of civil society: structure, environment, values, and impact.	First published in 2004 Global, 35 countries
<i>Eurobarometer</i> , European Commission	<a href="http://www.europa.eu.int/comm/public_opinion">www.europa.eu.int/comm/public_opinion</a>	Monitors public opinion in member states through the use of mass opinion surveys (social, political, and economic). Governance topics include: European citizenship, culture and information technology, social situations, and defense and security.	Annual since 1973 European Union, 15 countries

## ANNEX TABLE 2. SOURCES OF DATA & INFORMATION ON CORRUPTION & INTEGRITY, CONTINUED

Indicator & Source	Reference	Description	Coverage
Global Barometer Surveys, Global Barometer Survey Network	Site not yet active	Global Barometer surveys provide cross-regional and cross-country comparisons using data from the New Europe Barometer; Latinobarometro, Afrobarometer; and the East Asia Barometer. The survey is a pilot project and only provides data from the most recent annual surveys. To learn more, contact Professor Richard Rose, Chair of the Global Barometer Survey Network, Centre for the Study of Public Policy, University of Strathclyde, Glasgow, Scotland (Tel: 44-141-548-3217).	Published periodically since 2001  Global, 50 countries
Development Indicators, OECD	<a href="http://www.bellanet.org/indicators/info.cfm">www.bellanet.org/indicators/info.cfm</a>	A joint project by the OECD and World Bank to provide a database and discussion forum on outcome indicators that can be used as tools to promote development and the Millennium Development Goals. Examples of indicators include fiscal decentralization, surveys of public's perception of governance, and difficulty in pursuing valid legal claims.	Timeline and geographic coverage varies for indicator
Indicators of Local Democratic Governance in Central & Eastern Europe Project, Open Society Institute & Tocqueville Researcher Center	<a href="http://www.t-rc.org">www.t-rc.org</a>	A project that evaluates the quality of local democracy in Central and Eastern Europe based on mail surveys on rule of law, media, citizen trust, political parties, administrative system, etc. Outputs include a dataset of surveys and local democracy reports.	Timeline varies for indicators used  Eastern & Central Europe — Poland, Hungary, Estonia, Latvia, Romania, and Slovakia
World Governance Assessment, Overseas Development Institute & Dag Hammarskjöld Foundation	<a href="http://www.unu.edu/p&amp;g/wga">www.unu.edu/p&amp;g/wga</a>  (Interactive dataset is under construction.)	Using expert assessments provided by a group of "well-informed persons" representative of each country, governance is measured on a 0–5 point scale for six areas: civil society, political society, bureaucracy, economic society, absence of corruption, and judiciary.	Data collected 1996–2000  Global, 23 countries
New Europe Barometer, University of Strathclyde	<a href="http://www.cspp.strath.ac.uk">www.cspp.strath.ac.uk</a>  \$\$	A mass opinion survey comprised of several other "post-communist barometer surveys." Topics include corruption, poverty and social protections, social capital, support for democracy, and undemocratic alternatives.	Launched in 1991  10 East European countries
Handbook of Democracy & Governance Program Indicators, USAID	<a href="http://www.usaid.gov/our_work/democracy_and_governance/publications/pdfs/pnacc390.pdf">www.usaid.gov/our_work/democracy_and_governance/publications/pdfs/pnacc390.pdf</a>	Qualitative and quantitative measurements of four cluster groups of governance: rule of law, elections and political processes, civil society, and governance accountability and transparency. A handbook for programmers and others to assess various components of governance.	Published in 1998  Four countries, including Ukraine
Public Integrity Index, The Center for Public Integrity	<a href="http://www.publicintegrity.org/ga/">www.publicintegrity.org/ga/</a>	A survey of selected country experts that focuses on public sector corruption prevention measures. Provides a way to monitor the existence and effectiveness of mechanisms that prevent abuses of power and promote public integrity, as well as citizens' access to their government.	Last published in 2004  Global, 25 countries



# ASSESSING CORRUPTION & INTEGRITY IN SELECTED SECTORS

## BUSINESS LICENSING & REGULATION

### THE NATURE OF CORRUPTION IN BUSINESS LICENSING & REGISTRATION

In many transition countries, large numbers of regulations and restrictions stifle the entry of new businesses and impose great burdens on existing businesses. The extent of these restrictions and burdens create enormous incentives for corruption, while the effect of them is to restrict entry and reduce the levels of competition across all sectors of the economy. Entry restrictions constitute one of the most important barriers to small enterprise development.<sup>37</sup>

Corruption in the business licensing frequently takes the form of bribery, misappropriation, and extortion. Corruption can occur in these activities in a variety of ways, most of which are straightforward. Firms have to prove compliance with some regulation or have to obtain a license to undertake an activity. The certificate of compliance is essentially a license to continue pursuing the business activity. Firms pay bureaucrats to issue licenses (or certificates of compliance) to which they are entitled, to speed up slow processes, to obtain a license or certificate of compliance to which they are not entitled, or simply to make down-payments on warding off problems in the future. In Romania, the IRIS pilot study found that firms could interact with as many as 44 different agencies.

### ASSESSING CORRUPTION IN BUSINESS LICENSING & REGULATION

There has been a lot of work done on the scope and intensity of regulation and licensing of businesses. For example, Djankov et al. (2001) documents the procedures, times, and costs involved in setting up new businesses in 75 countries, listing a wealth of information that can be used to place each country's activities in context. IRIS's *Red Tape Analysis of Regulation and Bureaucracy in Romania* reports on the bureaucratic and regulatory procedures that affect Romania's business environment. The World Bank's (2002) *Costs of Doing Business Survey* for Moldova contains masses of information on and analysis of the regulatory framework. These are just a few examples of many existing studies that are easily available online.

37. This annex focuses on licensing and regulation activities that apply to businesses in general, not on the special regulatory activities that apply to specific sectors such as utilities, medicine, pipelines, etc. The reason for this focus is twofold. First, the corruption in the licensing and regulation of businesses, which is of special concern for the development of small business, leads to detrimental performance across the whole of the economy. Second, regulation of the specialized industries, such as utilities, is highly sector- and country-specific, which limits our ability to provide general lessons learned.

These sources, however, only touch on corruption — although its presence is implicit in the analyses. Direct, comparative information can be found at <http://info.worldbank.org/governance/wbes/index1.html>, an interactive web site which uses data from the *World Business Environment Survey*. Within seconds, one can obtain information for over 100 countries on the percentage of revenues that firms reportedly pay in bribes. For example, one could ascertain that corruption was reported as distinctly less of a problem in Zimbabwe than in Albania.

In this way, many existing surveys, such as the *World Business Environment Survey*, contain elements that report, in a general manner, on corruption in licensing and business regulation. An important example of a country study is the ongoing study by the Center for Economic and Financial Research (CEFIR) in Moscow, which has focused on the bureaucratic burden on business in its “Monitoring Administrative Barriers to Small Business Development in Russia” project.<sup>38</sup> The CEFIR surveys confirm widespread use of unofficial payments and of the use of intermediaries, which are sometimes specialists in corruption, using both money and political connections as currencies. The area of corruption in licensing and business regulation seems to be one where survey techniques are viewed as fair, but not entirely trustworthy. Preliminary evidence from the IRIS pilot study in Romania suggests that between 20 and 50 percent of firms do not give candid answers to sensitive questions.

There are a number of considerations and lessons learned that must be taken into account when conducting an assessment of corrupt practices in business licensing and regulation:

**Include surveys of businesspeople.** There are several reasons for this:

1. Corruption is a normal part of business, so many firms are willing to report on corrupt practices.
2. Many agencies are involved in the licensing and regulatory process, so it is productive to focus on firms as the respondents (at least to understand the dimensions of the corruption process). Trying to obtain the information from all the pertinent agencies would lead the investigator into a bureaucratic labyrinth.
3. The most important task is to understand the impact of corruption on firms, which makes them the best respondents to give a broad overview of the problem.
4. Public officials are more reticent — less likely to give candid or complete answers — than businesspeople. Modules of special questions to identify reticent respondents can allow the analyst to make substantial adjustments to estimates of the prevalence of corruption. In the Romania pilot study, for example, IRIS’s reticence module revealed that the standard method of assessing the prevalence of corruption was underestimating the extent of informal payments by around 30 percent. (For more on reticence see Annex 7.)

38. See Center for Economic and Financial Research (2002).

**Start with an analysis of the regulatory environment.** In order to identify the multiplicity of agencies and activities that may be subject to corrupt activity, business licensing and regulation assessments should start by analyzing the country's regulatory environment. Djankov et al. (2001) list over 70 different procedures that companies might have to undertake simply to start a business. This includes cumbersome procedures like certifying the uniqueness of name, certifying the marital status of the owners, formulating a financial plan, and informing the post office. In order to conduct a thorough assessment, therefore, the investigator must gain a comprehensive understanding of *what* these activities are and *how* businesses must comply with them. Important information can be obtained about the relative burden of corruption from different regulatory authorities, but only if these are included in the survey.<sup>39</sup>

**The use of intermediaries can understate the amount of corruption.**

Businesses often use a single intermediary to handle licensing, regulation, and related corruption problems. This is especially the case for new businesses that want to enter a market quickly. For example, CEFIR found that 40 percent of new firms used intermediaries in Russia when first entering into production. Many of the intermediary services (and therefore bribes) are included in a single fee. If intermediaries are used, an analysis of the informal payments actually made to public officials may understate the amount of corruption. A useful complement to surveying firms, therefore, is to determine the price that intermediaries charge for various services. Variations in these prices can be a good way to find out how much corruption varies across regions, and this information is readily available. Surveying the intermediaries for more detailed information will likely produce less candid responses than surveying firms. This is because the intermediaries are often intimately tied to the regulators themselves in supporting and making the web of corruption more "efficient," while the firms are somewhat passive victims. Indeed, the intermediaries are sometimes former regulators who have experience in how the business actually works. In Romania, for example, IRIS found that there were significant differences in payments to intermediaries across Romanian *judets* (administrative districts). The proportion of firms that made payments to intermediaries varied from 0 to 83 percent.

**Include the non-monetary costs paid by businesses who do not bribe.**

Those who do not bribe suffer from the existence of corrupt activities. Firms that refuse to play the game will find their waiting times increased and the amount of bureaucratic activity intensified. The costs of these to businesses have to be considered part of the cost of corruption.

## **ASSESSING INTEGRITY IN BUSINESS LICENSING & REGULATION**

Both businesspeople and public officials can be interviewed to get information on integrity — that is, TAPEE factors — in the business licensing sector. Some kinds of integrity, like whether fees are prominently displayed, and

39. It is important to note that regulatory and licensing activities can vary greatly between any two countries. Existing survey instruments (questionnaires), therefore, must be adapted to fit each country's specific licensing and regulatory framework.

whether the mechanisms of redress are well understood by businesses, can be assessed by surveying businesspeople. For other types of integrity, like internal management practices, information can only be collected from public officials, which is a challenging exercise. Results of the Romania pilot study suggest that the majority of public officials in Romania are reticent, which affects the answers they give to questions on integrity in their offices.

## **THE HEALTH SECTOR**

### **THE NATURE OF CORRUPTION IN THE HEALTH SECTOR**

Since independence from the former Soviet Union, health outcomes have declined in the Europe and Eurasia region. This deterioration has impeded political support for market-oriented reforms and undermined the conditions for competitive markets or democracy to work. There are indications that some of this deterioration is due to corruption in the health sector:

There is, according to some reports, a significant amount of corruption in the health sector in the region (Lewis, 2002). In some countries the health sector is listed as one of the most corrupt. Corruption can take place in procurement, recruitment, the theft of money and supplies, absenteeism, induced demand for unnecessary goods and services, and the solicitation of bribes for services. Understanding the nature of corruption in the health sector will help measure the incidence of corruption, and help design more effective responses to it.

Corruption in the health sector can take the form of bribery, misappropriation, patronage, and shirking. Some of these manifestations of corruption may be worse than others in terms of their effect on service delivery. To some extent, one can answer the question of whether corruption affects service delivery by looking at the kinds of corruption that are more prevalent. If patients bribe nurses and doctors for services, and there are no wide discrepancies in incomes, then one might expect that the resulting price mechanism would improve the effectiveness of health services.<sup>40</sup> If incomes vary widely, however, the impact of bribery on health outcomes would be ambiguous. In this case, bribes would deter the relatively well-off from frivolous treatments, but they would also deter the indigent from seeking necessary treatments. Other forms of corruption in the health sector — like the dilution of vaccines, the pilferage of refrigerators (which breaks the vaccine cold chain), or the prescription of unnecessary treatments — have clear negative effects on health outcomes.

### **ASSESSING CORRUPTION IN THE HEALTH SECTOR**

Two sources that provide a good description of the nature of corruption in parts of the health sector are Di Tella and Savedoff (2001) and Cohen et al. (2002). The incidence of corruption can take place in the purchase of pharmaceuticals, meals, cleaning services, and physical inputs. In addition, corruption

40. Even in this case informal payments may not be efficient for several reasons, as pointed out by Lewis (2000). Bribes for doctors — rather than payments to hospitals — may lead to underinvestment in equipment (which is shared by other doctors). In some countries, bribes are often given in the form of gifts rather than money, which can lead to deadweight losses. The presence of lucrative opportunities for corruption can delay reform, as shown in the context of trade by Lee and Azfar (2000). For further discussion of corruption in the delivery of health services, see Azfar (2005).

takes place in staff appointments, the theft of supplies, bribes for scheduling surgeries, absenteeism, and the diversion of patients to private practices. Additionally, there can be induced demand for unnecessary procedures, as doctors enjoy an informational advantage over patients. This highlights the possibility of increased corruption in the private sector; and suggests the need for caution about thinking of privatization as a panacea for corruption.

A paper by Di Tella and Schargodsky (2002) shows that improved auditing procedures in Argentinian hospitals reduced procurement prices, which they interpret as evidence of reducing corruption. It would be useful to conduct similar studies in Europe and Eurasia (possibly on privatization, rather than procurement).

Information on informal payments to doctors and other health professionals can be collected from patients. The success of this effort depends on the quality of the survey firm employed and the reticence of the local population. Surveys on informal payments have been conducted in some former communist countries.

In the case of pharmaceutical procurement, information could (in principle) be collected from private actors that interact with public officials. The IRIS pilot study in Bulgaria, however, met with significant challenges while trying to collect such information — of the 25 pharmaceutical firms asked for interviews, only six gave answers, and only two provided a complete set of answers. These two firms denied any improprieties in their interactions with hospitals. Upon reflection, the reluctance of the pharmaceutical supply firms to participate in such research is unsurprising. Many of these firms benefit from the corruption in pharmaceutical procurement, and many suppliers may see themselves as more complicit in the process than a businessman who has to pay a bribe to get registered. Hence, the IRIS assessment of corruption in pharmaceutical procurement in Bulgaria relied on the evaluations given by doctors and nurses, an admittedly less well-informed set of respondents, but one from which greater candor could be expected. Reassuringly, the evaluations from doctors and nurses correlated with the assessments of improprieties based on hospital audits.

For procurement, it is possible to collect hard data on a variable potentially related to corruption: procurement prices (which, unlike the corruption itself, are observable). While price differences themselves do not provide conclusive evidence of corruption — a hospital may pay higher prices because of emergency purchases, poor bargaining, or general negligence — price information can be corroborated by asking health-care workers if they think prices reflect corruption. Also, researchers can collect survey-based information on corruption in procurement and examine if this is correlated with the prices in expected ways.<sup>41</sup>

41. It is not clear how important the distinctions between systematic inefficiency or neglect and corruption are. Repeated emergency purchases or neglect are forms of mismanagement and, therefore, worthy of investigation or response, whether or not they are instances of corruption. Furthermore, for practical purposes, the most effective anticorruption strategy may well be to provide incentives to reduce neglect and corruption at once, rather than trying to excise corruption surgically while consciously avoiding related forms of misgovernance.



## **ASSESSING INTEGRITY IN THE HEALTH SECTOR**

As in the case of business regulation, information on some forms of integrity can be collected from users. For instance, suppliers can be asked whether they were informed of the reasons why they didn't win a bid, and patients can be asked whether they know to whom to complain if a doctor demands a bribe. Nevertheless, for many kinds of integrity variables — such as, Did the director try to influence the decisions of the committee? or, Do doctors get hired on a meritocratic basis? — information must be collected from public officials. The IRIS pilot study of pharmaceutical procurement in Bulgaria found that between 60 and 70 percent of public officials were giving candid answers to sensitive questions (similar to the candor of Romanian businesspeople and more than the candor of Romanian regulatory officials).

## **THE JUDICIAL SECTOR THE NATURE OF CORRUPTION IN THE JUDICIAL SECTOR**

The judicial sector is made up of several components that are often combined in one or more bureaucracies, but in ways that differ greatly across countries. These include:

- The court system
- The offices for court administration
- The bureaucracy for enforcing judgments of the court
- The administrative hierarchy that runs the court system on a daily basis
- The administrative hierarchy in charge of overall organization of the court system and the appointment of officials (including judges) within that system.<sup>42</sup>

The judicial sector is crucial to any anticorruption strategy. A well-functioning judiciary provides a check on other public institutions. It is the final element in a system of accountability, providing a forum that examines and adjudicates on acts of corruption that have occurred in any arena. Not surprisingly, existing empirical studies show a strong relationship between corruption in the judiciary and corruption in other public institutions.

The importance of integrity within the judicial system is unfortunately matched by difficulties in identifying acts of corruption. Where corruption is entrenched, it usually takes highly organized forms, with court officials organizing payments to judges, who are thus screened, and with lawyers making payments for clients, sometimes without the latter even knowing that a high fee for a lawyer with a reputation for winning cases is in fact money used to buy decisions. These processes are facilitated by the repeat interaction of lawyers, specific court officials, and judges — a process that creates strong incentives to continue corrupt behaviors and not to reveal information.

While the processes of corruption are hard to detect in the courts, implying that corruption can be underestimated, it is also crucial to guard against

<sup>42</sup> This definition excludes prosecutorial activities, which in some countries have been combined closely with the court system.

the opposite error of overestimation. Often, initial assumptions about levels of corruption in the judicial system are based on rumors and generalized opinion, and may well be exaggerated. The court experience is a painful one, even for victors. For losers, the assumption of corruption is an easy way to rationalize one's own feelings of injustice. There is ample evidence that for these reasons court corruption has been overestimated in some transition countries.

Corruption in the judicial system can take many forms:

**Bribery.** Where there are bribes, the recipients can be judges or court administrators, depending on circumstance and administrative structure. The payer of the bribes can be a litigant, a lawyer, or even an interested public official (often using official funds or providing over-budget allocations). Possible purposes of bribes include:

- A favorable judgment (both in terms of win/loss and amount of damages/sentence)
- A favorable decision on a matter of law (interpretation of law, admission of evidence, etc.)
- Delay or speeding up of scheduling
- Access to court documents
- Destruction of court documents
- Manipulation of procedural decisions
- Use of court personnel to enforce judgments in an illegal manner
- Use of court personnel to perform services for litigants.

**Extortion.** Extortion — bribery driven by the threat of violence — is an obvious possibility in the judicial sector, given the power that is at the hands of the judicial sector and the natural interaction of that sector with criminal activities. Many of the above-noted occasions for bribes can involve extortion. Employees of the judicial system sometimes facilitate extortion by acting as a conduit for information flows and for access to the subjects of the extortion.

**Misappropriation.** Misappropriation does not appear to play a major role in judicial sector corruption, given the relatively small amount of funds that pass through it. Nevertheless, the IRIS pilot study in Georgia uncovered evidence of an opaque procurement system in the judicial sector that signaled corruption vulnerabilities.

**Patronage.** Patronage can occur in many forms, with different consequences for each form. There can be a monetary motive, for example where ministry or court system officials accept bribes to hire judges and court administrators. A system of bribery within the courts will support this form of patronage, since the possibility of high incomes from bribes can lead to high payments for jobs. Patronage can also be politically motivated. In broad terms, this is manifest when government officials politicize the judicial sector with

appointments. More narrowly, local officials may try to control the local judiciary through the appointment process in order to facilitate local systems of corruption that lie primarily outside the judicial sector.

**Shirking.** Shirking is costly in terms of promoting delays in the judicial process, such as when court officials do the work of private clients on public time (for example, bailiffs on enforcing judgments) or when judges do private legal work using court resources (with corresponding room for ambiguity in terms of bribes, etc.).

## **ASSESSING CORRUPTION IN THE JUDICIAL SYSTEM**

A proper assessment of corrupt practices and corruption vulnerabilities in the judicial sector requires the use of experienced experts familiar with the literature that describes existing efforts.<sup>43</sup>

Because of the complexity of the judicial system, such experts are needed to understand the flow of documents and cases within the court system, and to be able to analyze the structures of corruption that occur. An expert analysis is required before surveys can be designed. Once this is done, survey techniques can be used to gain an overall impression about levels of corruption and its variation across different courts and different activities. If the objective of an assessment is to design programs of reform for the judicial sector, survey methods will have to be complemented by a second, follow-up expert investigation (undertaken by personnel already steeped in knowledge of processes of corruption in the judicial sector), which uses the results of the surveys.

Identifying a set of respondents who are both knowledgeable and candid about corruption is difficult. The knowledgeable often have reason to be reticent. For this reason, it is necessary to administer the survey in ways that encourage candor.<sup>44</sup>

## **ASSESSING INTEGRITY IN THE JUDICIAL SYSTEM**

Much has been written on why some court systems have high levels of corruption and low levels of integrity. However, there are only a few convincing empirical studies testing these theories. Therefore, while the existing literature provides a checklist of factors that are thought to be related to levels of corruption in the judiciary, it is difficult to list these factors in order of importance, or of confidence that they will apply in any specific circumstance. The following factors are considered indicators of possible integrity weaknesses in the judicial sector:

43. Hammergren (1999) provides a highly detailed and integrated checklist of factors aimed at diagnosing the overall performance of the judicial sector. She also reviews many existing efforts at such checklists and provides an exceedingly useful perspective based on past experience. The paper, "Diagnosing Judicial Performance: Toward a Tool to Help Guide Judicial Reform Programs," is available at [www1.worldbank.org/publicsector/legal/HammergrenJudicialPerf.doc](http://www1.worldbank.org/publicsector/legal/HammergrenJudicialPerf.doc).

44. In Georgia, the IRIS pilot study used a technique of self-administered surveys that were dropped into wooden boxes, hence ensuring anonymity with the interviewer. The interviewer's role was simply to be present and answer questions if they arose in completing the survey, and to ensure that everyone dropped in their completed form. This technique appeared to work quite well.

- Control over court organization is highly concentrated in the hands of a few officials or judges.
- There is an absence of specialized offices or functions (e.g., computerized databases) to conduct the mundane activities of the court.
- The court system faces no competition in the form of quality alternative dispute resolution mechanisms.
- Administrative processes do not follow set rules and procedures, and no mechanisms exist for ensuring that standardized procedures for handling cases are followed.
- Rules of evidence and standards for evaluating arguments are not applied in a predictable fashion.
- Assignment of cases follows no set procedures.
- Procedural steps in court processes are numerous and complex.
- Court procedures are not transparent (“transparency” in this context means well-publicized rules for how cases will be processed, easy access to information on the status of cases, public announcement of hearings, openness of hearings to the public, and the publishing of judicial decisions).
- Lack of clarity regarding information on court scheduling, judicial decisions, and the basis for these decisions.
- Public trust in the judiciary is weak.
- The media is not active in reporting events within the court system.
- There is little effective external review of judicial decisions and judicial opinions.
- Disposition of cases involves excessively long time periods.
- Cases tend to be heard by single judges rather than by multi-judge panels.
- Organized crime plays a large role within the society.
- Levels of remuneration of court personnel and of judges are low (and, for judges, remuneration is low relative to the fees that private lawyers can command).
- Performance standards (e.g., cases decided, time limits, reversals on appeal) do not exist or there is poor compliance monitoring.
- Judicial codes of conduct — including procedures for ensuring compliance and for imposing disciplinary measures — either do not exist or are not well-publicized.
- Procedures for judicial appointments are not transparent.
- Personnel decisions within the court system are not based on publicized and transparent criteria.

- Bar associations are not well organized and play little role in the judicial system.
- Complaint mechanisms, providing a safe outlet to report on possible corruption, either do not exist or are not well-publicized.
- Disbarment is rarely (or not at all) used as a tool to punish offenders.
- There is no independent inspectorate that regularly checks on the details of court operations and that is able to publish its findings freely and widely.

## **TAX ADMINISTRATION      THE NATURE OF CORRUPTION IN TAX ADMINISTRATION**

Tax administration in Europe and Eurasia has undergone a radical transformation since 1989, opening up ample new opportunities for corrupt transactions. Under central planning, fiscal policy was part of the machinery for carrying out the plan: there were transfers of funds between publicly-owned enterprises and government agencies through accounts in the state bank. Personal income tax played a relatively small role and was withheld at the source. “Taxation” tended to be based on discretion rather than rules, with customized fiscal arrangements routinely negotiated between enterprises and the government. Thus, tax collection functions, as understood in market economies, did not really exist — regional and local revenue offices simply controlled profit transfers and checked on the balances of each enterprise held in accounts in the state bank.

It follows, then, that when central planning collapsed, there was little administrative capacity to deal with taxation in a market economy, and no public awareness of the need to pay taxes, nor of the modalities for doing so. The rise of “Western-type” taxation, and tax administrations to deal with this, has been a painful process in most of the countries in the Europe and Eurasia region, especially for the countries of the former Soviet Union. In the face of initially poor tax legislation, often imposing excessive and unfair tax burdens and confronting a populace unused to tax paying with confusing and complex tax laws, it is not surprising that a poorly compensated tax service, with great discretion and low accountability, led to widespread abuses. These include the following:

- The continued practice of negotiating tax liabilities between large enterprises and local (or, for the largest firms, even national) governments, which is fraught with the opportunities for special deals favoring those officials and politicians with discretion to determine those liabilities (*patronage and state capture*)
- Barter arrangements between enterprises and local governments (the energy provider pays no taxes but provides free electricity to public housing, etc.) (*patronage and state capture*)
- Bribes to officials dealing face-to-face with taxpayers in the tax office, in exchange for recording a lower tax liability, or for registering a legitimate tax payment made (*bribery*)

- Many enterprises operate in the informal economy (unregistered and non-tax-paying), so in some cases local officials are bribed to look the other way (*bribery*).

The type of corruption involved in these arrangements arises both from a lack of *transparency* (records are kept at local tax offices, and are not available either to the national ministry or to the public) and consequently *accountability*. *Prevention* is undermined by the face-to-face nature of transactions, the discretion enjoyed by tax officials, and the difficulty of *enforcing* penalties, when often the entire local government is implicated in special arrangements with an enterprise.

### **ASSESSING CORRUPTION IN TAX ADMINISTRATION**

It is difficult to identify (and, of course, to measure) corrupt practices in a tax administration. While tax evasion itself is relatively easy to deduce — by calculating hypothetical tax revenue from a specific tax base and comparing this amount with the actual revenues collected — the non-payment or partial payment of taxes is not in itself *prima facie* evidence of corruption. There are various ways in which tax evasion is possible (more so in some countries than in others) without any bribes or gifts being given. In particular, tax evasion by firms in the informal sector may well involve no corruption — only a formal breaking of the law. However, where tax evasion appears to be taking place to a significant degree in the *formal sector*, the presence of corruption can certainly be supposed. But determining corruption's prevalence and forms requires much more careful investigation. In this area, the most easily available approach is to assess integrity factors in the tax administration (see next sub-section).

Otherwise, direct investigation of corruption can take three forms:

1. Forensic accountants can investigate the tax records of selected firms and individuals in selected local tax offices. Forensic examinations are greatly assisted by computerized tax records, but many countries have not yet implemented such systems. Nor, of course, are computerized records invulnerable to falsification. Nevertheless, a substantial disparity between an enterprise's turnover and employment with the taxes it generates can provide strong evidence that some special arrangements have been made with local politicians and tax officials.
2. Carefully chosen and arranged conversations can sometimes reveal anecdotal evidence of corruption. The dilemma here is that those who are most willing to speak — about others, rather than themselves — may not be fully informed, and may only be passing on hearsay evidence.
3. Carefully designed surveys can be used to ferret out tax behavior. But, as with conversations, respondents may be unwilling to reveal illegitimate dealings in which they themselves have been involved. World Bank business environment surveys contain questions about bribing government officials, and in principle such surveys could also contain questions about bribing tax officials — but businesspeople would be less willing to answer

the latter type of question, because an affirmative answer implies illegal tax evasion on the part of the respondent. At best, one could survey respondents' perceptions about others' behavior. This, however, would result in less reliable data than responses based on the interviewees' own experience. The same problem would apply to interviews of government officials with involvement in the tax administration.

### **ASSESSING INTEGRITY IN TAX ADMINISTRATION**

An investigation might commence with seeking answers to a number of integrity-related questions, including:

- Is there a computerized national register of taxpayers (of enterprises and individuals)? Is there a computerized taxpayer register at the local tax office? (Such transparency makes informal deals between taxpayers and politicians more difficult to carry out.)
- Do taxes get paid by impersonal means — checks or transfers from bank accounts — or are they paid in person at tax offices? (The latter arrangement is more conducive to bribery.)
- Are public utilities priced competitively or subsidized? (If the latter, the way is open to barter arrangements that lower tax liabilities for these enterprises.)
- Are tax officials recruited or paid at the national or local level? Do they receive subsidized housing or other payments in kind from the local government? (Locally recruited or paid officials are more liable to political pressures.)
- Does the tax system impose unrealistically high burdens on enterprises — assuming all taxes were actually paid? (This practically guarantees some mixture of bribery and “unofficial” — therefore untaxed — transactions.)
- Are tax audits of individuals and enterprises, and audits of local tax offices, carried out on a regular basis? Is there a pattern of such audits avoiding individuals and enterprises specially favored by the local (or national) government?

It is common for donors, counterpart government officials, and contractors attempting to carry out tax administration reforms to do so without explicit efforts to root out corruption per se. There is a basic recognition that corruption is part of the problem, and it is supposed that increasing the capacity of the tax administration to track liabilities and payments — through installing information technology and more efficient systems along with improving personnel management (including higher pay) and rationalized tax policies — will help mitigate corruption. Improved taxpayer education, together with organizing taxpayer advocacy and grievance mechanisms, can help check the unfettered power of tax officials and local politicians to use the system for their own purposes. There are a large number of other reforms in this area, too numerous and detailed to summarize here, which have been implemented in Europe and Eurasia with the assistance of

USAID and other donors. Nevertheless, whether this approach has reduced — or will reduce — corruption in the tax administration is an unanswerable question without before-and-after measures of prevailing corruption in the tax service.

## THE ENERGY SECTOR

### THE NATURE OF CORRUPTION IN THE ENERGY SECTOR

The energy industry in each country is one of the greatest potential sources of corruption. A single 1,000 megawatt electric generating plant can cost one billion U.S. dollars or more. The amounts for procurement of equipment and energy for electricity distribution and petroleum refining and marketing can run in multiples of billions of dollars. Purchases and sales of energy are usually on long-term contracts negotiated at a high level in an energy company, and small amounts of payoffs for each unit of energy can build up to extremely large amounts over a period of time.

In operational terms, corruption in the energy sector can include:

**1. Deviating from accounting rules with the purpose of misrepresentation.** Accounting rules are usually specified by an energy company in transition or less-developed countries. The rules can be local, but many countries specify or permit International Accounting Standards (IAS). The European Union and Russia, for example, also permit the use of United States Generally Accepted Accounting Principles (US GAAP).<sup>45</sup> Many international petroleum companies, including several large Russian ones, use US GAAP to permit raising money in the United States and international markets, and the accounting usually is in U.S. dollars, since that is the “functional currency” of the petroleum industry.

A deviation from accounting rules may be made with the intent of misleading lenders, donors, or government officials — but it may not be a civil code or criminal violation. A lot of borrowing for energy companies is done under United States Securities and Exchange Commission (US SEC) Rule 144(a), which avoids a filing and certain disclosure requirements with the US SEC, but the lenders must be sophisticated and the basic rule is this: it is the lenders’ responsibility to do whatever research and analysis is required. Sometimes an embassy, and especially an ambassador, may be requested in a case like this to endorse a project for financing. In that case, the embassy and the USAID mission should request all financial documents given to the lenders and carry out its own investigation of the risks involved, including corruption. If a project fails due to corruption and other host-government actions, the embassy will be informed and USAID will have an opportunity to obtain details in writing, including documents submitted to a court or to arbitrators.

**2. Violating civil codes.** If an energy company registers a security (stock or a debt instrument) and related financial information with a regulatory

45. EU companies listed on a regulated market, including banks and insurance companies, are required to prepare consolidated accounts in accordance with International Accounting Standards (IAS) by 2005. However, companies that currently apply US GAAP accounting standards would not have to apply IAS until 2007. *EU Commission Press Room, MEMO/01/1439, December 12, 2001.*



body like the US SEC, then the SEC equivalent can subpoena records and carry out a forensic audit. If materially false and misleading statements are used to attract lenders or investors, this may be a civil violation and civil fines can be imposed. A USAID mission should work with the SEC equivalent to obtain information that would otherwise not be available (if such an entity exists and if the mission has reason to believe that misleading statements have been made).

**3. Criminal offenses through fraud, as defined by host country laws.** If a reasonable probability indicates that possible misrepresentations or fraud constituting a criminal offense may have occurred, special audits can be arranged with the permission of the host government and the energy company or regulatory agency involved. If audits may result in possible civil or criminal charges, it is important to involve USAID at an early stage American<sup>46</sup> and local legal counsel, as well as government law enforcement and regulatory agencies, including the local equivalent of the U.S. Securities and Exchange Commission (SEC) and central bank, as appropriate. Contemporaneous documentation, using Generally Accepted Auditing Standards (GAAS) will be important to avoid accusations of bias. The parties guilty of corruption are likely to use every means possible to stonewall, hide, and falsify documents; deflect the investigation into areas in which little corruption exists; impugn the investigators, USAID, the embassy, and the U.S. government; and physically threaten, hurt, or kill the investigators. Energy corruption often occurs at high levels and involves large sums of money and unscrupulous, powerful people with strong political connections.

### **ASSESSING CORRUPTION IN THE ENERGY SECTOR**

Corruption investigations establish probabilities and levels of risk of corruption. The deeper the investigation and the higher the level of documentation, the more likely that the degree of corruption can be reasonably proven. After reviewing newspaper and other publications — including Internet articles and donor reports on corruption in the energy industry and the lifestyles of the managers — the starting point for analysis is the annual reports of energy companies and regulatory agencies. The level of disclosure varies widely, but a careful reading of the reports usually provides good clues about what corruption is occurring. Follow-ups with the energy company management and staff can provide further details and explanations. Fear and dishonesty can be partially overcome by asking the same questions of many people during informal private meetings and requesting documentary evidence.

If annual reports with financial statements for at least two years (balance sheets, profit and loss statements, and cash flows) are not made or provided, and are not audited by international and inside auditors, the risk of corruption is high. For example, financial reports audited by international auditing firms for the Romanian electric generating companies are not made available to the

46. A representative of the Federal Bureau of Investigation is sometimes embassy counsel. In that case, this representative could be especially helpful in obtaining FBI reports and police records, and could give advice on investigation procedures. The Central Intelligence Agency station chief also might be helpful.

public, parliament, or most donors — even though the transmission and distribution companies do provide them. The chief financial officer of the Romanian thermal power generating company was arrested for corruption in 2002.

Modern accounting and control systems are still not well understood or used in ex-communist countries. There are a number of reasons for this, mostly rooted in past practices (some of which continue today):

- The managements and boards of directors were usually composed of engineers, along with some lawyers, and therefore accounting, a book-keeping function, was mostly ignored.
- There were few formally trained accountants, and the reporting requirements for state enterprises were minimal.
- For the most part, businesses ran on a cash basis — similar to a household — with limited use of double-entry bookkeeping (for example, a shipment to a warehouse was considered to be a sale, since meeting physical production quotas was the key measurement in evaluating a firm).
- Employee salaries were not considered to be an expense, but rather a distribution of profits to workers, and therefore not deductible for income tax purposes.
- The chief executive officer made major decisions without consulting or informing his staff or the board of directors.

In the energy sector, there are a number of specific factors that need to be taken into account in assessing corruption vulnerabilities:

- **Affiliated Companies.** Many companies legitimately avoid consolidating affiliated companies, but by obtaining and carefully examining information on those companies it becomes clear what is hidden and suspicious.
- **Loss Control.** A major problem in lesser-developed countries is theft of oil products, coal, and electricity. Usually information is readily available about physical losses, since statistics exist about production and end-user consumption. While small losses are normal, the losses from theft can be 20 to 30 percent of production. Some estimates of the theft of natural gas from pipelines in the Ukraine are 30 percent. Electricity theft in Montenegro and Serbia has tended to run around 15 percent. Many of the thieves are known, but protected by politicians.
- **Internal Audits.** No modern business should function without internal audits.<sup>47</sup> This is the second line of defense against corruption, after management oversight of an activity. Properly done, the internal audit reports will be sequentially numbered and kept in a file that USAID and its contractors could review. Investigation of physical losses is the job of the audit department, and carried out by specialists. These reports should show the audit date, amount of time spent, the subject or unit audited,

47. A good guide to follow for any review of audits is the December 2001 Statement of Auditing Standards (SAS) 95, *Generally Accepted Auditing Standards (GAAS)*, issued by the U.S. Auditing Standards Board. A reviewer should also study SAS 99, *Consideration of Fraud in a Financial Statement Audit*.

methodology, and criticism. Management comments on the report should be included, along with follow-up action taken. The reports should have gone to the audit committee of the board of directors, to whom the chief auditor reports. A couple of hours of review can establish the thoroughness of the audit work. Naturally, corrupt managements resist putting in modern accounting and controls, or informing many people about what is happening. Until this year, the Montenegrin electricity company did not even have internal auditors — which was a license to steal. Internal audits are far more trustworthy if the auditors report to the board of directors and external directors are the only members of an audit committee of the board.

- **External Audits.** Commercial international lenders, investors, and many donors require external audits of energy companies by reputable, major international accounting firms. The reports should use the full IAS or US GAAP rules and the auditors and energy companies should supply all the components of the financial reports required, including cash flows, footnotes, and the audit certification. Corruption is more probable when the information provided to bidders is not complete or is misleading, when the bidding conditions are not normal, and when bidders are limited to companies that may be politically favored.<sup>48</sup>
- **Offshore Bribery.** An offshore company may bribe an official to get a license to do business and the transaction may not show up on the host country books. USAID should be suspicious of apparent sweetheart deals and check with authorities in a host country for information on the offshore company and share information. For example, a small Canadian company bribed the Trinidadian minister of energy with a \$1.5 million offshore payment for an oil exploration concession. The company was investigated and prosecuted in Canada, and a transcript showing all the basic facts was printed verbatim in Trinidadian newspapers.
- **Sale of Subsidized Products.** Energy products that are produced in a host country at subsidized prices or foreign products brought in under a favorable foreign exchange rate can be illegally resold on the domestic market or exported, and public sector officials may be directly or indirectly involved in such transactions.
- **False Allegations of Corruption.** Sometimes a host country may make unsubstantiated allegations of corruption in order to take over power plants or abrogate contracts, which is a form of corruption itself. USAID may be asked to provide information to explain what has happened and why, as part of what is likely to become a major commercial and diplomatic flap with extensive publicity and U.S. government advocacy.

48. In the U.S., auditors that discover fraud in companies which come under SEC jurisdiction are required to report it to the board of directors immediately and the board is required to report it to the SEC within one day. If the board does not, then the auditor has a legal responsibility to do so the third day. USAID should check to see whether such a requirement exists in the host country and obtain relevant reports, if available. If an external auditor resigns from an engagement, USAID should check to see why.

- **Embassy Involvement in Corruption.** American politicians and companies sometimes request embassy and USAID personnel to support dubious projects and loans from U.S. and international agencies and banks. Corrupt host-country companies and individuals are often involved in such projects. Many of these projects involve loans that are not likely to be repaid as a “carry” for these companies and individuals, who are related to high-level government officials. The ministries may make it clear that the projects will not go ahead without a certain amount of local involvement and may specify who is to be involved. Foreign investors are likely to complain to the embassy and provide information on the conditions and people involved.<sup>49</sup>

Any investigation of corruption is likely to meet with controversy and accusations that the investigators are biased, if it appears they are unearthing corruption. All efforts to examine corruption should be documented carefully. Even contemporaneous hand-written notes should be dated, date stamped, and carefully filed.

Because of reticence, surveys related to corruption in the energy sector are difficult to carry out. Solicitation of anonymous tips from employees and suppliers sent to international donors or an international accounting firm might be useful in identifying particular instances of theft. People should be encouraged to respond in writing by using their own paper, envelopes, and stamps to ensure anonymity. Surveys of consumers might be conducted to find out whether they have had to pay bribes for electricity and natural gas to connect their lines. But, since most people already have such connections, this information is not likely to have a significant effect.

## **ASSESSING INTEGRITY FACTORS IN THE ENERGY SECTOR**

The above discussion suggests that it is difficult to separate out assessments of corruption or corruption vulnerabilities from assessments of integrity factors — some of the items listed above, such as internal and external audits, are clearly related to transparency and accountability. Further investigation of integrity starts with a careful reading of a company’s annual report. A number of matters to consider in annual reports, in follow-up interviews and questions with the financial staff and management of a company (including those who have left recently), and in the inspection of policy and procedure manuals (if any) are listed below. The goal is to

49. A major example of this is the Indonesian Paiton project (a 1,200-megawatt electricity plant) completed in 1999 with the strong support of U.S. Ambassador Barry and President Clinton, at a cost of \$2.5 billion. Many things were clearly wrong. First, relatives of President Suharto received a \$50 million loan from American companies, which was to be repaid out of dividends that were unlikely to be paid. More importantly, since the Indonesian investors — who were involved with President Clinton — also controlled the supply of coal to the plant, they were able to price it at levels that made the plant uneconomic. Thirdly, the cost of the plant was well over twice the cost of a similar power facility anywhere else in the world, and anyone with a modicum of electric power experience would have known the cost did not make sense. Fourth, the cost of power was higher than prevailing electricity rates. Lastly, the price of power was in U.S. dollars — since devaluations were a well-known major risk in Indonesia over the past two decades, this meant in local currency terms the power would be priced out of the market with a devaluation. The plant closed and was bankrupt when it was completed, and many investors and lenders suffered major losses, including U.S. government’s Export-Import Bank (Ex-Im) and Overseas Private Investment Corporation (OPIC).

establish areas with a high probability of corruption and follow up with an in-depth investigation of records and extensive interviews with management and staff.

- **Cash Controls.** Is the company paid in cash directly rather than through a bank? If so, this is an opportunity for corruption, and the controls over accounting for the cash should be investigated. A cash payment can be pocketed and subsequent payments applied to prior bills. Cash payments should be made by the treasurer's department against documents from the accounts payable department, rather than the accounts payable department making the payment directly. This is done to maximize the number of people involved, which is an important safeguard. If one person is approving invoices and making payments, this is an important danger sign.
- **Receivables Aging.** How much of the receivables are past due for over 90, 180, or 365 days? What customers are involved and why haven't they paid?
- **Petroleum Inventory Verification.** The reasonableness of reported inventories of oil companies can be checked against inventories of international companies. Excessive recorded inventories should be verified by inspection — often they do not exist.
- **Consumable Materials & Supplies Levels.** Reported excessive materials, like pipes used in the business, usually signal that the supplies may not exist. This can be verified with on-site inspections. Bidding procedures should be checked to be sure sole-source procurement is not used and the purchases are not from related companies. The costs of the individual items can be spot-checked to see whether they are excessive.
- **Plant & Equipment Costs.** Purchase contracts and bidding procedures for major pieces of equipment recently procured should be examined. Normally, in the energy industry, at least three competent companies should be invited to bid, the bidding terms should not favor one company, and the method of deciding the winner should be clear and objective. The price of the equipment can be compared to international prices obtained from other companies. If political influence has been used in determining the award, this is an important warning sign. Some companies in high-inflation countries revalue their equipment — does the revaluation reflect the realistic market and economic value as required by the IAS, or is the valuation intended to mislead lenders and potential purchasers?
- **Investments & Advances.** Many energy companies provide their customers and affiliates with investments or loans ("advances") for building facilities to use and market the energy. This is an excellent opportunity to drain an energy company of cash through companies that have no intention of building energy-related facilities. Sometimes brokers and suppliers simply do not deliver.

- **Goodwill Realism.** The rationale for a large provision for “goodwill” should be examined for reasonableness. It may be an indication that acquisition costs of companies and assets have involved excessive payments.
- **Payable Levels & Methods.** Payments are normally supposed to be made for goods received or services performed, against valid original invoices. A frequent source of fraud is for phony invoices to be created against which the accounts payable group pays. If a perusal of invoices finds companies that are not known to exist, copies of invoices rather than originals, or no proof of delivery of goods or completion of services, this is usually evidence of fraud.
- **Loan Verification.** Creditors can claim that loans have been made, but then provide no documentation. If this is the case, and the lenders are related to the energy company and its management, then the chances of fraud are high.
- **Taxes Due.** Many government-owned or -controlled energy companies fail to pay their taxes, especially taxes for social funds. Not only does this defraud the government and pensioners, but not booking the liability makes the net worth of the company look higher than it really is. In interviews, questions should be asked about how tax liability is calculated by the revenue service and whether the claims for taxes differ significantly from the energy company’s calculations (and if so, why).
- **Pension Funds.** When pension programs are set up as separately funded entities, which are not consolidated with the energy company, they often are treated as a private piggy bank of the management and politicians.
- **Equity Amounts & Reserves.** Energy companies often understate reserves, such as liabilities for future taxes and pensions (which are a lessening of net worth) that should be established for environmental cleanup or law suits. General knowledge of the company, pollution in the area, and suits pending can provide a reasonable guide to the adequacy of the reserves.
- **Sales Policies.** Energy companies are often forced by politicians to sell to government companies and favored companies on loose credit terms. These can be identified fairly easily if the energy company is reasonably open, since usually the energy company would prefer not to have such terms.
- **Cost of Imported Energy.** If energy is imported, the price of the imports should be examined for reasonableness. Usually these are on long-term contracts, and comparable prices are tracked by the U.S. Department of Energy.
- **Artificial Payrolls.** There is a widespread practice of hiring too many people and allowing some not to work. Either the non-workers pay off the managements or the “workers” do not exist and the money is paid directly to management. This can be checked through anecdotal

information and by reviewing payroll records and signatures of receipts that are in the same handwriting.

- **Fees to Outside Parties.** The easiest way to pay bribes is to pay fees to friends and relatives of politicians for work that is minimal or non-existent. Documentation of work performed for large fees to people known not to be qualified should be requested. Such payments by an American firm could be an offense under the U.S. Foreign Corrupt Practices Act of 1978.
- **Tax Payments.** The bank account numbers into which taxes are paid should be checked to see who owns them.
- **Derivatives & Contingent Liabilities.** Information about derivative contracts should be checked. This includes future sales of energy products and currency, as well as guarantees and outstanding lawsuits. The possibility of large-scale corruption exists in executing these contracts, paying under guarantees, and settling phony lawsuits.

# USING INTERVIEWS TO ASSESS INTEGRITY

This protocol divides the information sought into information about the main systems of a bureaucracy — human resource management, financial management, asset management, external oversight, and services and authority.

## HUMAN RESOURCE MANAGEMENT

### WHY HUMAN RESOURCE MANAGEMENT?

Human resource management includes the supervision, evaluation, and reward or sanction of employees — systems that should normally be one of the first lines of defense against improper behaviors. Authority over human resources can be used to build organized networks of corrupt activity by hiring those willing to cooperate or by coercing them into cooperation. In addition, some researchers think that the conditions of work may also provide an incentive to engage in corrupt activities. If civil servants are not paid adequately, they may need to look for alternate ways to make a basic income, including engaging in corrupt practices.

Human resource systems, therefore, should be evaluated to determine the extent to which they provide adequate protection against corrupt practices, as well as to determine if they are themselves subject to corrupt practices, including:

- Nepotistic hiring practices or purchase of position
- Requiring payments or collaboration with corrupt schemes to maintain one's job or position
- Nepotistic promotion or purchase of promotions
- Ghost workers

### PERSONS TO BE INTERVIEWED

Persons to be interviewed include supervisors responsible for hiring, assignment, promotion, employee performance evaluation, discipline, and firing; and workers of different classes. Interview selectively if there are too many persons responsible for these activities, and a subset of those mentioned above can provide all the important information.

### INFORMATION SOUGHT

**General Administrative Structure.** How many departments or divisions are there in the micro-organizations? What is their function? What is their staffing? What is the official flowchart? What are the different status rankings



of employees and how many fall within each status (e.g., grade, or employee or contractor)?

**Hiring.** What is the official hiring process for the institution? Who defines the post to be filled, and to what review is it subject? To what extent is the official procedure meritocratic? To what extent is it subjective? How many people consider a candidate's credentials? Who has the final hiring decision? Is the official hiring process respected? To what extent are employees hired because of their connections? To what extent do employees pay to be hired (purchase their posts)? Do persons currently in posts match the requirements for those posts? Why or why not?

**Assignment & Promotion.** Who is responsible for assignment and promotion decisions? Who has this authority officially, and who exercises it in actuality? What are the criteria by which such decisions are purportedly made? What are the criteria by which they are actually made? Do employees have to pay for preferential assignments or promotions in money or in favors?

**Conditions of Work.** Are employees generally satisfied with their conditions of work? Do they work in humane conditions (light, heat or cooling, access to toilet facilities, adequate offices)? What is the range of salaries plus indemnities? Are salaries plus indemnities sufficient to meet the basic needs of an average-sized immediate family (lodging, food, utilities, transportation, medical care, school fees)? Are salary payments regular and predictable? Are there adequate provisions for retirement? Are these conditions better or worse than what employees could obtain in the private sector or other government employment? Is there a problem of employee retention (losing employees to the private sector or to other government departments)?

**Shirking.** Do employees come to work every working day? Are employees showing up on time and staying until the end of the official work day? Are they conducting private businesses in the office (e.g., small trading)? Is their work such that they produce measurable outputs? If so, is there any effort to measure output?

**Evaluations.** How are employees evaluated in theory and in practice? To what extent do evaluations focus on substantive performance and integrity (as opposed to presentation, tardiness, etc.)? Is there supposed to be a regular performance review? How often? What information is supposed to be provided in the performance review? Is there any attempt to measure productivity? Are there attempts to compare these measures to similar micro-organizations? Are wages, promotions, or non-wage benefits supposed to be tied to the results of the performance review? In practice, what are the deviations from official policy? Do performance reviews actually take place? Are they taken seriously? Are wages, promotions, or non-wage benefits actually tied to the results of the performance review?

**Discipline & Firing.** What happens if corrupt practices are detected? How is employee discipline handled in theory and in practice? Under what circumstances will corrupt employee behavior trigger administrative or legal action? How is this decision made? Are employees confident that corrupt

practices will be sanctioned? What role do immediate supervisors play in discipline actions? Are people ever fired for substandard performance? Do employees who have been “let go” continue to come to work? Are permanent records kept of employee performance and of disciplinary actions? How are these records maintained? Are they ever tampered with? To what extent do they influence the future career path of the employee?

## **FINANCIAL MANAGEMENT**

### **WHY FINANCIAL MANAGEMENT?**

Financial management includes all systems for handling the institution's finances. These management systems are important from two perspectives. First, financial management systems contain important checks designed to ensure that financial resources are properly used, such as accounting, record keeping, and in-house audits. Financial management systems should be evaluated to determine the extent to which the current financial management system provides adequate protection against corrupt practices. Second, authority over financial resource management can be abused, giving rise to a number of corrupt practices. These include embezzlement, unauthorized lending and borrowing, the extraction of bribe payments to make routine payments (such as payments for goods and services or wages), the extraction of bribes to allocate contracts, or collusion with goods and service providers to fix high prices.

### **PERSONS TO BE INTERVIEWED**

The persons to be interviewed are employees responsible for budgeting, revenue collection and management, payroll management, procurement, expenditures, and auditing and record keeping; as well as furnishers of goods and services and users who pay fees (if applicable).

### **INFORMATION SOUGHT**

**Budgeting.** How accurately does the budget forecast revenues? How reasonably does the budget reflect needed expenditures? How readable is the budget? In short, is the budget of sufficient quality and detail that (1) it is capable of being applied, and (2) it is amenable to tracking to determine the extent to which it has been followed? (For example, do budgeting and expenditures use the same nomenclature?)

**Revenues.** What are the sources of revenues for the institution? Are financial flows from the central government, local government, and other sources clearly demarcated? Are they publicly posted? If not, are they available on request? Are these funds transferred at expected times and in the expected amounts? Are they transferred early or late in the year? If the institution collects fees from the public, what is the procedure for collecting these fees? How are they handled after collection? What procedures are in place for ensuring that users pay only the normal fees, and that collected fees are properly accounted for?

**Payroll.** Is there correspondence between the employees of the institution, their rank, and the payroll? Are some employees working without salary in

hopes of being regularized, or in return for rents that they can collect? Are some persons being paid salaries who are not working (ghost workers)? Are salaries paid on time? Do employees have to pay bribes to collect their salaries?

**Procurement.** What are the procedures used for institutional purchase of goods and services? How is a purchase decision initiated? What contracts does the institution make itself, and what contracts must go to other government authorities? Within the institution, to what extent are procurement procedures followed? How often are goods and services purchased using sole sourcing as opposed to competitive bidding? Are standard form contracts used? How do sole source furnishers obtain contracts? How well are procedures for competitive bidding followed? To what extent does the institution contract with suppliers for later payment? What is the difference between the price the government pays and street price on average? To what extent are contracts allocated by nepotism or in return for bribes? What procedures are in place to make sure that goods and services delivered conform to contract?

**Expenditure.** What are the procedures for expenditures? How many steps, and how many different officials are involved in making a payment? How long does it take to issue a payment? Do persons expecting a payment “follow” their payments through the administration? Do they have to pay one or more bribes to ensure that payment is made, or to accelerate payment?

**Auditing & Recordkeeping.** Are records of financial transactions kept sufficient to permit an audit? Are they up-to-date?

## **ASSET MANAGEMENT**

### **WHY ASSET MANAGEMENT?**

Inventory and tracking systems may be a safeguard against abuses. Opportunities for corrupt use of institutional assets include theft, personal use and renting out of assets, and asset stripping and undervaluation in sale. Asset management systems should be evaluated both to determine the extent to which corruption has taken hold in assets use, and also to determine the extent to which the current asset management system provides an adequate protection against corrupt practices.

### **PERSONS TO BE INTERVIEWED**

Persons to be interviewed include those responsible for the purchase, stocking, storing and tracking, and disposal of institutional assets and supplies, as well as representative employees.

### **INFORMATION SOUGHT**

**Inventory.** What procedures does the institution have for tracking inventory of items purchased and used? To what extent are these procedures followed? Do items purchased disappear, and if so, in what quantities?

**Allocation & Usage.** What procedures does the institution have for allocation of equipment and materials? What procedures are in place to ensure

that institutional assets (telephones, vehicles, parking privileges, etc.) are used only for the intended purposes? To what extent are these procedures followed, and how serious is the problem of personal use, political use, or other unauthorized use of institutional assets?

**Audits.** Are audits conducted to ensure that purchased materials have not been stolen, or, if applicable, their parts stolen or substituted (e.g., vehicles, computers)?

**Sales.** Does the institution sell assets? Is the institution involved in privatization? What are the procedures used in such sales? Are assets sold competitively for fair market value? Do employees collude to strip and undervalue assets before sale in order to purchase them at discounted prices or help others to do so? Who makes decisions about asset sales? What protections ensure against self-dealing and use of inside information?

## EXTERNAL OVERSIGHT

### WHY EXTERNAL OVERSIGHT?

The credibility of internal procedures and oversight depends on the strength of external disciplines. External oversight includes oversight by other government bodies (like audit and evaluation institutions), and oversight by civil society (e.g. citizens committees, business associations, and NGOs).

### PERSONS TO BE INTERVIEWED

Officials at oversight agencies and members of NGOs, business associations, and citizens' committees should be interviewed.

### INFORMATION SOUGHT

**Oversight Organizations.** Which organizations provide oversight over the micro-organization to prevent corrupt or grossly negligent behavior (e.g. ministry, local government, municipality level inspectorate, auditor general, ombudsman, or anticorruption agency)? Are financial audits or value-for-money audits conducted? If so, by whom and how often? What consequences have followed from these audits? What procedures are followed when an irregularity is identified? Do auditors demand or receive bribes from those audited? Under what circumstances would an irregularity lead to notification of another agency, notification of human resources discipline body, or notification of law enforcement?

**Mechanisms for Complaint in Oversight Agencies.** How might an official at one of these oversight agencies find out about corruption or gross negligence in the micro-organization? For instance, are there procedures for making this complaint? How is the oversight body supposed to respond to these reports? What are the administrative procedures for censuring a public official? Which officials are involved in processing the complaint? Is the complainant supposed to be informed of how the case progresses? What are the legally allowable charges and penalties? In practice, are complaints about corruption in the micro-organization followed up? How often are the accused prosecuted? How often are prosecutions successful?

## SERVICES & AUTHORITY

**Legal Redress.** Are there civil suits or criminal complaints that citizens or firms can file to counter corruption? In which courts would such suits be filed? Are prosecutors and judges politically motivated not to prosecute or sentence public officials? Are they competent? Are they corrupt?

**Civil Society Oversight.** Are there supposed to be consultations with citizens, citizens' committees, NGOs, or business associations? Are these regularly scheduled or only "as needed"? How often are they held? In practice, are they held as often as they are supposed to be? Are issues of importance discussed? Do the discussions affect decision making or are they merely pro forma?

### WHY SERVICES & AUTHORITY?

An institution that provides services to outsiders, or has authority of interest to outsiders, has a marketable commodity. Employees who provide the services, or who exercise authority vis-à-vis outsiders, are in a position to extract payments.

### PERSONS TO BE INTERVIEWED

Interview those who have direct contact with outsiders as furnishers of services or exercisers of authority, as well as outsiders who have contact with the institution as seekers of services or the exercise of authority (beneficiaries). Outsiders may include citizens or other government agencies.

### INFORMATION SOUGHT

**Services.** What services does the institution provide? What authority does it exercise with respect to outsiders? What organizations compete with this institution in providing services? To whom does the institution provide services or the exercise of authority? To what extent do outsiders pay bribes to obtain services or the exercise of authority? To what extent are there informal intermediaries who offer to assist outsiders in navigating the institution in order to obtain services or the exercise of authority? If there is a substantial flow of bribes, to what extent does it reflect collusion on the part of employees, and how is the revenue distributed?

**Work Load & Queuing.** Are there an adequate number of employees and resources to meet the work load? To what extent do outsiders pay to receive speedier service?

**Exchange Relationships.** Are there legitimate private exchange relationships between public officials and private actors which make the transfer of informal payments in legitimate ways easier?

# RETICENT RESPONDENTS

In carrying out pilot studies on corruption and integrity in Bulgaria, Georgia, Romania, and Russia, IRIS developed new techniques to identify and mitigate the effect of reticent survey respondents (i.e., those respondents who are unwilling to provide candid or complete answers to survey questions). Questions were developed to judge the reticence of individual respondents. The investigating team then estimated the proportion of reticent respondents and examined whether responses to sensitive questions were systematically different between frank and reticent respondents.

In Romania, respondents were read a question about a sensitive act and then asked to toss a coin and say “Yes” if *either* they tossed heads *or* they had committed the act. This protocol was then repeated six more times with a new coin toss and a different sensitive question. The key to this randomized procedure is the miniscule likelihood of tossing seven tails in a row (0.008). Since the proportion of respondents who said “No” seven times is far greater than the laws of probability allow, it can be confidently stated that almost all the respondents who said “No” that frequently were reticent. Results indicate that 10 percent of these respondents could be confidently identified as reticent.

The method just described is good at identifying respondents who are reticent in their responses to all the randomized questions — since they would answer no to all seven questions — but not those respondents who are reticent in their answers to only some of the randomized questions, since they may answer yes to some of the randomized questions. There are, in all likelihood, many more reticent respondents who cannot be classified as reticent with the same degree of confidence.

In Bulgaria, another variant on this method was tried by using a question where the respondent was asked an innocuous question — the answer to which should always be “Yes” — but where the respondent was unsure of whether a “Yes” response would be interpreted as an admission to corruption by the researchers. Results indicate that about a third of respondents were reticent.

Results from the Romanian study suggest that public officials are much more likely to be reticent than businesspeople — an estimated 35 to 50 percent of officials surveyed appeared to be reticent. Public officials were asked questions about integrity in their own organizations, as well as questions about corruption in other public agencies. Both sets of questions appear to have been answered dishonestly by a large proportion of respondents. It may, however, be possible to improve these estimates by using IRIS’s meth-

ods to identify reticent respondents. Restricting attention to respondents who appear to be frank may lead to more accurate estimates of corruption and integrity. Another option may be to focus on questions that appear to be less affected by the reticence of respondents.

It is worth pointing out that while the results on reticence suggest that there are significant biases in responses to survey questions about corruption, the results also suggest the data are not meaningless. The order of magnitude of biases we have found are not larger than biases in other social science data. For instance, self-reports of income can easily be 20 percent different from actual incomes. Even modest changes in survey technique, like asking respondents to keep a diary of each purchase, can lead to a 20 percent difference in average household expenditure estimates (Grosh & Glewwe, 2000). Likewise, familiar variables like GDP data have to be adjusted for the size of the informal sector, and these adjustments are often more than 20 percent.

Nevertheless, eliciting frank answers to sensitive questions remains a persistent problem in social science research. The IRIS pilot studies found that there are significant biases caused by reticence, the extent of which were previously unknown. The methodological advance resulting from these studies may be useful in understanding and reducing the biases in reports of tax evasion, drug abuse, sexual behavior, and other sensitive topics.

# CONSTRUCTING & INTERPRETING INDICES

This annex is designed to help USAID Mission staff to manage an expert firm (or individual) who has been contracted to develop and interpret corruption indices. The information presented here helps raise awareness about critical considerations and avoid problems.

The first part of the annex examines the difficulties involved in interpreting measures of corruption and integrity, with a focus on common mistakes and how to avoid them, and reviews the features of some widely used indices. The second part shows how to produce indices of corruption by aggregating individual measures of corrupt practices. Two examples are given: (1) aggregating selected measures from the publicly available BEEPS data, and (2) aggregating data from surveys, using data from the IRIS pilot study in Romania as an example.

## INTERPRETING MEASURES OF CORRUPTION & INTEGRITY

“Study Reports that there is More Corruption in the United States than in Moldova.” Most people would be shocked to read this headline, and would conclude that the reporter is mistaken or that the study is erroneous. But, based on the following line of reasoning, this statement could be correct:

- The United States is rich; Moldova is poor
- The United States is big; Moldova is small
- The United States is not corruption free
- Therefore, it is almost surely correct that the total amount of money changing hands due to corruption is much higher in the United States than in Moldova

This fanciful example is given to show how statistics on corruption are not self-explanatory, that the words used to describe phenomena have to be chosen carefully, and that judgments must be made precisely. Consumers of corruption statistics, therefore, need to be aware of this in order to interpret them correctly.

A corruption assessment will inevitably involve the use and interpretation of measures derived by different methods from different sources. In order to be able to interpret and compare such measures, one must be careful to avoid common methodological errors, discussed below.

**How is Corruption Defined?** Some corruption measures are defined to include only bribery, while others are very wide-ranging, including activities in the private sector that are often not included in standard definitions of



corruption. If no definition of corruption is provided to experts whose evaluations are elicited, or to survey respondents, the answers may be based on definitions of corruption that are not the same as those of the analyst posing the questions, and that differ among respondents.

The range of activities covered by a survey obviously affects the interpretation of the resulting data. If the data is based on a general question about corruption, the analyst should check whether a definition of corruption was provided to the expert or survey respondent. In the IRIS pilot study in Romania, respondents were given definitions of corruption and asked to use these definitions in their assessments of corruption in micro-organizations. This technique appeared to work reasonably well — once respondents were provided with definitions, the respondents' prior definitions of corruption were not correlated with their statements about its prevalence.

**What is Being Measured?** It is crucial to ascertain what an indicator measures. Often this is obscure. Is it the amount, frequency, or cost of corruption? Is it the benefits received by the recipient of a bribe or the cost to the briber? The interpretation of the measures depends critically on which of these aspects of corruption is being measured.

A very good example of this is the widely used “Corruption in Government” measure which is part of the International Country Risk Guide (ICRG). This actually measures the effect of corruption on political risk in a country, not corruption per se. A democratization campaign that attacks a corrupt autocracy, and hence temporarily worsens the investment climate because of the resulting political instability, could be associated with a worsening corruption score, even if the result is to reduce corruption.

**Comparing Scales.** Is corruption in two different activities or across two countries being measured with the same scale? For example, questions often vary between different questionnaires. Surveyors sometimes change the wording of their questions from year to year, which can impact responses. Words are important: “very corrupt” is not the same as “completely corrupt”. Context matters — more people are likely to choose “very corrupt” when the next alternative is “not corrupt” than when the next alternative is “somewhat corrupt.” Language is also a problem, a trivial example being that the interpretation of “quite” (a favorite term of surveyors) varies across English dialects. Data should not be compared across surveys unless the question and answer scales are identical.

The construction of numerical scales from non-numerical data can lead to a false precision. When a respondent is asked to place an answer on a scale, the adjectives describing the scale are important. For example, users of the following scale “1-much more, 2-somewhat more, 3-same, 4-somewhat less, 5-much less” often average the numerical responses. This is a sensible enough thing to do, but the consumer of the information should be aware that this implicitly assumes that the mean of “much more” (=1) and “same” (=3) is equal to “somewhat more” (=2), which then loses significant information. To deal with this problem by simply combining the two responses and reporting the proportion that said either “much more” or “somewhat

more” also involves ignoring information (i.e., the distinction between “much more” and “somewhat more”). Thus, despite the problems noted above, unless some of the distinctions on the scale are obviously less important than others, the best way to proceed may be to take the average.

An alternative approach is to offer respondents only end points of the scale and have them decide where on the scale their response should lie. The disadvantage of this method is that different respondents may give different scores to the same set of experiences or beliefs. Thus, it is not clear whether it is better to define only the end points or each point on a scale.

One problem shared by most scale systems is that respondents tend to choose end-points and mid-points of the scale. Histograms of responses often have clear spikes at the end-points and the mid-point. In some cases, this problem appears to be compounded by mathematical confusion. In the World Values Survey many questions were asked on a 1 to 10 scale, and the distribution of answers to many of these questions has a clear spike at 5 — suggesting that respondents tend to interpret 5 as the mid-point between 1 and 10! In the IRIS pilot tests, where only end points were given, a 0 to 10 scale was used to avoid this arithmetic confusion. Respondents did choose endpoints (0 and 10) and midpoints (5) more often than they chose other numbers.

**The Meaning of Differences.** Often, too much importance is attached to small differences in statistics that embody much measurement error. Thus, a judgment needs to be made on whether measured differences are really important enough to emphasize. Recent methodological contributions from both the World Bank and Transparency International warn against attributing too much significance to small numerical differences between “scores” of two countries. If some decision requires information about the respective corruption rankings of these countries, then the standard errors provided by TI and the World Bank should be used to determine the confidence with which the ranking can be made.

**Errors are Not Uncommon.** Surveyors make mistakes. Incorrect translations occur. The names of organizations in questionnaires can be wrong. Samples may not be randomly selected. Thus, if there is an important item of information that is going to be used as the basis of an important decision, check on its provenance. If a piece of data does not square with existing wisdom, then examine the supporting evidence. The conventional wisdom may be wrong, but the statistics overturning it should be handled cautiously.

**Multiple Questions.** The previous points suggest that multiple items of information on crucial issues are important, for consistency checks as well as to create measures of statistical reliability. Consistency checks consist of testing whether data *has the properties* it would have if it were accurate — they generally do not provide firm evidence on whether the data actually are accurate. For instance, if respondents to questionnaires are asked about each of the various costs of registering a firm and asked about the total cost of registration, the sum of the various costs should be correlated with the total cost (if the data are consistent). However, this is not clear evidence

of accurate responses. For instance, if some respondents simply wanted to understate informal costs and were able to do the mental arithmetic to produce a consistent number on the total cost, we would also get a high correlation.

Consistency checks can also be used with variables that are expected to be correlated but not expected to have an exact mathematical match. For instance, we may expect procurement prices to be correlated with reports of kickbacks in procurement, because (say) the need to pay kickbacks would increase equilibrium prices. Again, evidence of a positive correlation would be supportive of some accuracy in the responses, but not clear evidence of honest and accurate responses. One alternative explanation for the correlation could be that respondents infer from knowledge of higher prices that there is corruption in procurement.

The best use of multiple items of information arises on the application of statistical aggregation techniques, discussed in the second part of this annex.

**Analyzing Information in Isolation.** Comparison with other countries and other sectors is crucial in order to put information into a broader context. Statistics presented in isolation may lead to inaccurate judgments on some issues. For example, one might react strongly to the information that 62 percent of Russians in 1996 did not have confidence in the legal system, but perhaps one would interpret this measure differently knowing that the corresponding figure was 65 percent for the UK in 1992 (Hendley, Murrell, & Ryterman, 2001).

**Perceptions, Experience & Objective Measures.** Current work by the World Bank distinguishes between three levels of information:

- *Perceptual* — Survey questions that examine attitudes and beliefs
- *Experiential* — Questions that focus on facts about events experienced by the respondent to a questionnaire
- *Objective* — Information that the responder can obtain from records (of the enterprise or organization, for example).

Polling *public perceptions* is valuable but has its limits. Collecting data on the *actual experience* of people is certainly more accurate than sampling generalized opinion (on the assumption that honest reporting has occurred). Thus, surveyors increasingly rely on questions that reflect personal experience, expressed in a quantitative manner, to understand the dimensions of corruption. If responses to experiential questions about corruption are much less candid than questions about perceptions, a more nuanced judgment may be more appropriate. However, the evidence found in the IRIS pilot studies suggests that reticence affects the answers to both experience-based and perception-based questions.

Whenever possible, data should be collected on *objective measures*. Survey responses on corruption are presumptively suspect, whether they are perception-based or experience-based, and a strong correlation with an

objective measure can provide some confidence in the survey responses. If the interest is in finding out whether there is more corruption in one micro-organization versus another, or in determining whether corruption has decreased over a period, then the statement can be made with more confidence if all measures (perceptions, experience, and objective) point in the same direction. In the IRIS pilot test on pharmaceutical procurement by Bulgarian hospitals, data on doctors' and nurses' perceptions of corruption were found to be consistent with audit reports — i.e., hospitals where doctors and nurses reported more corruption in procurement also got worse audit reports.

**Population Sampled.** Who provided the information that goes into a measure? Was it users or potential users? Was it the general population or the specific group involved in an activity? This can affect the results obtained. The ideal sample is hard to find, but the user of statistics needs to be very wary of comparing data gathered from two very different types of populations.

**Other Consistency Checks.** Consistency checks can also be done at the level of an institution that many respondents interact with. In this case we would expect that if the regulators in a certain Romanian *judet* (administrative district) were highly corrupt, all or most of businesses in that *judet* would report corrupt interactions. Thus, the probability of each business reporting a corrupt interaction should be higher in *judets* where most other businesses also report corrupt interactions. But again, such a pattern is not clear evidence of accurate responses. If there were some common cause of variations in reticence across *judets*, we would also observe these correlations. Our advice to the authors of reports is to run these checks, and our advice to the consumers of reports is to examine whether these checks have been run.

**Other Data Checks.** It is also possible for there to be suspiciously too much consistency in the data. If one finds that a number of survey responses contain identical answers to nearly all the questions in the questionnaire, this suggests serious problems in data collection. In such cases, the suspicious observations should be deleted, and conclusions based on the remaining data. Thus, it is prudent to compare each survey respondent's answers with those of other respondents (this can be done by computer). The consumer of reports is unlikely to find that these tests have been done, as the technique is new, but it is to be hoped that over time it becomes standard practice.

**Exercise Judgment!** The above paragraphs provide tips on problems to be avoided in using data gathered on corruption and integrity. Many pitfalls can be avoided by keeping these issues in mind when using data. However, there is no substitute for exercising judgment when choosing the source of information, especially by noting the background and the reputation of those who are responsible for the collection and initial analysis of raw data.

## AGGREGATING MEASURES & CREATING CORRUPTION INDICES

This section discusses how to construct indices of corruption by aggregating several different pieces of information. Successful aggregation begins with an analysis of why the aggregation is being undertaken. Reasoning begins with the nature of the data being used. Three distinct situations are most common:

- **Multiple Indicators.** In some circumstances, an assessment will have access to several different measurements of essentially the same phenomenon. Each of these measurements could provide an estimate, but a more reliable estimate could be obtained by combining all three. An analogy is the use of two readings of a patient's temperature, in order to lessen error.
- **Multiple Sub-Components.** Corruption in a particular activity might comprise several different corrupt practices — bribery, patronage, and theft, for example — each of which may be measured. Likewise, a sector might comprise different sub-sectors — for example, when the judicial system has both commercial and criminal courts — and corruption in each of these sub-sectors may be measured. In each of these cases, it is obvious that the individual measures are not measuring the same thing, but rather measuring sub-components of a larger entity. The scope of the assessment might be broader than one of the sub-components.
- **Multiple Causes or Precursors.** Sometimes a phenomenon cannot be measured, but determinants or precursors of that phenomenon can be. For example, one might have many measurements of different aspects of institutional integrity, but no direct measure of corruption. In this case, an appropriate objective might be to combine the measures of integrity into one single measure. Presumably, the composite measure of integrity is appropriate if a low value of that measure is a predictor of corruption. The implementation of this method can be improved by the use of previously generated numerical information on the structure of the relationships between predicted and predicting variables.

Each of these situations will now be discussed in more depth (but without entering into technical details). In each case, the resulting index is a weighted average of the various components, but the weights correspond to different factors.

**Multiple Indicators.** The first step is *rescaling*. First, one must reorient the indicators so that greater values mean the same thing for all the indicators, and then place all of the indicators on the same scale by appropriate numerical transformation of the original scores. Many analysts do this by setting the smallest value in a sample equal to 0 and the largest value equal to 100, and rescaling all other values appropriately. For example, if one variable is on a 0 to 10 scale and another is on a 1 to 3 scale, they can both be transformed into a 0 to 100 scale in the following way. For the 0 to 10 variable  $0=0$ ,  $1=10$ , and  $10=100$ . For the 1 to 3 variable,  $1=0$ ,  $2=50$ , and  $3=100$ . Some variables, however, may have no limits to one end of the range (e.g., "cost of starting a firm"). For this and other reasons, some analysts prefer other ways of conducting the scaling. A favorite method is standardizing a variable by subtracting the mean and dividing by the standard deviation. This creates a variable of mean 0 and standard deviation 1.

But to do this rescaling the analyst must know the mean and standard deviation of the data.<sup>50</sup>

Next, the rescaled indicators must then be *aggregated*. If there is no knowledge of which indicator is best, then the recommendation is to create a simple average of all of the indicators. A more complicated procedure would be to create a weighted average (with weights summing to one), in which the weights reflected the relative degree of confidence attached to each indicator. An indicator in which one has more confidence should be weighted more heavily (if a perfect indicator existed it should have a weight of 1 and all other indicators would be disregarded).

There are important tradeoffs in choosing whether to use a weighted or unweighted average. These are illustrated by the corruption indices constructed by Transparency International (TI) and the World Bank Institute (WBI). TI takes the average of standardized data from all available and reasonably representative sources, and limits its published assessments to countries for which it has three independent sources. The WBI indices (Kaufmann, Kraay, & Mastruzzi, 2003) also aggregate all available reasonably representative sources but differ from Transparency International in several ways: (1) they produce data on six dimensions of governance, (2) they publish data on all countries for which there is even one source, (3) they use a somewhat different set of data sources, and (4) they use an aggregation method that gives greater weight to sources that are more highly correlated on average with the other sources.

Whether it is better to use the TI aggregation method (which weights all sources equally) or the WBI method (which gives higher weights to sources that are more correlated with others) is a difficult question. Under the assumption that the *only* reason for correlations between one source and all other sources is their correlation with an underlying true “corruption” measure, the WBI differential weighting method does produce more estimates with less error. However, there are probably also other reasons which create higher correlations between some variables and others. Experts read each others’ reports and are probably influenced by them. In some instances, the firms which produce these estimates actually revise their tentative estimates in line with the estimates produced by other firms (Azfar & Knack, 2004). Thus, even simple aggregation suffers from double counting due to an echo effect (a source is first counted itself and then via the other sources it influences), and the WBI differential weighting method amplifies these echo effects by giving a higher weight to the sources that are more correlated with others.<sup>51</sup> Whether this negative consequence of the WBI method outweighs

50. If data are not available for some observations then a more sophisticated method is called for. This is described in Kaufmann et al. (2003). A simpler alternative is described in Azfar and Knack (2004).

51. Another possible source of inappropriate higher weighting can come from the existence of two different phenomena, such as elite capture and administrative corruption. Suppose each phenomenon is equally important, but there are more sources on administrative corruption than elite capture. Further suppose that administrative corruption sources are more highly correlated with other administrative corruption sources than with elite capture sources, and vice versa. An unweighted average would give too much importance to administrative corruption, since there are more administrative corruption sources. But a weighted average using the World Bank Institute method would give even more importance to administrative corruption, since each administrative corruption source would be more highly correlated with other sources than elite capture, and hence be weighted more heavily than elite capture sources.

the advantage of down-weighting the really inaccurate measures, which all other agencies are sensible enough to ignore, is anybody's guess. Neither method is clearly superior to the other.

It is somewhat reassuring that the aggregation method does not have a large effect on rankings. The correlation coefficient between the WBI *Control of Corruption Indicator* and the TI *Corruption Perceptions Index* is 0.98. But for rankings between pairs of countries, for which the rankings differ between the TI and WBI indices, data users should remain agnostic about the “true” corruption ranking. Both TI and WBI offer standard errors on their rankings as well as point estimates, and these should be taken into account in making any policy judgments about whether there is more corruption in one country than another.

Thus, if both TI and WBI indices agree that there is significantly more corruption in one country, this is a good working assumption. If they do not agree, there is room for doubt. The analyst could try to aggregate the source data, but this requires access to that data, and a lot of analytically intensive effort would have to be expended before an index could be created that was of comparable quality to either the TI or the WBI index. It is more feasible for the analyst to use the TI and WBI indices and take seriously the cautions expressed by the authors of those indices (Kaufmann et al., 2003; TI, 2004; Galtung, 2005), which implies not making decisions based on insignificant differences between country scores.

**Multiple Sub-Components.** Where “corruption” in a particular activity comprises several corrupt practices — say, bribery, patronage, and theft — and where each of these elements has been measured, an aggregate index of “corruption” involves finding a weighted sum of the individual measures. The determination of the weights is the crucial issue. Weights should reflect the importance of the parts to the whole. For example, the Bureau of Labor Statistics (BLS), in constructing the consumer price index, uses weights that reflect the importance of each good in a typical consumer's budget. Hence, when aggregating different corruption activities, one might want to use weights that represent the cost to society of the different activities or weights that represent the loss in efficiency of an organization from each different corrupt activity. In the first case, the focus is on the burden to society, in the second case the focus is on the productivity of the organization in using the resources allocated to it.

The process is somewhat easier in the example of a sector comprising different sub-sectors, as when the judicial system has commercial courts and criminal courts, and corruption in each of these sub-sectors is measured. The simple conclusion is to find a weighted sum of the individual corruption measures in each of the sub-sectors, with the weights determined by the relative importance of each of the court systems to the country as a whole. That relative importance is difficult to measure for many institutions, but imperfect proxies are available (for example the number of cases handled in each type of court). In other contexts, one might weight corruption in different ministries by their budgets.

**Multiple Causes or Precursors.** One interpretation of integrity is that it is a composite of all the factors that militate against corruption. There are many such factors, which differ in importance and effect across activities. Like the multiple sub-component problem, the weights correspond to importance.

A simple example serves to motivate the most important issues. Assume that meritocracy on personnel issues (measured on a scale of 1 to 10) and intensity of press coverage (measured on a scale of 1 to 3) are the two variables that determine integrity in an institution. One does not have a single measure of integrity, nor of corruption. How can one combine these two measures to obtain a single measure of integrity? This measure would be a predictor of the amount of corruption that one would observe in the institution, if this were possible.

The first stage would be to rescale the two variables as described in the discussion on multiple indicators. The second stage is to determine how important each variable should be. Estimates of the contribution of these two factors could come from one of two sources. The better source would be a previous empirical study that statistically estimates the relevant coefficients. (One example is Kaufmann, Mehrez, & Gurgur, 2002). But statistical analysis of the determinants of corruption is a highly undeveloped area of social science — it is unlikely that one will find a statistical study that provides the right information for the right institution in the right country. Thus, after an analyst summarizes existing statistical results, noting the problems with each study, they must fall back on the second source, namely their own judgment. After the relative importance of the two factors has been determined, and appropriate weights assigned, the third stage is to use the weights to create a weighted average of the meritocracy and media intensity variables.

While these methods of determining weights may seem informal, any qualitative judgment on integrity, made without measuring integrity directly, involves implicit weights assigned to different pieces of information. The procedure suggested above simply makes explicit an often implicit process.

One example of an integrity-based corruption assessment is the Center for Public Integrity's *Global Integrity Survey*. The Center for Public Integrity has constructed indices of governance by collecting detailed information on 292 governance-related variables across countries. These 292 variables contain information on both laws and practices that relate to integrity or corruption prevention. Collecting data in this form and at this level of detail is one of the most promising advances in the measurement of governance. The resulting data is specific, comparable, and actionable, like the World Bank's *Doing Business* data. Unfortunately, the data is only available for 25 countries. One way to construct an integrity index from the 292 variables is to be agnostic about the importance of the different variables, put them on the same scale, and add them up. The resulting integrity index is in fact highly correlated with both the TI and the WBI corruption indices. A better alternative may be to think hard about which of these variables are more important than others and weight them more heavily. Properly done, this may lead to an even better predictor of integrity, but this is an exercise that no one has yet attempted.



Annex Table 3 summarizes how to assign weights to various sub-measures when the reason for aggregation is (1) minimizing error by combining multiple indicators, (2) adding sub-components to make an aggregate, and (3) using precursors. Sometimes, the reason for aggregation is a combination of the multiple component and multiple-indicator rationales. In this case, weights correspond to both importance and accuracy.

**ANNEX TABLE 3.  
WEIGHTS USED IN AGGREGATING INDICATORS**

<b>Rationale for aggregation</b>	<b>Weights correspond to</b>
Minimizing error by combining multiple indicators	Accuracy of indicator: If a perfect measure existed, the analyst should use only this one. Since a perfect measure generally doesn't exist, the best thing to do is to use a weighted average of existing measures, weighting the more accurate ones more heavily.
Adding sub-components to make an aggregate	Importance of sub-component. Collect information like budget size, and then think about what weight to assign.
Multiple precursors	Importance of various sub-components of integrity in limiting corruption. Run a regression of corruption on integrity. Assign weights after looking at coefficients, but estimates of coefficients are also subject to error; so one should also make use of other information in assigning weights.

## **CONSTRUCTING A CROSS-COUNTRY INDEX FOR CORRUPTION IN BUSINESS REGULATION**

This section illustrates how an index can be constructed based on data already collected by other organizations. This is done for “corruption in business regulation,” using data from BEEPS2,<sup>52</sup> a survey conducted by the World Bank and collaborating organizations across Europe and Eurasia. BEEPS2 was conducted in all countries of the Europe and Eurasia region with the exception of Turkmenistan. In each country, hundreds of business-people were surveyed on questions regarding corruption and the business environment.

The index to be constructed focuses on three questions asked in BEEPS2:

- How severe an obstacle is corruption to doing business? (OBS)
- How frequent are informal payments? (FRE)
- How large is the monetary magnitude of informal payments? (AMT, the amount of bribe payments as a proportion of revenues)

The first two of these variables are both related to informal payments by businesses, a single form of corruption. OBS, the measure of how severe an obstacle businesses think bribe payments are, covers a broader range of corrupt behaviors, and therefore could be argued to be of equal impor-

52. See Annex 4 on how to access this data.

tance to FRE and AMT combined. Hence, the decision is made to give OBS an equal weight to the sum of FRE and AMT.

The first step in creating a weighted average is to transform variables so that higher numbers always correspond to more corruption. If we do not do this, then averaging the various sub-components will produce a meaningless number. In this example, this step is trivial because both variables are already ordered in this way. Next, variables have to be rescaled. This is important, because if this is not done, the index will automatically give a higher weight to a variable that is measured on a scale of (say) 0 to 100, than a variable that is measured on a scale of 0 to 3. The standard way to do this is to subtract the mean from the variable and to divide by its standard error. This creates variables which all have a mean of 0 and a standard deviation of 1. Next, we construct a weighted average.

In Annex Table 4, below, the variables we start with are OBS, FRE, and AMT. The standardized variables are SOBS, SFRE, and SAMT. The three standardized variables are combined to produce the bribery index, INDBR. (For reasons already explained, SAMT and SFRE are given a combined weight of 50 percent in the bribery index, and SOBS, which is a more general indicator of corruption in the sector, is given a weight of 50 percent.) The countries in Annex Table 4 are listed in order of their World Bank *Control of Corruption Indicator* position. One advantage of the index we have created using the BEEPS2 data, over the World Bank or Transparency International indices, is that it can be used to roughly track progress of specific countries over time, since answers to identical questions are available for similar samples at different points of time, for many countries.

Annex Figure 2 shows the relationship between the World Bank's *Control of Corruption Indicator* and the index of bribe payments constructed here. Predictably, the graph slopes down.<sup>53</sup> The discerning reader, however, will identify other patterns. There are three distinct groupings in the graph: the former Soviet countries, the former Yugoslav countries, and everyone else. To keep the discussion simple, we largely ignore the former Yugoslav countries, which have had a distinct experience in the post-communist years. For the other countries, there is clear and tight fit between the reports by domestic businesspeople and the World Bank *Indicator*, which largely consists of outsiders' evaluations. All the former Soviet countries fall below this line (the Baltics are close).

53. In part this is because the World Bank's *Control of Corruption Indicator* actually includes BEEPS, which complicates the discussion below as well, but the patterns discussed are also present when the index we created is graphed against a purely external index like Freedom House.

**ANNEX TABLE 4. DATA ON CORRUPTION AS AN OBSTACLE, FREQUENCY & AMOUNTS OF PAYMENTS, AND INDEX CORRUPTION IN BUSINESS REGULATION**

Country	Code	OBS	FRE	AMT	SOBS	SFRE	SAMT	INDBR	CORWBI	CORFH
1 Turkmenistan	TKM	.	.	.	.	.	.	.	-1.21	6.25
2 Tajikistan	TJK	2.28	3.05	2.6	0.071	1.079	1.073	0.573	-1.07	6.25
3 Azerbaidjan	AZE	2.08	2.71	2.77	-0.45	0.253	1.264	0.239	-1.07	6.25
4 Kazakhstan	KAZ	2	2.89	2.11	-0.658	0.69	0.521	-0.04	-1.05	6.5
5 Georgia	GEO	2.87	3	2.77	1.609	0.958	1.264	1.385	-1.03	6
6 Uzbekistan	UZB	1.71	2.45	1.47	-1.414	-0.378	-0.199	-0.836	-1.03	6
7 Ukraine	UKR	2.51	2.9	2.2	0.67	0.715	0.623	0.662	-0.96	5.75
8 Russia	RUS	2	3.12	1.45	-0.658	1.249	-0.222	-0.195	-0.9	5.75
9 Moldova	MDA	2.68	2.91	2.09	1.113	0.739	0.499	0.846	-0.89	6.25
10 Albania	ALB	3.11	3.17	3.3	2.234	1.371	1.861	1.966	-0.85	5.25
11 Kyrgyzstan	KGZ	2.37	3.37	3.7	0.306	1.856	2.311	1.233	-0.84	6
12 Belarus	BLR	2.15	2.6	1.5	-0.268	-0.014	-0.165	-0.191	-0.78	5.75
13 Macedonia	MKD	2.46	2.49	0.8	0.54	-0.281	-0.953	-0.094	-0.73	5
14 Armenia	ARM	1.85	2.15	0.95	-1.049	-1.107	-0.785	-0.971	-0.72	5.75
15 Bosnia & Herzegovina	BIH	2.68	2.45	0.97	1.113	-0.378	-0.762	0.24	-0.6	4.75
16 Romania	ROM	2.7	3.05	2.58	1.166	1.079	1.05	1.113	-0.34	4.5
17 Bulgaria	BGR	2.52	2.8	1.95	0.697	0.472	0.341	0.541	-0.17	4.25
18 Latvia	LVA	1.95	2.29	0.96	-0.789	-0.767	-0.773	-0.78	0.09	3.5
19 Croatia	HRV	2.3	2.1	0.61	0.123	-1.229	-1.167	-0.532	0.23	4.75
20 Lithuania	LTU	2.16	2.22	0.72	-0.242	-0.937	-1.044	-0.625	0.25	3.5
21 Slovakia	SVK	2.5	3	1.47	0.644	0.958	-0.199	0.415	0.28	3.25
22 Czech Republic	CZE	1.95	2.2	0.95	-0.789	-0.986	-0.785	-0.821	0.38	3.5
23 Poland	POL	2.5	2.32	1.23	0.644	-0.694	-0.469	0.05	0.39	2.5
24 Hungary	HUN	1.78	2.21	0.98	-1.232	-0.961	-0.751	-1.026	0.6	2.75
25 Estonia	EST	1.71	2.04	0.36	-1.414	-1.374	-1.449	-1.419	0.66	2.5
26 Slovenia	SVN	1.7	1.9	0.81	-1.44	-1.714	-0.942	-1.32	0.89	2
27 Serbia & Montenegro	YUG	2.05	2.36	1.52	-0.528	-0.597	-0.143	-0.411	.	5.25

OBS: BEEPS index on severity of corruption as an obstacle to business

FRE: BEEPS score on frequency of bribes

AMT: BEEPS score on amount of bribes

SOBS: Standardized OBS index

SFRE: Standardized SFRE index

SAMT: Standardized SAMT index

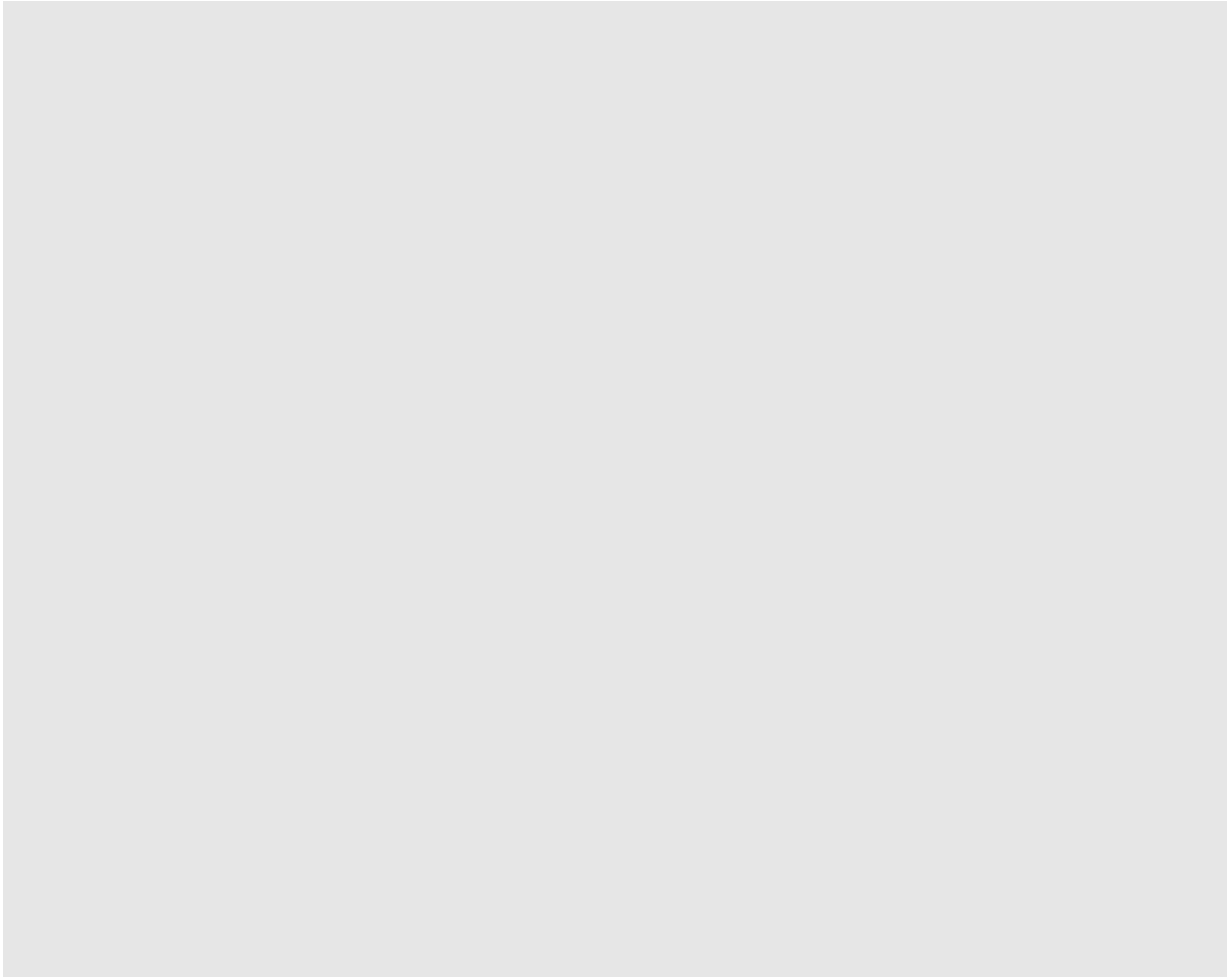
INDBR: Bribery index (weighted average of SOBS (50%), SFRE (25%), and SAMT (25%))

CORWBI: World Bank Institute *Control of Corruption Indicator* (higher score means less corrupt)

CORFH: Freedom House *Nations in Transit Corruption Index* (higher score means more corrupt)

**ANNEX FIGURE 2. BRIBERY INDEX FROM THE BEEPS2 SURVEY AND THE WORLD BANK CONTROL OF CORRUPTION INDICATOR**

**[INSERT FIGURE HERE]**



## COMPARING ONE-STOP SHOPS & HEALTH INSPECTORATES IN ROMANIA

This section illustrates how data collected in a survey can be used to construct indices that enable USAID to compare government agencies or monitor sectoral reforms. The example below, based on an IRIS pilot study, describes indices that compare levels of substantive transparency in Romanian one-stop-shops and health inspectorates.<sup>54</sup>

As has been discussed in this handbook, TAPEE components (such as substantive transparency) are complex concepts. Information on any one practice gives only a narrow view of substantive transparency at an organization. It is better, therefore, to combine information on several aspects of substantive transparency into an index. Such an index is an average of the answers on various practices and a comparison of the index is likely to give a more robust indication of the levels of substantive transparency in different micro-organizations. Of course, interesting and important detail is lost in creating such an index, and the policymaker or analyst interested in the sub-components is encouraged to examine them. Such an examination is often vital in designing reform programs. The use of an index is not a substitute for, and does not preclude, the examination of detailed information on sub-components of transparency.

To produce an index of substantive transparency, IRIS asked Romanian businesses, health inspectorates, and one-stop officials questions to assess the nine sub-components of substantive transparency:

1. Are fees posted in the one-stop shop and readily visible?
2. Do the one-stop shops have a web site whose address is known to officials?
3. Are fees and time limits posted in the one-stop shop?
4. Are fees and time limits posted on the one-stop shop web site?
5. Does a phone number exist for complaints to the one-stop shop?
6. Is an official in the one-stop shop assigned to handle information requests?
7. Is an official in the one-stop shop assigned to handle complaints?
8. How frequently does the one-stop shop meet with the business community?
9. How easily can businesses discern between normal and expediting fees?

The answers to these questions were then aggregated into an index of substantive transparency. This process of aggregation has three steps: normalization, averaging, and rescaling.

54. *Substantive transparency* is the spread of information from public sector agents to the private sector principals most directly interested in the agents' services, whereas *procedural transparency* refers to open, inclusive, and participatory processes that allow political and civil society principals to affect the official rules of the game, the provision and distribution of public goods, and the expenditure of public funds. See Chapter 1.

**Normalization.** The first step is to transform variables so that higher numbers always correspond to more substantive transparency. If we do not do this, averaging the various sub-components will produce a meaningless number. The second step is to transform the variables so that they have similar scales (as explained earlier in this annex).

**Averaging.** The next step involves averaging the various sub-components. If there is no *a priori* reason to think that some of the variables are more important than others, then taking a simple, unweighted average is the best method to use. If there is some reason to believe that some of the variables are more important than others, then these variables should be weighted more heavily. In this example, each of the questions being aggregated was judged to be equally important, hence equal weights were given to all questions. (An alternative method would involve using a table, like Annex Table 3, to assign weights to the various variables.)

**Rescaling.** In this stage the data is rescaled. This is not vital for tests of statistical significance, but can be useful for interpreting the data. One possibility that may improve clarity of exposition is to put indexes on a scale of 0 to 100 — the data are rescaled so that the index has a minimum value of 0 and a maximum value of 100 (hence of the 37 one-stop shops and 37 health inspectorates on which we had valid data, the worst of these 74 organizations got a 0 and the best got a 100). Such a rescaling allows the user of the statistic to understand the magnitude of the difference between different local offices of these agencies. This is similar to the “grade on a curve” technique used by some professors, where the curve is defined only by the performance of the best and worst student in the class.

Rescaling should be done with the entire sample, not separately for different sub-samples. If the rescaling were done separately for the one-stop shops and health agencies, then this would render invalid statistical tests for comparing the two agencies on the basis of the rescaled data.

The user of the rescaled data should, however, remember that the end points are not logically possible absolutes, but simply reflect the variation in the actual range of the variables. If the user believes that the best and worst performing office are both close to what can reasonably be expected, then seeing where an office — or the average — falls on a scale of 0 to 100 is instructive. If, however, all offices are miserable underperformers, then high numbers would not reflect good performance, merely a poor performance that is close to the best-performing office. It is prudent, therefore, to look at some of the sub-components that have meaningful scales to examine whether there is meaningful variation in performance. For instance, for the responses of businesses to a question regarding obtaining information about licensing and inspections, where each business could give an answer ranging from 0 to 10, it was found that the worst-performing offices got an average response of 0.9 and the best performing got an average response of above 9.

**Results.** IRIS found a large and significant difference between one-stop shops and health inspectorates with regard to the average level of substantive transparency. The mean level of substantive transparency in one-stop

shops was 67, whereas the mean level in the health inspectorates was 37. The difference was also statistically significant with a T-statistic above 8 (P-value 0.000). This difference remained statistically significant when reticent respondents were removed from the sample (see Annex 7).

# MODEL SCOPE OF WORK: SECTORAL CORRUPTION ASSESSMENT

[Bracketed, bold grey text indicates where and what information should be inserted for the purposes of tailoring this model scope of work to fit the particular circumstances of a Mission. This text can be replaced by relevant details or used as part of the explanation of the work to be performed, as the user sees fit.]

## OVERVIEW & OBJECTIVE

Corruption, often defined as “the use of public office for private gain,” encompasses a number of different behaviors, such as sale of influence, embezzlement, and patronage. It is a development concern because of its inherent costs, its impact on citizens, and its impact on aid effectiveness. Evaluation of corruption levels and institutional causes can help USAID in several ways: to make strategic decisions regarding programming and resource allocation, to make suggestions for institutional reforms to reduce corruption levels, and to enable monitoring and evaluation of reforms intended to improve public sector management and reduce corruption.

USAID has identified some of the institutional integrity factors that affect corruption levels: transparency, accountability, prevention, enforcement, and education (TAPEE). The mission has decided to conduct an in-depth assessment of corruption and institutional integrity factors in the [name of] sector. [Examples of sectors where this assessment tool could be appropriate include business regulation, health, education, justice, pensions/social insurance, and any sector where government ownership or regulation is prevalent, such as energy, telecommunications, agriculture, housing, or transportation. In some instances, the chosen sector may reflect where USAID has already committed to programming. Alternatively, if USAID is designing a new country strategy, a sectoral assessment may be used to better understand corruption vulnerabilities in an area of government activity where USAID has not previously worked.]

This assessment will provide each of the following components: [All of the components below constitute a full assessment, sequentially structured. A Mission may choose to pursue fewer components. For example, a synthesis of existing information may be already available, or resources may not be available to cover the cost of gathering and analyzing quantitative information. Any components omitted here will also need to be deleted from subsequent sections. At a minimum, a scope of work must include the expert evaluation, listed as the second component, and the analysis leading to recommendations, listed as the fifth component.]



- A synthesis of existing information on corruption in the country, placed in a comparative context, and to the extent available, statistics on the prevalence of different corrupt practices in the sector of interest
- New qualitative information gathered from an expert evaluation addressing the structure of the sector; governance features contributing to institutional integrity, and corrupt practices in the sector; particularly at micro-organizational levels
- New quantitative information about institutional integrity and corrupt practices in the field offices of agencies of interest, gathered via surveys in the field
- Analysis of corruption patterns detected within this sector; as well as recommendations for reforms to improve integrity and reduce corruption vulnerabilities.

**[Here a paragraph should be inserted stating the Mission’s intended use of the assessment findings. For example, findings may be used to help USAID decide whether a sector would be a good target for an anti-corruption program. Alternatively, the assessment’s findings could facilitate incorporating anti-corruption objectives and activities into other types of programming. Detailed information on problematic management practices and particular types of corrupt behavior can inform the selection of counterparts for various objectives. For example, USAID may want to direct support to an agency that is relatively well-managed, or it may want to help promote reform within a badly managed agency. Quantitative assessments of corruption levels can be used to target particular types of behaviors, for example, to focus on improving agency independence if political corruption is particularly problematic, or to focus on reducing petty bribery if that behavior is particularly problematic. In addition, an initial quantitative assessment can be used to determine baseline information, thus enabling the monitoring and evaluation of impact over time from anti-corruption efforts.]**

The contractor should be aware that studies and discussions of corruption are extremely sensitive as they may imply criminal activity by individuals or put informants at risk of retaliation. Accordingly, this assessment is to be conducted with the utmost discretion, and protection of interviewees is a foremost concern.

## **BACKGROUND**

**[The background section should outline:**

- **USAID’s interest in the sector**
- **Existing concerns about corruption and institutional integrity in the country as a whole and in the sector in particular**
- **Any past efforts by USAID, the government, or other donors to improve institutional integrity or reduce corruption**
- **The degree of government political will to correct problems in the sector**
- **Agreements in place between USAID and relevant agencies to facilitate this assessment]**

## STATEMENT OF WORK

### OBJECTIVES

The purpose of this assessment is to gather information on corruption for use in USAID programming. The assessment has three phases, followed by recommendations for program design:

- **Phase 1 — Desk Study.** The objective at this stage is to review existing materials and gather up-to-date background information on corruption in the country and in the specified sector, as well as on the structure of governance in the sector. This kind of information provides context and very broad baseline indicators.
- **Phase 2 — Expert Evaluation.** This phase consists primarily of qualitative field work. The objective here is to gather more detailed information on management practices and corrupt behaviors in the sector. This kind of information allows identification of possible corruption vulnerabilities, provides a rough sense of the degree of corruption, and is necessary to properly design any subsequent quantitative work.
- **Phase 3 — Quantitative Surveys.** During this phase, the assessment team aims to collect information about individuals' experience with different kinds of corrupt practices, and that information can be used to provide relative measures of the extent or degree of corruption within the sector. The quantitative assessment may also document and measure the quality of management practices and the extent of different corrupt practices in the sector of interest.
- **Program Design Recommendations.** The assessment aims to provide recommendations for USAID programming as well as information relevant to monitoring and evaluation purposes.

### TASKS

**I. Review USAID Corruption Assessment Methodology Materials & the TAPEE Framework.** The contractor will review relevant USAID materials on corruption assessment methodologies and the TAPEE framework in order to become familiar with the USAID approach and to help identify the type of information that will be sought in the assessment. This review should include:

- *Transparency, Accountability, Prevention, Enforcement, Education (TAPEE): An Analytical Framework for Combating Corruption & Promoting Integrity in Europe & Eurasia*
- *Analytical Tools for USAID Anticorruption Programming in the Europe & Eurasia Region*
- *Tools for Assessing Corruption & Integrity in Institutions: A Handbook*
- *An Anticorruption Reader: Supplemental Sources on Transparency, Accountability, Prevention, Enforcement & Education*
- Recently completed corruption assessments for other countries or other sectors within this country

**2. Complete Desk Study.** The contractor will collect, analyze, and present existing information on corrupt practices and the structure of the sector. The report will include the following sections:

- *Quantitative information on the prevalence of corrupt practices in the country as a whole, as compared to comparator countries.* Quantitative information should be sought from donors (for example, the World Bank's *Governance Research Indicators Snapshots*), non-governmental organizations (for example, Transparency International), private sources (such as reports of USAID sub-contractors), and academic sources (for example, Eurobarometer or Afrobarometer). Sub-national information should also be collected where available.
- *Quantitative information on different corrupt practices in the sector, compared to other sectors in the country.* Existing studies of the sector should be reviewed, and information about corruption should be summarized and referenced. Where available, comparable information from comparable countries should also be gathered to give context.
- *Qualitative information on the structure of the sector.* Publicly available information about different government agencies in the sector should be included in the desk study. Such information should address the role or function, as well as the nature of their authority, their organization, and their operation. The degree to which relevant information is available for this country should be noted relative both to other countries in the region and to Western standards.
- *Qualitative information on different corrupt practices in the sector.* Where available, existing information on the types and frequencies of corrupt behavior and institutional integrity practices in the agencies in the sector should be presented.

To the extent possible, the desk study should attempt to determine the extent to which corruption is a problem in the country overall (compared to comparator countries), and the extent to which corruption is a problem in the sector compared to other sectors in the country. Similarly, the desk study should document governance features pertaining to integrity.

### **3. Complete Expert Evaluation.**

- *Review the desk study report.* Individuals involved in field work should be thoroughly familiar with the desk study report in order to understand overall perceptions of corruption in the country, the structure of the sector, the agencies involved, their management practices and corrupt behaviors, and also to identify information gaps that need to be filled via the assessment. **[If the desk study component is omitted, then this sub-task should instruct the contractor to review available information on corruption, governance, and the sector before engaging in field work.]**
- *Discuss with USAID the nature of any existing counterpart relationships and USAID political sensitivities.* The contractor must prepare for the assess-

ment by working with USAID to forecast the strength of counterparts' commitment to this assessment and anti-corruption efforts more generally. The contractor should also anticipate the roles that counterparts could play in the assessment (including measures to facilitate access to documents or interviewees) and work with USAID to choose the most appropriate actions to ask from counterparts, given the details of the local circumstances. Any other special measures that should be taken in the course of conducting the assessment should be covered before field work begins, and ongoing discussions of political issues may be necessary.

- *Collect and analyze existing qualitative information on the structure of the sector of interest.* Information should be sought regarding the agencies operating in the sector. For each concerned agency, information should be sought regarding the administrative structure of the agency; the number and distribution of employees; the functions and authorities of employees; procedures for staffing, promotion, and discipline of employees; procedures for procurement and auditing; procedures for asset control and management; procedures for collecting fines or payments from the public; recourse from agency decisions; and procedures involving contact between agency employees and the public. Sources of information may include laws, regulations, agency-specific documents, or reports for donors.
- *Collect supplementary information regarding administrative structure, management practices, and corruption in the sector of interest through structured interviews, focus groups, direct observation, forensic accounting, or statistical analysis.* Based on the information regarding the structure of the sector and the relationship established with counterparts, and in consultation with USAID, the contractor should decide which tools will be most appropriate for use in this sector (see Chapter 3 of the handbook). If structured interviews or focus groups are used as tools to gather information, the contractor should identify a full range of public officials occupying different positions in the agencies involved in the sector and carry out interviews or focus group meetings. Results should include clarification regarding the structure of the sector and (to the extent possible) concerns regarding corruption and management practices. In particular, relationships with other branches and levels of government should be examined.

Additionally, the contractor should identify private parties who interact with the agencies in order to interview them regarding their experiences and opinions regarding different types of corrupt practices in interactions with the agencies. Questions regarding corruption should attempt to identify the most frequent and most problematic types of corrupt acts so that these can be targeted during the next phase of the assessment (quantitative surveys).

An effort should be made to ensure that respondents are representative of diverse groups that may have different experiences with government (e.g., majority and minority groups, big businesses versus

individual firms, persons in the majority party versus persons in the opposition, persons from different regions). Schedules of questions should be drafted in advance to ensure completeness and comparability. Approximately 20 interviews of private parties and 20 interviews of officials should be completed — these numbers can be adjusted in consultation with USAID in order to improve the amount and pertinence of information gathered and to reflect the number of different agencies involved in a given sector.

The contractor should take measures to ensure that the names of interviewees remain strictly confidential and should not pass these names to USAID. In addition, information should be presented in such a way that it is not possible to identify the source.

- *Draft qualitative assessment report.* The contractor should draft a report briefly describing the sector in the larger context of the country and the government, then in more detail the institutional structure of the agencies involved and information regarding institutional integrity (TAPEE factors), as well as what was learned about the frequency and type of corrupt practices. This report should conclude by identifying specific areas of interest that should be addressed in the next phase of the assessment.
- *Finalize qualitative report in light of USAID feedback.*

#### **4. Conduct Quantitative Assessment.**

- *Review the desk study and expert evaluation reports.* These reports should be reviewed for information that will be useful in developing a data collection plan and survey instruments. Additionally, Chapter 4 of the handbook should be consulted. **[If the desk study component is omitted, then this sub-task should instruct the contractor to review existing quantitative studies for data that may be relevant.]**
- *Review with USAID the nature of any existing counterpart relationships and USAID political sensitivities; decide if public officials should be surveyed.* The contractor should analyze how the counterparts' attitudes towards corruption generally, and the assessment in particular, will impact the quantitative assessment and plan accordingly. In some situations, potential interviewees — such as lower-level officials and civil-service employees — may refuse to answer survey questions unless their participation has been approved by their superiors. The contractor must develop a strategy to minimize this type of problem and, if appropriate, call on USAID officials to negotiate with their official counterparts. In other situations, where officials are highly likely to be reticent or to withhold information even when survey participation has been authorized by their superiors, a survey of public sector officials may be deemed unlikely to succeed. In such cases, resources would be better spent on conducting a survey of private sector beneficiaries or clients, followed by another expert evaluation (the follow-up evaluation, however, would be more in-depth and targeted, based on the findings of the survey).

- *Develop a data collection plan.* Drawing on information collected under the first two tasks (directly above), the Consultant should develop a description of the types of respondents to be surveyed, and a sampling methodology designed to ensure geographic representation. Respondents from the private sector should include households or businesses, depending on the nature of the sector. Some sectors may benefit from including both kinds of respondents. (For example, both households and businesses benefit from transportation services, provision of electricity, telephone service, and water and sanitation.)
- *If appropriate, design questionnaires for public officials.* Questionnaires for public officials should focus primarily on internal management practices dealing with transparency, accountability, prevention, enforcement, and education. Questions regarding management practices should ask respondents about the quality of various kinds of management practices linked to TAPEE factors in the field office in which they are employed. (Illustrative questions and more information on TAPEE can be found in the handbook.) The questionnaire should not take more than 40 minutes to administer. No information identifying individual respondents should be gathered in the questionnaire.
- *Draft private sector questionnaires.* Questionnaires for private parties should focus on their experience interacting with government agencies, including various kinds of corrupt transactions. Questions regarding corruption should ask respondents for the frequency of occurrence in the field office with which the respondent interacts as well as cost measures. (Illustrative questions and more information on TAPEE can be found in the handbook.) The questionnaire should not take more than 40 minutes to administer. No information identifying individual respondents should be gathered in the questionnaire.
- *Draft informed consent forms.* The informed consent form should explain the purpose of the research, its benefits, and the risks to respondents of answering the questionnaires. It should explain the right of respondents to refuse to answer any particular question or to withdraw their participation at any point up until the moment when the questionnaire is collected by the interviewer. It should also explain to respondents that because no identifying information will be gathered, it will not be possible for respondents to change their mind and withdraw their questionnaire once the questionnaire is collected.
- *Retain a local firm or organization with expertise in survey research.* The local firm or organization should have research experience with topics related to governmental activities. Additionally, the local survey firm must also be prepared to protect confidentiality of survey respondents and the assessment as a whole, given the sensitive nature of corruption. The local survey firm will be involved in many of the subsequent steps, including translating and formatting the questionnaires and informed consent forms.

- *Conduct pre-testing.* Questionnaires and informed consent forms should be tested with focus groups or a small number of potential interviewees to ensure that the questions are clear, correctly translated, well understood, and to what degree respondents are capable of answering them and are comfortable answering them honestly.
- *Revise questionnaires in light of pre-testing results.* Back translate questionnaires. The local survey firm should re-translate the questionnaires into English to check the quality of the translation.
- *Train interviewers.* The local survey firm should recruit and train interviewers to carry out the survey. The contractor should assist with this training.
- *Conduct fieldwork.* The local survey firm should dispatch interviewers to carry out the survey and supervise their work. Spot checks should be done to ensure quality. Informed consent forms should be read and checked off by interviewees if they agree to participate, and the forms should be signed by interviewers to indicate that the respondent received and understood the informed consent form and agreed to participate.
- *Design data template.* The local survey firm should prepare a data template in Excel, SAS, or STATA. The template should be designed to maximize clarity and extent of subsequent analysis of the data. Information identifying respondents should be limited so as to protect confidentiality as much as possible. (For example, firms can be numbered rather than named, and information on their location would include only municipality rather than street address.)
- *Enter data.* The local survey firm should enter survey responses according to the template into two different files, which can be compared to detect (and thus minimize) data entry errors. One file should be prepared and delivered to the contractor.
- *Review and clean data.* The contractor should review the data file to ensure that all answers are within legitimate bounds and of the correct type. Missing data should be correctly noted. Observations should be compared against each other to identify observations that may be erroneously entered (e.g., multiple entries).
- *Draft a technical report.* The local survey firm should prepare a technical report on the survey process, describing the conduct of the survey with attention to problems encountered in sampling and collecting responses.
- *Analyze data.* The contractor should analyze the data to identify the most prevalent types of corrupt practices, and the strengths and weaknesses in institutional integrity practices in the identified agencies. Descriptive data should be produced for the different questions, types of respondents, and field offices. Data should be checked to see whether reports concerning the same field office are statistically

consistent (for example, by regressing the response of an individual respondent on the mean of other respondents reporting on the same field office). Estimated institutional integrity and corruption levels should be produced by taking the mean of respondents' estimates of corruption levels and the quality of management practices. The relationship between corruption levels and the quality of management practices in the different field offices should be explored. Regional variations should be identified.

- *Write report.* See description of deliverables for details on final report. The contractor should present information in such a way that individual respondents cannot be identified. For example, if only two respondents per field office are interviewed, data should not be presented by field office.

## **5. Analyze Corruption Patterns within Sector & Draft Recommendations to Improve Integrity.**

- *Review the desk study, expert evaluation, and quantitative survey reports.* These reports should be analyzed to identify and explain patterns of both corruption and the underlying causal factors. **[If the desk study and/or the quantitative survey components are omitted, then references to those deliverables should be deleted, and expectations about the depth of resulting recommendations should be adjusted.]**
- *Conduct follow-up on expert evaluation using structured interviews, focus groups, direct observation, forensic accounting, or statistical analysis.* Any anomalies or unexpected findings from the previous tasks should be addressed via a second expert evaluation. For example, if a high degree of variation between sub-national regions of a country is observed via the quantitative component, then further examination of the connections between this level of government and the sector in question should be carried out. Alternatively, if some agencies are found to exhibit much more corruption than others, then additional information on integrity factors should be sought. Generally, the possibility of systemic corruption should be addressed in this stage (see Chapter 1 of the handbook).
- *Consult with USAID about current program design.* The contractor should make sure that the assessment's recommendations reflect, to the extent possible, USAID's priorities or programming choices since project inception. This will primarily affect the level of detail to be provided in recommendations.
- *Relate findings of the assessments to recommendations for reform.* Based on the findings of the previous components, the contractor should develop and explain recommendations for actions that USAID can take to assist counterparts in efforts to reduce corruption, strengthen integrity, and provide more efficient and effective services to the citizens of the host country (see Chapter 5 of the handbook).



## DELIVERABLES

### STATUS REPORTS

**Monthly Reports.** The contractor should deliver a monthly report summarizing work to date and detailing obstacles encountered.

### DESK STUDY

**Desk study draft report (not to exceed 20 pages).** The report will detail quantitative information on national corruption levels compared to those of comparator countries; quantitative information on sectoral corruption levels compared to those of other sectors; and qualitative information on sectoral corrupt practices.

**Desk study final report (not to exceed 20 pages).** The final report will respond to USAID comments and observations. The report should be submitted in hard copy (three copies) and electronic format.

### EXPERT EVALUATION

**Expert evaluation draft report (not to exceed 20 pages).** The report will detail the structure of the sector; identify the key agencies implicated, describe in detail their administrative structure, and provide information on TAPEE factors. It will also detail corrupt practices and describe corruption concerns raised by respondents. Finally, it will contain suggestions for further investigation by quantitative assessment.

**Expert evaluation final report (not to exceed 20 pages).** The final report will respond to USAID comments and observations. The report should be submitted in hard copy (three copies) and electronic format.

### QUANTITATIVE ASSESSMENT

**Fieldwork plan (not to exceed 10 pages).** The fieldwork plan will explain the sampling methodology, identifying the types of respondents sought and steps taken to ensure geographic dispersion and adequate representation of relevant groups within the population at hand. Typically, employees of field offices of agencies in the sector will be surveyed along with private parties that interact with those field offices. It will explain any special steps taken to improve respondent confidence or ensure the confidentiality of responses. It will describe in general terms the type of information sought from the different types of respondents. Finally, it will set out a GANTT chart showing the projected timing of data collection.

**Final questionnaires and informed consent form.** The final questionnaires should not take more than 40 minutes to administer and should collect information relevant to institutional integrity factors, corrupt practices, and levels of corruption.

**Survey data set.** The survey data set should be submitted on a CD-ROM in a format previously agreed upon with USAID.

**Draft quantitative assessment report (not to exceed 30 pages).** The report should include a brief description of the sector; the structure of the

agencies involved, and existing information regarding the most prevalent corrupt practices. It should include a brief discussion of the methodology of the quantitative assessment. It should then set out information gathered from the surveys regarding institutional integrity practices in different field offices of the identified agencies as well as reported corrupt practices. The report should present findings that are relevant to further discussion of institutional strengthening, including identifying the major weaknesses in institutional integrity, the most prevalent types of corrupt practices, and pointing out any regional differences in integrity and corruption levels. Finally, the report should conclude with a discussion of the implications of the findings for the specific mission objective identified by USAID (e.g., development of a country strategy, allocation of resources among sectors, development of an anti-corruption project, or development of a monitoring and evaluation strategy).

**Final quantitative assessment report (not to exceed 35 pages).** The final report will respond to USAID comments and observations. The report should be submitted in hard copy (three copies) and electronic format.

### **RECOMMENDATIONS FOR PROGRAM DESIGN**

**Draft report on overall findings and recommendations (not to exceed 50 pages).** The draft report should explain the patterns of corruption examined in the assessment and their respective causes, including the results of any follow-up qualitative information gathering. The draft report should also explain how these findings can inform the design of USAID programming specifically. Recommendations may entail explaining reforms that USAID should advocate to the host country government. Additionally, any baseline information resulting from the assessment should be identified, and recommendations for future monitoring and evaluation presented. The draft report should include relevant sections of deliverables previously submitted, so that the whole story of the assessment can be found in one document.

**Final quantitative assessment report (not to exceed 50 pages).** The final report will respond to USAID comments and observations. The report should be submitted in hard copy (three copies) and electronic format.

## **RECOMMENDED COMPOSITION OF TEAM & LEVEL OF EFFORT**

The assessment team will include both expatriate and local staff. The contractor will be responsible for all translation and support staff. A six-day work week is authorized for contractor staff.

To facilitate a modular approach, the staff and level of effort required for each task is listed below the task. However, because the tasks should be done in sequence, the same personnel may be employed in different tasks.

Project staffing and level of effort assume that a full assessment is conducted, including a quantitative survey of both public officials and private sector beneficiaries or clients. If the survey of public officials is not conducted, then the level of effort should be applied to the follow-up expert evaluation.

## **DESK STUDY**

**Analyst.** An economist, political economist, or political scientist with experience in the sector and in interpreting statistical and survey data, fluent in English and, if deemed important, reading ability in local language, to gather and analyze data and write the desk study report.

## **EXPERT EVALUATION**

**Team Leader/Anti-Corruption Specialist:** A political economist or political scientist experienced in conducting interviews on sensitive subjects. Experience within the relevant sector is desirable. The Team Leader is responsible for deciding which tools are used for gathering information and writing the expert evaluation report.

**Sector Specialist:** A specialist within the relevant sector with experience in the country or at least the neighboring region. The Sector Specialist is responsible for contributing to the qualitative report.

**Local Sectoral Expert/Interpreter (with government experience):** A local sectoral expert, fluent in both English and local language, with experience in the government agencies in the sector of interest.

**Local Sectoral Expert/Interpreter (with private sector experience):** A local sectoral expert, fluent in both English and local language, with experience in the private sector dealing with the government agencies in the sector of interest. The local sector expert will help conduct structured interviews, focus group meetings, direct observation, or accounting forensics, as directed by the Team Leader.

**Logistical Assistant:** A logistical assistant to contact potential interviewees, make appointments, arrange transportation, and procure supplies.

## **QUANTITATIVE ASSESSMENT**

**Team Leader/Anti-Corruption Specialist:** An economist or political scientist with an advanced degree and prior experience conducting research on corruption related issues and/or developing anti-corruption programs in developing and transition countries. The Team Leader is responsible for ensuring oversight of the survey design and implementation as well as delivery of the quantitative report.

**Local Sectoral Expert/Interpreter (government experience):** A local sectoral expert, fluent in both English and local language, with experience in the government agencies in the sector of interest. The local sectoral expert will help draft survey instruments, interpret responses, and draft the report.

**Local Sectoral Expert/Interpreter (private sector experience):** A local sectoral expert, fluent in both English and local language, with experience in the private sector dealing with the government agencies in the sector of interest. The local sectoral expert will help draft survey instruments, interpret responses, and draft the report.

**Survey Manager:** A social scientist or administrator with experience in contracting and overseeing foreign survey firms. The survey manager will contract and oversee the local survey firm, including on-site visit.

**Local Survey Firm:** A local survey firm with a proven track record of administering complex surveys on social or political topics (rather than only market research), preferably on sensitive subjects. The survey firm will advise on the survey instruments, conduct pre-testing, revise and translate survey instruments, recruit and train interviewers, carry out the survey, supervise interviewers and ensure quality control, design a satisfactory data template, enter and clean the data, and draft a technical report on the conduct of the surveys.

**Survey Statistician/Author:** A survey statistician with an advanced social science or mathematics degree with familiarity with the special issues involved in analyzing the data from complex survey designs. The survey statistician will analyze the data from the surveys and contribute to the report.

**Junior Social Scientist/Author:** A social scientist with an undergraduate or master's degree. The junior social scientist will contribute to the report, create tables and data presentations, write report sections (under direction), edit, and proofread.

## **RECOMMENDATIONS FOR PROGRAM DESIGN**

**Team Leader/Anti-Corruption Specialist:** An economist, political economist, or political scientist with an advanced degree and prior experience conducting research on corruption-related issues or developing anti-corruption programs in developing and transition countries. The Team Leader is responsible for conducting the follow-up expert evaluation and writing the final overall report for the project.

**Sector Specialist:** A specialist within the relevant sector with experience in the country (or at least the neighboring region). The Sector Specialist is responsible for contributing to the interpretations of findings and the development of recommendations.

**Local Sectoral Expert/Interpreter (government experience):** A local sectoral expert, fluent in both English and local language, with experience in the government agencies in the sector of interest. The local sectoral expert will help conduct follow-up qualitative analysis.

## RECOMMENDED LEVEL OF EFFORT

Position	Task	Step	Days
<b>Analyst</b>			<b>14</b>
<b>Desk Study</b>	Review literature and existing data sources		7
	Draft desk study draft report		5
	Revise and submit desk study final report		2
<b>Team Leader</b>			<b>105</b>
<b>Expert Evaluation</b>	Collect qualitative information on sectoral structure		10
	Collect interview information on sectoral structure and corruption		10
	Draft qualitative assessment report		8
	Finalize and submit qualitative assessment final report		5
<b>Quantitative Assessment</b>	Review available information consult with USAID, plan data collection strategy		5
	Draft questionnaires and informed consent forms		10
	Finalize questionnaires and informed consent form		1
	Finalize survey data set		1
	Draft survey report		10
	Finalize and submit final survey report		6
<b>Follow-up Expert Evaluation, Recommendations</b>	Carry out additional expert analysis		20
	Draft findings and recommendations		10
	Presentation to USAID and counterparts		4
<b>Sectoral Expert</b>			<b>50</b>
<b>Expert Evaluation</b>	Collect qualitative information on sectoral structure		10
	Collect interview information on sectoral structure and corruption		10
	Contribute to qualitative assessment report		4
<b>Follow-up Expert Evaluation, Recommendations</b>	Carry out additional expert analysis		20
	Draft findings and recommendations		6
	Finalize report		5
<b>Survey Manager</b>			<b>37</b>
<b>Quantitative Assessment</b>	Contribute to development of strategy for gathering data		2
	Review questionnaires and informed consent form		4
	Supervise pre-testing		4
	Train interviewers		3
	Develop data templates with survey firm		1
	Supervise survey implementation		15
	Review technical report		3
	Clean data		5

## RECOMMENDED LEVEL OF EFFORT, CONTINUED

Position	Task	Step	Days
<b>Survey Statistician</b>			<b>46</b>
<b>Quantitative Assessment</b>	Contribute to development of strategy for gathering data		5
	Draft questionnaires		10
	Develop data templates		1
	Analyze data		20
	Draft survey report		10
<b>Junior Social Scientist</b>			<b>10</b>
<b>Quantitative Assessment</b>	Draft survey report		10
<b>Local Sectoral Expert (Gov't)</b>			<b>73</b>
<b>Expert Evaluation</b>	Collect qualitative information on sectoral structure		10
	Collect interview information on sectoral structure and corruption		12
	Draft qualitative assessment report		5
	Finalize qualitative assessment final report		5
<b>Quantitative Assessment</b>	Draft questionnaires and informed consent form		10
	Draft survey report		10
<b>Follow-up Expert Evaluation, Recommendations</b>	Carry out additional expert analysis		15
	Draft findings and recommendations		6
<b>Local Sectoral Expert (Private)</b>			<b>48</b>
<b>Expert Evaluation</b>	Collect qualitative information on sectoral structure		8
	Collect interview information on sectoral structure and corruption		10
	Draft qualitative assessment report		5
	Finalize and submit qualitative assessment final report		5
<b>Quantitative Assessment</b>	Draft questionnaires and informed consent form		10
	Draft survey report		10
<b>Local Logistical Assistant</b>			<b>20</b>
<b>Expert Evaluation</b>	Set interview appointments; arrange focus group meetings; procure documents		20

### Period of Performance

Desk Study: 3 to 4 weeks

Expert Evaluation: 8 to 10 weeks

Quantitative Assessment: 10 to 30 weeks

Follow-up Analysis and Recommendations: 3 to 4 weeks



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