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New frontiers in diagnosing and combating corruption

Corruption flourishes where policies provide incentives for it and restraining institutions are weak. Diagnosing corruption helps a country understand the shortcomings in its policies and institutions and design a strategy to strengthen the state's performance.

Over the past year the World Bank has helped Albania, Georgia, and Latvia measure corruption and design strategies to combat it and improve governance. All three countries are now refining and implementing these strategies. This note explains how empirical surveys can inform—and transform—the policy dialogue, so that a workable anticorruption agenda can be established. It also highlights challenges in performing these surveys, and in translating survey results into priorities for institutional reform.

Why measure corruption?

Implementing reforms to improve governance is inherently difficult. Because such reforms dramatically diminish the rents from corruption, they are often resisted by senior officials, other politicians, and bureaucrats. Yet such resistance can often be cloaked by the lack of concrete evidence on corruption and by the assumption—now disproven—that corruption cannot be measured. When such evidence is available, the debate on corruption can be depoliticized and its focus shifted to substantive issues.

Measuring corruption offers other benefits as well. It can help establish priorities for reform by identifying activities and agencies where corruption is concentrated. It educates the public about the economic and social costs of corruption. And it establishes a baseline against which the successes and failures of reform can later be measured. Repeated surveys, starting 18 to 24 months after a reform program begins and at least once a year thereafter, are key to giving the government the information it needs and refocusing reform efforts.

What empirical approaches should be used?

Until recently it was considered impossible to systematically measure corruption in government institutions and assess its economic and social costs. Data consisted of general measurements of public and expert perceptions of aggregate corruption in a country. But recent advances include cross-country analysis of data on perceptions of corruption against institutional and other correlates, to better understand its causes and consequences. These studies have improved our understanding of corruption and helped identify potential problems in countries' institutional arrangements. For example, cross-country analysis shows that corruption is higher in countries that repress civil liberties. Such "flags" do not, however, provide the country-specific detail that is needed to depoliticize the policy debate and design rigorous anticorruption agendas.

Empirical surveys can provide the information needed to develop an anticorruption agenda

Respondents are willing to discuss agency-specific corruption with remarkable candor

The newest frontier in the fight against corruption is to survey the parties to corruption directly and simultaneously—including household members, enterprise managers, and public officials—and ask them about the costs and private returns of paying bribes to obtain public services, special privileges, and government jobs. Until recently skeptics believed that parties to corruption had an incentive to underreport it. But with appropriate survey instruments and interviewing techniques, respondents are willing to discuss agency-specific corruption with remarkable candor. Even with underreporting and nonresponses to some sensitive questions, the results offer telling lower-bound estimates of corruption.

The limits of different empirical measures of corruption point to the desirability of using multiple approaches and data from different sources. Consistent findings across these approaches and sources significantly enhance the reliability and ease of acceptance of the empirical evidence—as well as the credibility of the actions it suggests.

What are the early results?

Detailed surveys of corruption were conducted in Albania, Georgia, and Latvia. Preliminary results provide a startling picture of systemic corruption that hurts public welfare, taxes private sector activity, and is deeply institutionalized.

There are many types of corruption, and each country's pattern is distinct

Respondents reported many types of corruption, including embezzlement of public funds, theft of state property, bribery to shorten processing time, bribery to obtain monopoly power, and bribery in procurement. In Georgia the most common form of corruption (from this short list) is embezzlement of public funds. In Albania and Latvia the most common form is theft of state property. In addition, bribery in procurement is common in all three countries.

Institutional causes of corruption differ, suggesting different priorities for reform

In Albania a weak judiciary is one of the main causes of corruption; regulatory failures are much less important. Regulatory failures are more serious in Georgia and Latvia, both in terms of excessive regulations and the discretion granted to regulators enforcing them. The data provide information that can help establish priorities in each of these areas. For example, detailed statistics were collected on the bribes paid by enterprises to regulators in different agencies. This information can be used to establish which agencies are receiving the largest share of side payments (figure 1).

Enterprises would pay higher taxes if corruption were eliminated

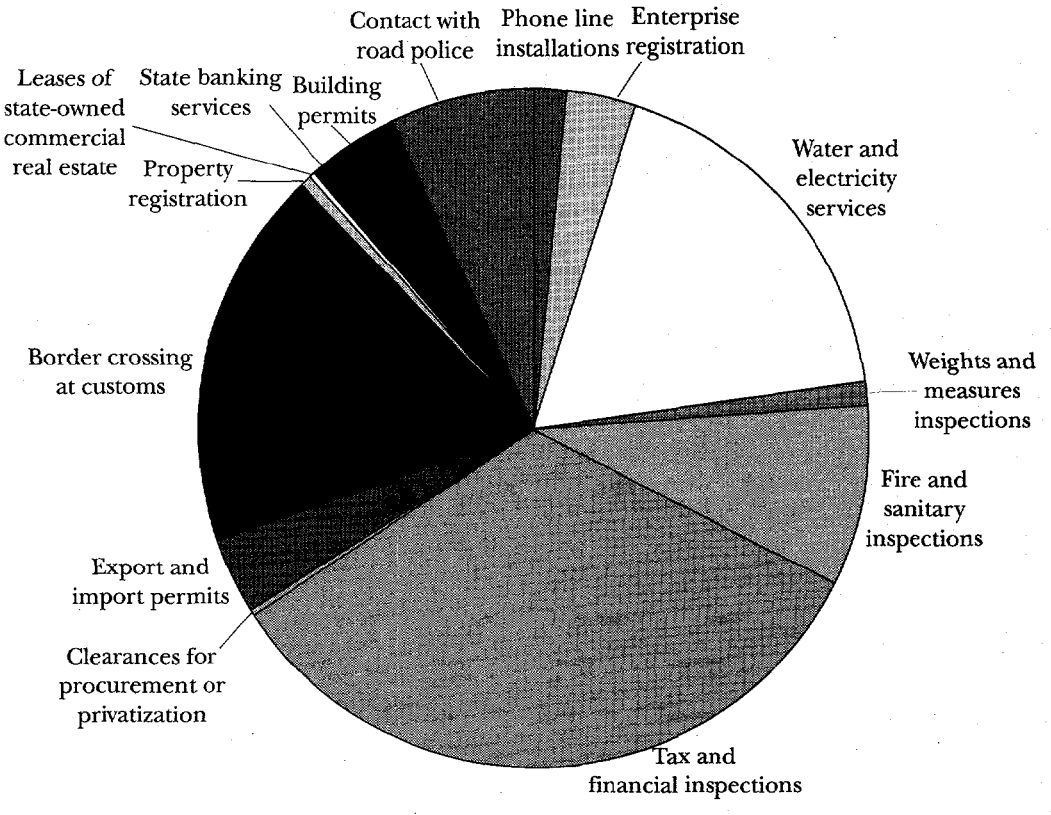
Corruption has serious implications for public finance (table 1). A large number of small bribes are paid to officials to avoid paying taxes, customs duties, and other liabilities to the state. Moreover, other types of bribes (such as unofficial payments to public officials for special privileges, such as a favorable judicial decision, that do not have direct fiscal implications) may crowd out payment of tax

Table 1 Corruption and lost tax revenue
(percent)

Indicator	*Albania*	*Georgia*	*Latvia*
Enterprises willing to pay higher taxes if corruption were eliminated	53	71	30
Additional taxes as a share of revenue of those enterprises willing to pay higher taxes if corruption were eliminated	11	22	15
Additional taxes as a share of revenue all enterprises are willing to pay if corruption were eliminated	6	16	4

Source: 1998 World Bank survey of 483 enterprise managers in Latvia (Latvia Facts), 350 managers in Georgia (GORBI), and 356 managers in Albania (ACER).

Figure 1 Where does corruption occur in Georgia?



Source: World Bank–GORBI survey of 350 enterprises, May 1998.

The burden of corruption is much greater for poorer households

and other liabilities to the state. Indeed, corruption is quite costly for firms: in Albania and Latvia bribes account for 7 percent of revenue in firms that admit to paying them. In Georgia bribes account for 15 percent of firms' revenue. Lost fiscal revenues are high in all three countries, especially Georgia.

Corruption disproportionately hurts the poor

In Georgia 14 percent of households admit to paying bribes and in Latvia, 12 percent. Although richer households are more likely to pay bribes, the burden of corruption—measured as the fraction of income paid in bribes—is much greater for poorer households.

Bureaucrats pay for lucrative positions

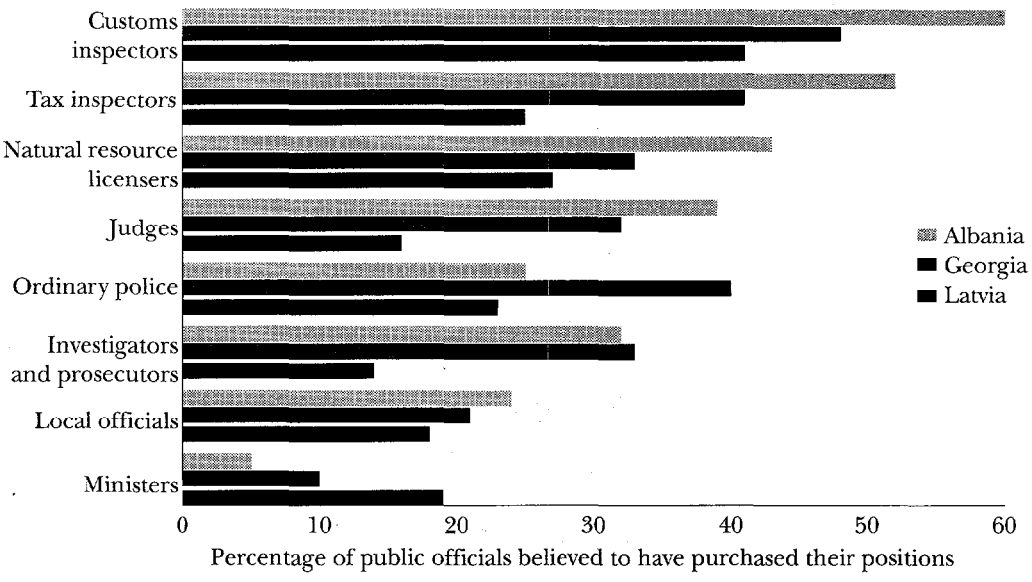
In Albania, Georgia, and Latvia the price of obtaining "high rent" positions is well known among public officials and the general public, suggesting that corruption is deeply institutionalized (figure 2). Higher prices are paid for jobs in agencies and activities that households and enterprises report to be the most corrupt, suggesting that corrupt officials rationally "invest" when buying their public office.

The pattern of these payments differs, however. In Latvia ministerial positions are purchased more often than in Albania and Georgia, and lower-level positions are purchased less often. This pattern suggests that grand corruption may be more of a problem in Latvia, while petty corruption is more serious in Albania and Georgia.

What role did the data play?

The anticorruption programs in Albania, Georgia, and Latvia share several features. All three countries first sought assistance from the Bank in designing reforms to improve governance. Given the inherent difficulties of public sector reform, strong client ownership was essential. Next the countries committed to open and transparent policymaking—including collecting detailed data on corruption and sponsoring public workshops to discuss the data and the policy agenda. Finally, the govern ments initiated policy processes that should culminate in anti-

Figure 2 Purchasing public positions



Source: 1998 World Bank surveys of 218 public officials in Latvia (with Latvia Facts), 350 public officials in Georgia (with GORBI), and 97 public officials in Albania (with ACER).

It will be essential to continue to refine the methodology for transforming survey evidence into reform priorities

corruption programs for regulatory reform, civil service and public administration reform, public finance reform, and judicial reform. In addition, efforts were made to promote the participation of civil society.

Next the data collection and dissemination began. In Albania and Georgia the data were presented in workshops that were open to members of all branches of government, the business community, and civil society. In Albania the data dramatically altered the policy debate, moving it from vague, unsubstantiated accusations to a process focused on empirical evidence and systemic weaknesses. In addition, the survey results were printed on the front page of every major newspaper. In Georgia the immediate effect was less dramatic but still significant. In Latvia the government opened the debate on corruption with a workshop in early 1997. In June 1998 the new government presented the basic program at a public conference, prior to the completion of the survey. Presentation and analysis of the data are expected later in the year, and will be used to refine the program and establish priorities.

What challenges lie ahead?

The collection, analysis, and dissemination of country-specific data mark a special achievement in the policy dialogue on corruption. Still, challenges remain.

Refining the methodology

It will be essential to continue to refine the methodology for transforming survey evidence into reform priorities. The new diagnostic tools are at the frontier in measuring corruption in specific agencies, but experience with measuring corruption's economic and social costs is at an infant stage. The direct financial cost of corruption in different agencies is a key indicator of corruption's impact on welfare and private sector development. The willingness of firms to pay additional taxes if corruption were eliminated also provides an important measure of its full costs, as do measures of public preferences for reducing corruption relative to other policy objectives. Still, other approaches are needed. And while current instruments diagnose the prevalence of many forms of corruption, innovative tools are needed to measure grand corruption.

Finally, the Bank needs to strengthen its capacity to help policymakers integrate the lessons from these empirical diagnostics with the political feasibility of different policy recommendations. It is worth emphasizing that such feasibility is not a constant:

the broad empowerment that comes from this empirical, technocratic approach can tilt the balance toward reformists, in alliance with civil society.

Several strategies can be used to establish reform priorities. One strategy being used in Albania, Georgia, and Latvia is to conduct focus groups in which different constituencies discuss, among other issues, petty and grand corruption and the feasibility of potential reforms. Another strategy to address the political feasibility of reform is to assess a country's readiness to reform, analyzing what effect institutional and policy reforms will have on key stakeholders.

Implementing reforms

The most difficult stage of an anticorruption program is after the survey data have been collected, analyzed, and disseminated—when the government must start introducing reforms that tackle fundamental sources of corruption. A natural temptation for a country's leader is to launch the program by asking for the resignations of senior officials who manage the most corrupt agencies. But in many countries corruption is so pervasive and systemic that it cannot be addressed solely by individualizing the problem.

Ultimately, anticorruption efforts should focus on reforming public policies and institutions, with explicit high-level leadership and commitment. Survey data provide a picture of the most dysfunctional activities and hence priorities for reform. Based on the country-specific priorities that have emerged, the challenge is to implement credible reforms in each area. Such action has already begun in some countries. Latvia, for example, has initiated reforms to reduce corruption in customs and tax administration. But challenges remain—for instance, what can be done to reform Albania's thoroughly corrupt judicial system, and how can deregulation be implemented in Georgia and Latvia when vested interests in government ministries will devise ways of continuing to extract rents?

Sustaining reforms

Reforms can be sustained by encouraging all branches of the state, civil society, and business community to participate in the policy process. "Watchdogs" outside government can be established to monitor the state's commitment to the anticorruption agenda. In addition, the government may be able to credibly commit to reform by allowing private competition with some public services—for example, allowing private forms of dispute resolution as an alternative to the judiciary. Finally, data collection needs to be institutionalized, so that statistics on corruption can be updated at least once a year. Broad dissemination of these statistics can further empower stakeholders to continue reforms.

In Albania, Georgia, and Latvia, NGOs helped develop policies. One strategy that was used to encourage ongoing participation was to hire a surveyor who could potentially serve as a watchdog against future corruption. This surveyor's reputation as an independent professional was crucial in the face of intense public scrutiny.

Designing agency-specific surveys and other tools

The Bank has already begun to design survey instruments whose purpose is to collect detailed information on behavior in some of the most dysfunctional government agencies. In addition, the Bank is advising countries to gather hard data on corruption in the delivery of specific services. For example, corruption in the supply of saline by public hospitals can be established by comparing the price—after accounting for transport and other idiosyncratic costs—of saline purchased by different hospitals.

Emerging conclusions

Diagnostic surveys are a useful and powerful tool for unbundling corruption and identifying specific correlates, its costs, and problem areas. Surveys can focus the political dialogue on concrete areas for reform. The public transparency generated by hard data and a technocratic approach can fuel a participatory process that mobilizes and energizes civil society and generates pressures for reform.

But rigorous surveys and in-depth analysis of their findings are just one input into

Anticorruption efforts should focus on reforming public policies and institutions

a multifaceted process for combating corruption. And they can be misused if they are not carried out and placed in the proper context. Surveyors need to be independent and methodologies rigorous; otherwise the results can be misleading. Moreover, there is a risk of scapegoating unless the focus shifts quickly to credible reforms of underlying public sector dysfunctions.

Data are powerful in mobilizing support for reforms, but so are the vested interests resisting such reforms. The challenge for political leaders, civil society, and donors is to capitalize on the insights and momentum generated by the diagnostics, move from diagnostics to action, and make meaningful progress on the ground.

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Further reading

Kaufmann, Daniel, Sanjay Pradhan, and Randi Ryterman, with James Anderson. 1998. "Diagnosing and Combating Corruption: A Framework with Application to Transition Economies." World Bank, Washington, D.C.

Transparency International and the World Bank's Economic Development Institute. 1998. "New Perspectives on Combating Corruption." Paper prepared for Transparency International's annual meeting, Kuala Lumpur, Malaysia, September 11–16, and for the IMF–World Bank annual meetings, Washington, D.C., October 6–8.

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