Corruption Diagnostic Tools: An Illustration

Helping Countries Build and Implement Effective Anti-Corruption Strategies.

We present here the survey instruments that the World Bank Institute (WBI) and partners are using to study and diagnose anti-corruption reform in Ecuador. They are integral part of a methodology which aims at helping countries design and implement effective anti-corruption strategies and sustainable institutional reform. The attached survey instruments provide a general example of the methodology's latest developments tailored to the Ecuadorian reality.

This methodology is based on an integrated and participatory approach that involves civil society, private sector, parliament, and government representatives. It is designed to raise awareness about the economic and social costs of corruption, thus energizing and empowering public opinion for reform. It helps focus the policy debate on institutions rather than individuals identifying the incentive structure behind corrupt behavior and activities. An in-depth analysis within the country helps prioritize and sequence anti-corruption reform efforts, focusing on early wins and helping to make the reform effort sustainable. It promotes an informed and transparent debate on quality public service delivery, on a business environment conducive to private sector development, and on institutional and policy anti-corruption reform. In a truly participatory process this debate will result in a defined strategy, a consensus agenda, and a concrete action plan to fight corruption and improve public sector performance. Implementation is carried out by the government and public administration with the assistance and monitoring of civil society and the donor community. In short, this method maximizes the power of information and consensus building to promote effective and sustainable anti-corruption institutional reform,

These survey instruments constitute the key diagnostic tool of this approach, but by no means the only one. Data on cross country institutional performance indicators,, budget flows, and procurement costs are gathered and analyzed. Contrasting survey results through sources and approaches enhances the reliability of the empirical analysis and reinforces its policy implications.

This approach requires a number of partnerships and preconditions in the field to ensure that there is a commitment to a transparent and participatory anti-corruption effort, one resulting in concrete action.

This comprises a number of key components and stages:

1. Identifying "champions" inside the government and public administration, getting the top leadership to commit in a formal way to a transparent, open, and participatory reform process.

2. Setting up a steering committee including the top leadership as well as representatives from civil society and the private sector. Establishing task forces working in key areas and headed by a highly respected and independent individual.

3. Carrying out the empirical diagnostic work. An independent local partner implements surveys of households, enterprises and public officials that measure the social and economic costs of corruption, the quality of public service delivery, the obstacles to business development, and the weaknesses and vulnerabilities of the public sector. Civil society and government representatives are heavily involved in this process, helping in the design and implementation of the surveys.

4. Additional data is gathered and analyzed: Cross-country data on institutional indicators, budgetary flows on particular areas, and generic procurement products costs. Checks across

sources and approaches enhances the reliability of the data and reinforces the policy actions that it suggests. Private sector partners can play a important role in bringing in their expertise and generating additional, "harder" data.

5. Organization and implementation of a widely publicized and participatory workshop opened to the media and including all stakeholders (civil society, private sector, parliament, government, the judiciary, etc). Task forces working in key areas such as judiciary, regulatory, civil service, customs, etc. produce draft reports on each subject expertise. On this basis, a concrete strategy and action plan is prepared and the government formally commits itself to take timely action The workshops also enhance donor coordination. The participatory and transparent process may help institutional capacity building within government and civil society.

6. With these new instruments now at its disposal, civil society is empowered to take a monitoring role. This process would be sustained with follow-up surveys, in-depth studies in specific areas, and capacity building programs. The results may be used as well by donors to target better their aid programs.

The attached survey instruments have been adapted to particular objectives tailored to the Ecuadorian reality. The work with partner institutions in the field was key to the development of these instruments. We would strongly advice against use of these instruments in other contexts or for other purposes. This approach may benefit projects with different objectives through careful tailoring and reorganization.

Helping Countries Build and Implement Effective Anti-Corruption Strategies

Corruption hampers economic growth, burdens the poor disproportionately, and undermines the effectiveness of investment and aid. Anti-corruption strategies need to be an integral part of a development framework designed to help countries eradicate poverty. Good governance programs focus on in-depth analysis of the institutional factors behind corrupt practices and behavior and help countries understanding the short-comings of their policies and institutions and designing their own strategies to improve governance.

A participatory approach to anti-corruption maximizes the power of information emphasizing:

inclusion and Coalition-Building-participation of civil society, government, parliament, the private sector, and the media, complements top-level political support and commitment to a transparent process.

Empirical Diagnostic Tools-local independent partners conduct surveys of households, businesses, and public officials measuring the prevalence and costs of corruption to shift the focus of the policy debate to institutions rather than individuals and establish reform priorities. Information empowers and energizes public opinion for reform and establishes a baseline to gauge the success of reform. Carefully designed experiential questions measure the economic and social costs of corruption, the quality of public service delivery and the business environment, as well as public sector vulnerabilities. Additional data on cross country institutional indicators, budgetary expenditure flows, and procurement costs of generic products, is gathered and analyzed to perform consistency checks across sources and approaches which enhance the reliability of the diagnosis making it easier to accept the empirical evidence and follow-up actions.

Workshops and Task Forces-during workshops, task forces working in key areas analyze survey results, design **a** consensual anti-corruption strategy and action plan, assign responsibilities, and develop a timetable for action. Workshops, which are widely publicized and open to the media, include participants from all branches of the state, political parties, civil society, and professional groups.

Strategies and Action Plan-working closely with civil society, government carries on the action plan strengthening its credibility by taking timely action in an open and transparent manner.

Strengthening institutional Capacity—customized training workshops for journalist, civil service, the judiciary and the legislature, provide the tools and skills for a free media, a supportive environment for the private sector, and an efficient, accountable, and transparent state.

Challenges of Implementation—methodological rigor in the diagnosis is key to safeguard the integrity of the process. The challenge for the political leadership, civil society, and the donor community is to acquire the data, use it to target certain institutions, and then implement credible reforms.

Governance and Anti-Corruption Program at WBI

Background.

The collaborative and field-oriented approach results from the need for:

i)   Consensus- and coalition-building;
ii)   the diversity of expertise of various groups within the country, and,
iii)   the need for a close integration between civil society participation and the substantive expertise of design and implementation of specific institutional reforms, on the other.

Key Components and Activities:

1. **Consensus Building for an Anti-Corruption Action Plan Preparation and Support Gathering at the National Level**

2. **Diagnostic Surveys, Data Analysis and Methodological Support**

3. **Anti-Corruption Workshops with Government, Civil Society and Other Stakeholders**

4. **Training Workshops:** For Public and Private Sector, Media, Budgetary Managers, Trainers . . .

5. **Integrated Municipal Level Anti-Corruption Program**

6. **Anti-Corruption Courses:** For Officials, Civil Society Representatives, and World Bank Staff

7. **Policy Advice and Technical Assistance on Anti-Corruption Programs, Public Sector Reform and Institutional Change**

8. **Operational Research**

On Diagnostic Surveys: Public Officials, Enterprises and Citizens

The diagnostic surveys are an integral part of consensus building, diagnostic and participatory design of anti-corruption action programs. Their final goal is to inform the design and implementation of anti-corruption institutional reforms while promoting participation and coalition-building.

Objectives:

- To Comprehensively Map Governance and Corruption within a Country:
  - Measure perceptions and "harder" data on governance and corruption
  - Differentiate between agencies, levels of government, and geographic regions
  - Assess the quality of public service delivery
  - Determine major obstacles to business development
- To identify the causes of corruption and poor performance in the public sector

- To have some assessment of the costs of misgovernance and corruption

- To identify the main agencies and areas of vulnerability in policies and institutions related to governance, as an input to strategy and program design

Methodology:

We divide the actors in two categories: Households and Enterprises on one side and Public Officials on the other. We survey both sides to obtain the whole picture and to compare the views of both sides.

Survey Strategy:

1. **Mapping Corruption and Misgovernance:** the characteristics/nature of corruption

   The many faces of corruption: bribery, political contributions, transparency, trust . . .

   Corrupt mechanisms

   Corruption in perspective: public service inefficiencies, obstacles to business development

2. **Effects of Misgovernance and Corruption on Public Service Delivery**

   Quality, timeliness, unofficial costs

3. **Business Development**

   Firm level costs of an inefficient, corrupted bureaucracy (endogenous harassment)

   Unofficial economy, tax evasion

4. **Causes and Correlates of Corruption and Governance Challenges: Studying Institutional Incentives within the Public Sector**

   Performance of Agencies and Rules of Restraint: Identify sources of failure to implement and enforce "appropriate" Policies/Guidelines/Regulations (the 'PGRs') within governmental agencies

   A. On **the drawing up** (or the 'letter') of **PGRs:** main inadequacies and challenges

   B. On **implementation (the** 'reality') of **PGRs**

   C. On the 'anatomy' of **discretionary** behavior

   D. On **the pay/incentive structure** and **job satisfaction**

   E. On main reasons/sources of **political interference**

   F. On performance of **anticorruption agencies:** potential in action plan

   G. On performance of official/alternative institutions of dispute resolution **rule of law**

   H. On data reporting and **information** flows: Efficiency, dissemination, transparency

I. On existing norms and incentives of the other side: **Firms'** Behavior

J. On **the budgetary** process and its links to probity and governance

K. Identify type/characteristics of agencies and public officials with inclinations to do something about improving governance, service delivery and anti-corruption

5. Characteristics of Respondents

Surveys' Measurement Objectives [draft]

Enterprises	Households	Public Offkials
Mapping corruption and governance challenges	Mapping corruption and governance challenges	Performance of Agencies and lack of Rules of Restraint
Public Service Delivery Performance and Agency Vulnerability	Public Service Delivery Performance and Agency Vulnerability	Governance, Incentive Structure and Informality within Public Sector Agencies
Obstacles to Business Development and Correlates with Corruption	Correlates with Governance	Agency Vulnerability and Correlates with **Mis-**Governance

Public Offkials
Structure of the Analysis [synthesis]

1. **The Basics.** How concerned are you about corruption and misgovernance? Assessing the extent, including service delivery performance challenges.

Causes and Correlates: Studying Incentives

2. **Causes of Governance Performance and Corruption**
Performance of Agencies and Rules of Restraint: Identify sources of failure to implement/ enforce "appropriate" Policies/Guidelines/Regulations **(PGRs)** within governmental agencies

A. On the drawing up (or the 'letter') of PGRs
    PGRs: in place? who wrote them? stable? good? clear? transparent? feasible? could be simplified?

B. On implementation (the 'reality') of PGRs
  PGRs are enforced as written? why not? are the implemented PGRs good? efficient?

C. On the 'anatomy' of discretionary behavior
  discretion on the interpretation of PGRs, why? incentives? PGRs vague? monitoring? reporting? enforcement?
  discretion on performance/service delivery
      check and balances?
      decisions based on?

D. On the pay/incentive structure and job satisfaction
  salary
  promotion
  incentives right? compare to private sector?
  resources
  capacity

E. On sources of political interference
  political appointees (top and mid management)
  on hiring and promotions practices
  on rents, shifting resources
  type of anti-corruption reports, public?

F. On performance of official/alternative institutions of dispute resolution rule of law within the organization
  official methods of dispute resolution: **efficiency,** fairness and independence
  informal mechanism of dispute resolution, importance, efficiency, reliability
  not reporting a case of corruption, why?

H. On data reporting and information flows: Efficiency, dissemination, transparency
      objectives, mission and strategy
      tasks and responsibilities

J. On the budgetary process and its links to probity and governance

<u>**B. On Outcomes**</u>

3. Corruption
  unofficial payments as a percentage of official salary
  percentage of people that pay to get jobs, how much?
  percentage of people that come to the job to extract rents
  who shares the benefits of a corruption

4. Performance
  are there performance standards? are they met? assessment: efficient? clear?
  enforcement mechanism? assessment of the enforcement mechanism :**effective?** clear? fair?
  discretion in the enforcement mechanism? implemented mechanism assessment: efficient? reliable? fair?

5. Quality of Service delivery

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PUBLIC SECTOR

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 short-comings 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

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 pub-

lic 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).

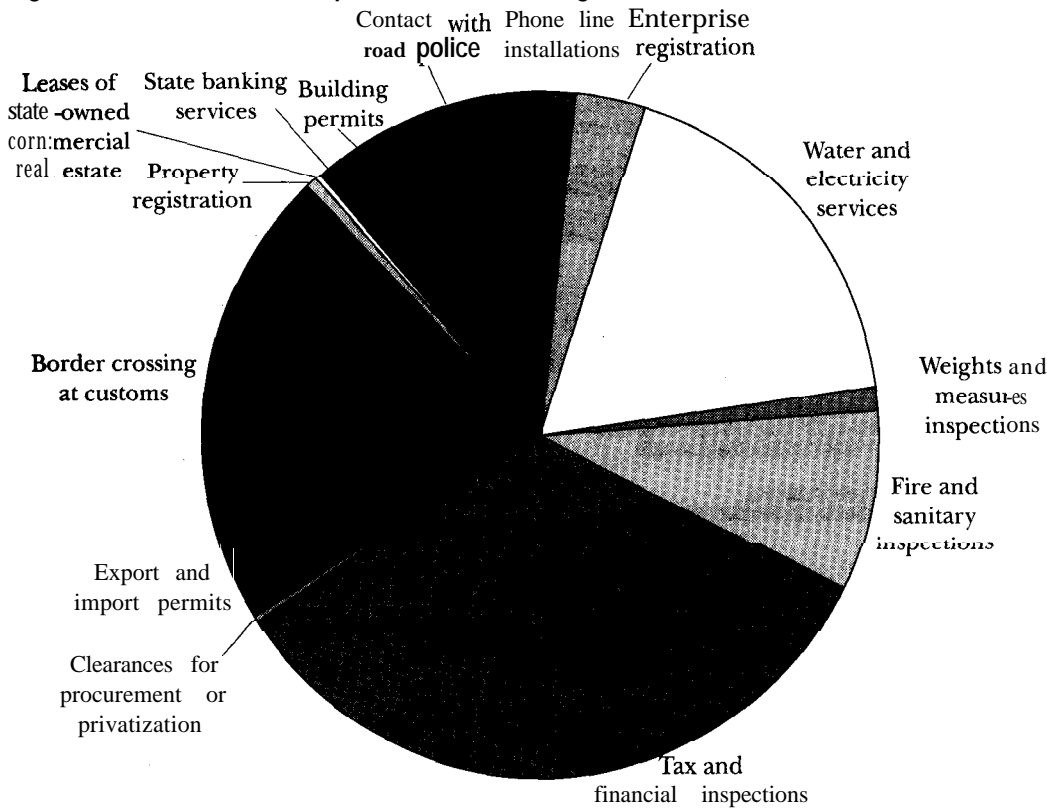*Enterprises would pay higher taxes if corruption were eliminated*
Corruption has serious implications for public finance (table 1). A large number of small bribes are paid to officials to avoid paying taxes, customs duties, and other liabilities to the state. Moreover, other types of bribes (such as 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?

Contact with road police · Phone line installations · Enterprise registration

Leases of state -owned commercial real estate · State banking services · Building permits · Property registration

Water and electricity services

Border crossing at customs

Weights and measures inspections

Fire and sanitary inspections

Export and import permits

Clearances for procurement or privatization

Tax and financial inspections

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 pub lic, 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 ratio nally "invest" when buying their public office.
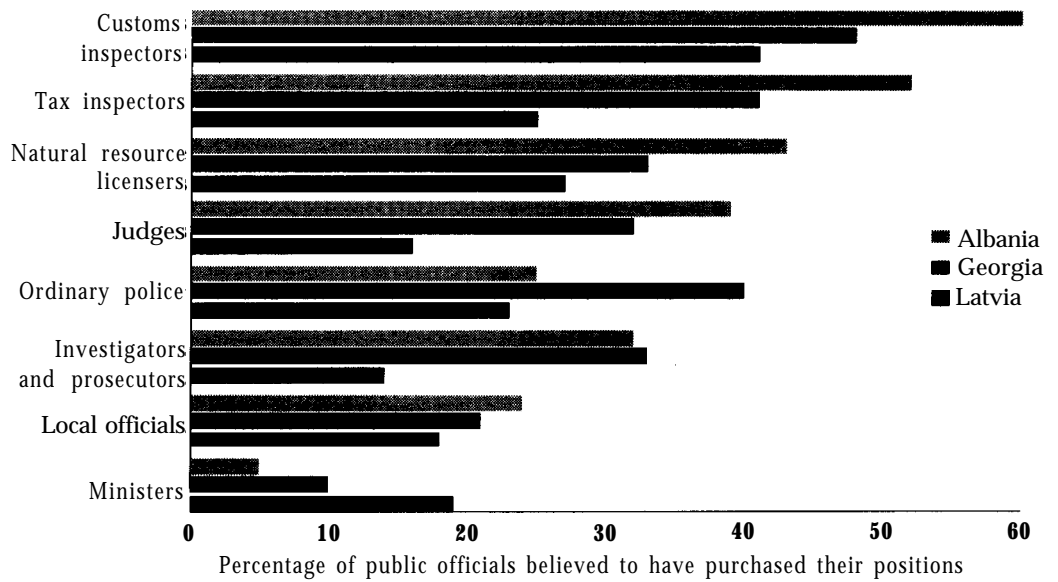
The pattern of these payments differs, however. In Latvia ministerial positions are purchased more often than in Albania and Georgia, and lower-level positions are purchased less often. This pattern suggests that grand corruption may be more of a problem in Latvia, while petty corruption is more serious 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

Percentage of public officials believed to have purchased their positions

Categories (top to bottom): Customs inspectors, Tax inspectors, Natural resource licensers, Judges, Ordinary police, Investigators and prosecutors, Local officials, Ministers

Legend: ■ Albania ■ Georgia ■ Latvia

> **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 be 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 corruptjudicial 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

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Corruption

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