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# Existing practices on anti-corruption

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## Abbreviations

ACAs	Anti-corruption Agencies
DFID	Department for International Development
DRC	Democratic Republic of Congo
EU	European Union
EITI	Extractive Industries Transparency Initiative
NIS	National Integrity System
OECD	Organisation for Economic Co-operation and Development
OPM	Oxford Policy Management
PFM	Public Finance Management
SMEs	Small and Medium-Sized Enterprises
TI	Transparency International
UNCAC	United Nations Convention against Corruption
UNIDO	United Nations Industrial Development Organization
UNODC	United Nations Office on Drugs and Crime
WB	World Bank
WBES	World Business Environment Survey

# 1 Introduction

As part of its work on business environment reform the DFID Democratic Republic of Congo (DRC) Wealth Creation Team is looking at supporting a Government of DRC anti-corruption initiative. The team requested a literature review of existing (donor and government) practices on anti-corruption, including the 'mystery-shopper' approach, and the impact of such practices on the business environment. The research team from Oxford Policy Management (OPM) subsequently had a call with the requester from DFID to clarify the request and our response is therefore based on the initial response and the clarifications received during the phone call.

To many experts the gap between rich and poor nations can be explained by the economic environment in which their citizens operate. Hall and Jones (1999) find that differences in what they define as 'social infrastructure' are essential in explaining differences in income per capita. Social infrastructure is defined as the institutions and government policies that determine the environment in which economic agents operate. This definition is not very different from what we know as governance.

It is important to remember that corruption is a symptom of poor governance. Focusing excessively on corruption and neglecting the complex task of reforming governance systems is a common mistake that has to be avoided. Looking at the experiences of some developed countries we can notice that improving governance takes time and is a long process that requires commitment and a coordinated effort from all members of society.

Multilateral institutions recently have made an important contribution in the fight against corruption by providing very useful diagnostic surveys to study the extent of corruption at national level and support in designing anti-corruption campaigns.

What is clear is that corruption and anti-corruption are heterogeneous and there are no 'one-size fit all' approaches. We can learn from the experiences of other countries but it is important to be careful at the moment of implementing policies. There is consensus that more evidence that evaluates the impact of anti-corruption policies is needed.

The document is organised as follows. In Section 2, we explore the theories behind the fight against corruption. In Section 3, we look at the role of multilateral organisations in developing and implementing anti-corruption measures. In Section 4, we discuss anti-corruption agencies. In Section 5, we summarise the existing literature on anti-corruption policies devoting a special section to analysing anti-corruption policies in post-conflict countries. In Section 6, we discuss the importance of anti-corruption for the private sector. And in Section 7, we provide our conclusions.

## 2 Theories behind the fight against corruption

Theory has guided and influenced anti-corruption efforts in the last two decades. The 'principal-agent' theory is perhaps the one that has been more influential.

According to this theory, corruption arises in the public sector due to transfer of responsibility and imperfect monitoring. This generates a principal-agent relationship between the government and its bureaucracy or between the tax payers and the political elite. An agent responsible for certain tasks (such as tax collection or policy design) may profit from his position in the knowledge that he cannot be perfectly monitored by the principal. Hence the agent may abuse his position for personal gain. The incidence of corruption in this model is a function of legal income, monitoring, and legal punishments. Typically agents decide to engage in corruption by comparing the expected income of being corrupt against the income of being honest.

This theory first linked to the study of corruption by Rose-Ackerman (1978) and was developed further by Klitgaard (1988). It has been behind the World Bank's anti-corruption policies and is still very important to understand corruption.

It is useful to think about the fight against corruption in terms of a process that has separate stages. Klitgaard (2006) argues that anti-corruption has three stages. Stage one is associated with creating awareness about the existence of corruption and its negative impact. In stage two anti-corruption measures are designed and implemented in order to control corruption or prevent it from occurring. We have plenty of examples of countries that have been through these two stages. Finally in stage three, systemic corruption is subverted. Table 1 summarises the main components of stages two and three, using the analogy that corruption can be seen as a disease.

**Table 1: Stages two and three in the fight against corruption**

	<i>Stage two: fighting "ordinary" corruption</i>	<i>Stage three: fighting systemic corruption</i>
Key metaphor	Controlling corruption	Subverting corruption
Medical analogy	Strengthen the body to prevent the disease from taking hold. Examples: exercise, nutrition, lifestyle	Attack the disease itself. Examples: antibiotics, chemotherapy, surgery
Use analysis to find out	Where healthy systems are vulnerable and how to strengthen them	Where organized corruption is itself vulnerable and how to weaken it
Some key analytical questions	How are agents selected? How is the principal-agent-client relationship structured? What are the incentives? How can discretion be clarified and circumscribed? How can accountability be enhanced? How can the moral costs of corruption be increased?	How are corrupt deals made and kept secret? How are corrupt goods and services delivered? How are members recruited and disciplined? What "foot-prints" are there from corrupt activities? How can risks and penalties be created or enhanced? How can corrupt activities be carried out with impunity, and where are they vulnerable?
Draw inspiration from	Best practices in business management; public health programs	Best practices in fighting organized crime, pathology and medicine
Key functions in the fight against corruption	Audit, systems design, incentive and personnel systems, control, citizen oversight	All of these, <i>plus</i> undercover agents, infiltrators, turncoats and key witnesses, "dirty tricks"
Key actors in the fight against corruption	People who run the system. The "principal" (metaphorically, the people in practice, the people in charge)	People who can influence and, if necessary, subvert the corrupt system. Citizens, professional associations, the press, business groups, some government agencies or levels of government

Source: Klitgaard (2006)

The principal-agent theory has been very useful as a theoretical guide for controlling corruption (stage two) but perhaps we need another theory to help us fight systemic corruption. In words of Klitgaard (2006:302):

*"When systems are so thoroughly corrupted, there may be little, if any, political will to reform them. Calling for better agents, improved incentives, better information, more competition, less official discretion, and higher economic and*

*social costs is well and good. But who is going to listen? Who is going to act? The usual anticorruption remedies may not work. Now what?"*

Persson et al. (2013) claim that the reason anti-corruption policies have failed to tackle systemic corruption is because they have been based on the principal-agent theory. It is implicitly assumed in this theory that there is an honest principal. This may not be the case. When corruption is systemic, the honest principal that is supposed to monitor the corrupt agent may be corrupt as well. Hence, systemic corruption can be better explained as a collective action problem. People recognise that they will be better-off without corruption. Nonetheless, nobody has the incentive to deviate from a corrupt behaviour.

Along the same lines, Rothstein (2011) argues that what is needed to tackle systemic corruption is a "big-bang" type of policy. Incremental policies based on the principal-agent theory are not likely to succeed. He uses an historical case-study of how Sweden in the 19th century succeeded in eradicating corruption to support his view. These very recent papers in the political science literature seem to be very promising. Hopefully other social scientists will explore these ideas further.

## 3 Multilateral institutions and anti-corruption

Multilateral institutions have been involved in supporting national governments in the fight against corruption, in particular in the provision of guidelines and specific toolkits for anti-corruption. The United Nations have brought together governments around the world to agree on a convention against corruption. Transparency International, since its creation in 1993, has supported governments to design effective anti-corruption strategies. Another very important multilateral institution heavily involved in anticorruption has been the World Bank, proposing specific guidelines to design and implement policies to fight corruption.

### 3.1 The United Nations Convention against Corruption (UNCAC)

An important effort in terms of anti-corruption has been the United Nations Convention against Corruption (UNCAC) that came into force in 14 December 2005. The UNCAC's main objectives are: 1) facilitate the prevention of corruption; 2) assist countries in criminalising corrupt acts, 3) provide a framework for international cooperation; and 4) facilitate the recovery of assets.

The Convention devotes a chapter exclusively to the prevention of corruption. This includes model preventive policies, such as the creation of anticorruption bodies and greater transparency in the financing of electoral campaigns and political parties. The Convention also highlights that public services should be subject to safeguards that promote efficiency and transparency. Recruitment should be based on merit. Preventing public corruption requires an effort from both private and public sectors.

The Convention requires countries to establish criminal and other offences to cover a wide range of acts of corruption. The Convention goes beyond by criminalizing not only bribery and the embezzlement, but also trading in influence and the concealment and laundering of the proceeds of corruption. Offences committed in support of corruption, including money-laundering and obstructing justice, are also dealt with. Convention offences also deal with private-sector corruption.

Countries agreed to cooperate with one another in every aspect of the fight against corruption, including prevention, investigation, and the prosecution of offenders. Countries are bound by the Convention to render specific forms of mutual legal assistance in gathering and transferring evidence for use in court, to extradite offenders. Countries are also required to undertake measures which will support the tracing, freezing, seizure and confiscation of the proceeds of corruption.

The Convention's greatest innovation is asset-recovery. Some leaders and high-level officials have looted national wealth in many developing countries. These scarce resources could be used to help to rebuild societies. Intensive negotiations were necessary to reach agreement on this chapter. The needs of the countries looking for asset recovery had to be reconciled with the legal and procedural safeguards of the countries in which the funds were deposited.

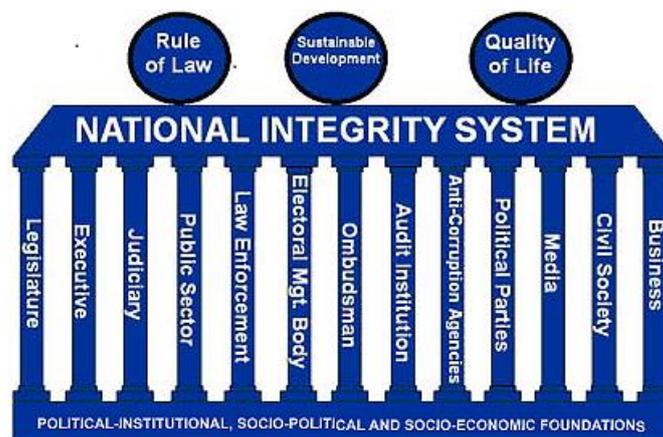
### 3.2 Transparency International's National Integrity System

There are significant differences between the willingness and capacity of countries to design and implement an effective anti-corruption strategy. Transparency International by recognising this suggests a National Integrity System (NIS) as a holistic approach to fight against corruption.

The NIS assessment is a framework to investigate the incidence and causes of corruption and the effectiveness of national anti-corruption efforts. It is undertaken via a consultative approach, involving key agents in government, civil society, the business

sector and others. The NIS consists of the principle institutions and actors that contribute to integrity, transparency and accountability in a society. These institutions constitute the pillars over which the NIS rests as depicted in Figure 1.

**Figure 1: The National Integrity System**



Source: Transparency International.

A well-functioning NIS provides effective safeguards against corruption as part of the fight against abuse of power, malfeasance, and embezzlement. Strengthening the NIS promotes better governance across all aspects of society. More than 70 NIS country assessments have taken place since 2001 and several regional overviews. The NIS country reports published by TI provide the results of these assessments. They are a very useful source of information and country-specific recommendations. Refinements and revisions to the NIS assessment approach have been done in 2008.

### 3.3 The World Bank's engagement in governance and anti-corruption

Since the mid-1990s the World Bank has been an important multilateral institution in the fight against corruption. The World Bank responds to requests of assistance in anti-corruption provided certain conditions are met such as the long term commitment from leaders. The first step is conducting a country diagnostic survey. The objective of this survey is to gather information from a country's own citizens, business people and civil servants to diagnose governance vulnerabilities and suggest concrete approaches for fighting corruption. To date, 19 countries, among them 10 from Sub-Saharan Africa, already have a diagnostic survey.<sup>1</sup> As in the case of TI's NIS assessments the idea behind this exercise is to have a picture of the governance structure of a country allowing World Bank experts and National Authorities to tailor made anti-corruption policies. The guiding principles behind the World Bank's Governance and Anti-corruption (GAC) policy are detailed in Box 1.

<sup>1</sup> The complete list of countries with a diagnostic survey is the following: Benin, Bolivia, Brazil, Burundi, Colombia, Ecuador, Ghana, Guatemala, Guinea, Haiti, Honduras, Kenya, Madagascar, Malawi, Mozambique, Paraguay, Perú, Sierra Leone, Zambia.

## Box 1: The Seven GAC principles

1. The World Bank's focus on governance and anti-corruption (GAC) follows from its mandate to reduce poverty—a capable and accountable state creates opportunities for poor people, provides better services, and improves development outcomes.
2. The country has primary responsibility for improving governance—country ownership and leadership are key to successful implementation, and the World Bank is committed to supporting a country's own priorities. A country's government remains the principal counterpart for the World Bank.
3. The World Bank is committed to remaining engaged in the fight against poverty, and seeking creative ways of providing support, even in poorly-governed countries. The clear objective: Don't make the poor pay twice.
4. The form of World Bank engagement on GAC will vary from country to country, depending on specific circumstances. While there is no one-size-fits-all model, the World Bank will adopt a consistent approach towards operational decisions across countries, systematically anchored in national strategies, and supported by World Bank Country Assistance Strategies, with no change in the performance-based allocation system for IDA countries or IBRD resource allocation system.
5. Engaging systematically with a broad range of government, business, and civil society stakeholders is key to GAC reform and development outcomes. Consistent with its mandate, the World Bank will build upon existing good practice in engaging with multiple stakeholders in its operational work, including by strengthening transparency, participation, and third-party monitoring of its own operations.
6. The World Bank will strive to strengthen, rather than bypass, country systems—better national institutions are the more effective and long term solution to governance and corruption challenges and to mitigating fiduciary risk for all public money, including that from the Bank.
7. The World Bank will work with donors, international institutions, and other actors at the country and global levels to ensure a harmonized approach and coordination based on respective mandates and comparative advantage—"the World Bank should not act in isolation."

Source World Bank (2012a) pg. 7

## 4 Anti-corruption agencies

The UNCAC asks state parties to ensure the existence of a body (or bodies) to prevent corruption. Further details about the characteristics of this anticorruption body can be appreciated in Box 2 below. As a result there has been a dramatic increase in the number of Anti-corruption Agencies (ACAs) all over the world.

### Box 2: UNCAC, Chapter II, Article 6, Preventive body or bodies

1. Each State Party shall, in accordance with the fundamental principles of its legal system, ensure the existence of a body or bodies, as appropriate, that prevent corruption by such means as:

(a) Implementing the policies referred to in article 5 of this Convention and, where appropriate, overseeing and coordinating the implementation of those policies;

(b) Increasing and disseminating knowledge about the prevention of corruption.

2. Each State Party shall grant the body or bodies referred to in paragraph 1 of this article the necessary independence, in accordance with the fundamental principles of its legal system, to enable the body or bodies to carry out its or their functions effectively and free from any undue influence. The necessary material resources and specialized staff, as well as the training that such staff may require to carry out their functions, should be provided.

3. Each State Party shall inform the Secretary-General of the United Nations of the name and address of the authority or authorities that may assist other States Parties in developing and implementing specific measures for the prevention of corruption.

Source: UNCAC

An excellent source of information about the value and performance of ACAs can be found at the U4 Anti-corruption Resource Centre (<http://www.u4.no/themes/anti-corruption-agencies/>).

Anti-corruption bodies come in all sizes and shapes. There is no consensus in the literature if it is better to establish a new anti-corruption agency or strengthen an existent institution. In addition, the creation of an ACA does not guarantee that corruption will be eliminated. Even without the existence of a specialised anti-corruption body, improvements in governance such as public administration, or judiciary reforms, may reduce the incidence of graft.

After a review of international standards the OECD (2013) finds that there are some main functions that an institution responsible to fight corruption should perform. These functions can be associated to a particular set of tasks that we summarise in Table 2.

**Table 2: Main Anticorruption functions and associated tasks**

Anti-corruption functions	Associated tasks
<ul style="list-style-type: none"> <li>• Investigation and prosecution</li> <li>• Prevention</li> <li>• Education and awareness raising</li> <li>• Coordination, monitoring and research</li> </ul>	<ul style="list-style-type: none"> <li>• Receive and respond to complaints, gather intelligence, conduct investigations, impose administrative sanctions</li> <li>• Provide ethics policy guidance and scrutinise of asset declarations</li> <li>• Provide anti-corruption information and education</li> <li>• Ensure international co-operation.</li> <li>• Conduct research on corruption</li> </ul>

Source: OECD (2013)

Three distinctive models for anti-corruption institutions have been also identified by the OECD (2013): 1) multi-purpose anti-corruption agencies; 2) law enforcement type institutions; and 3) preventive institutions. It is not possible to put under these labels all the different anti-corruption institutions in the world. However, a large number of anti-corruption bodies fall into one of these categories.

The multi-purpose anti-corruption model is possibly the only model that strictly speaking corresponds to an “anti-corruption agency” as it combines in one institution prevention, investigation and education. Examples of this type of model can be found in **Hong Kong, China** (Independent Commission against Corruption); **Singapore** (Corrupt Practices Investigation Bureau); **Lithuania** (Special Investigation Service); **Latvia** (Corruption Prevention and Combating Bureau); **Poland** (Central Anti-corruption Bureau); **Indonesia** (Corruption Eradication Commission); and **Botswana** (the Directorate on Corruption and Economic Crime).

The law enforcement model takes different forms of specialisation, and can be implemented in detection and investigation bodies, as well as in prosecution bodies. What distinguishes it from the first model is the level of independence and visibility as it is normally placed within existing institutions such as the police. Examples of this type of model can be found in **Spain** (The Special Prosecutor’s Office against Corruption and Organised Crime); **Romania** (National Anti-corruption Directorate); **Azerbaijan** (Anti-Corruption Department with the General Prosecutor’s Office); **Croatia** (Office for the Suppression of Corruption and Organised Crime); **Norway** (The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime); and the **United Kingdom** (the Serious Fraud Office).

The corruption prevention model is the most diverse and covers a variety of institutions with various degrees of independence and organisational structure. Within this model additional sub-categories could be identified. We can find examples of specialised anti-corruption policy and corruption prevention bodies in **France** (Central Service for Prevention of Corruption); **Slovenia** (Commission for the Prevention of Corruption); **Serbia** (Anti-Corruption Agency); **The Former Federal Yugoslav Republic of Macedonia** (State Commission for Prevention of Corruption). In the same way, other state institutions with corruption prevention functions can be found in the **United States** (Office of Government Ethics) and **Brazil** (The Office of the Comptroller General).

Anti-corruption agencies (ACAs) around the world have increased dramatically. Nevertheless, the value of ACAs is increasingly being questioned by international donors and national governments. This may be explained by the lack of systematic evaluations. Johnsen et al (2011) find that few evaluations of ACAs have been done and that only few of these evaluations measure the outcome and impact of these agencies. ACAs should establish results-based indicators to help link their activities with impact.

# 5 Anti-corruption policies

## 5.1 What do we know so far?

Anti-corruption policies started as recommendations based on the study of successful experiences in particular institutions. A classic framework of this type is Klitgaard (1988) - Chapter 3. In some cases researchers went further by asking experts about their views on the effectiveness of certain anti-corruption policies. Huberts (1998) conducted in 1994 a survey in which 257 experts from 49 countries were asked to provide their views on 21 policies to fight graft. The percentage of respondents considering the method (very) effective is reported in Table 3.

**Table 3: Expert panel views on effectiveness of 21 anti-corruption methods percentage of respondents considering the method (very) effective**

Strategy	Higher income country (190)	Lower income country (67)	World panel (257)
<b>Economic</b>			
reasonable standard of living	50.0%	85.2%	58.8%
higher salaries politicians/public servants	34.4%	73.0%	44.2%
less government/privatizing	27.9%	62.5%	36.2%
making banking and finance more transparent	69.9%	78.7%	71.9%
<b>Educational</b>			
information campaigns (public)	71.6%	85.0%	74.9%
more public exposure	76.6%	82.0%	78.0%
changing family attitudes population	37.1%	68.9%	45.2%
influencing attitude of public servants	76.8%	82.3%	78.1%
<b>Public culture</b>			
example given by management at the top	80.0%	85.0%	81.2%
code of ethics for politicians and civil servants	73.1%	76.2%	73.9%
better protection for whistle blowers	74.2%	78.7%	75.3%
<b>Organizational/bureaucratic</b>			
rotation of personnel	51.6%	55.0%	52.4%
internal control and supervision	86.5%	96.9%	89.2%
stronger selection of public personnel	73.2%	91.9%	78.0%
<b>Political</b>			
more commitment by politicians	86.9%	88.5%	87.3%
transparency party finances	80.3%	96.8%	84.5%
example given by management at the top	80.0%	85.0%	81.2%
more rigorous separation of public powers	48.4%	74.6%	55.1%
less government/privatizing	27.9%	62.5%	36.2%
<b>Repressive/judicial</b>			
more severe penal sanctions	64.2%	82.8%	68.9%
extension of police and judiciary	57.1%	72.1%	60.9%
creating independent institutions	75.1%	87.1%	78.1%
combatting organized crime	77.3%	86.9%	79.8%
making banking and finance more transparent	69.6%	78.7%	71.9%

Source: Hubert (1998)

Hunther and Shah (2000) develop a framework to help assign priorities, depending on the incidence of corruption and the quality of governance. They suggest that the effectiveness of anti-corruption policies is country specific. Some policies may be more effective in countries that exhibit poor governance while others may be more suitable for

countries in which the levels of governance are higher. Even though the authors try to use the available empirical evidence at the time there is a high component of subjective considerations in their analysis.

**Table 4: Effectiveness of Anti-Corruption Programs Based on Governance Quality**

Incidence of Corruption	Governance Quality	Priorities of Anti-Corruption Efforts (Based on Drivers of corruption)
High	Poor	Establish rule of law, strengthen institutions of participation and accountability; limit government interventions to focus on core mandate
Medium	Fair	Decentralization and economic policy reforms; results-oriented management and evaluation; introduction of incentives for competitive public service delivery
Low	Good	Explicit anti-corruption programs such as anti-corruption agencies; strengthen financial management; raising public and officials awareness; no bribery pledges, fry big fish, etc.

Source Hunther and Shah (2000)

Chêne (2008) argues, that it is very difficult to assess the effectiveness of anti-corruption policies given that the only measure of corruption that we have at our disposal are corruption perception indices. The problem with perceptions is that they tend to display a high level of inertia. Hence, even though the literature on corruption is immense, not many studies have focused on anti-corruption. In particular measuring the effectiveness of anti-corruption policies has been neglected.

In a recent innovative study, Hanna et al. 2011 provides the first systematic review on the effectiveness of micro-level anti-corruption strategies that have been implemented in developing countries. The study differentiates between interventions that use monitoring and incentives, and interventions that change the rules of the system. The detail of the papers covered in the study is presented in Annex 1. The study provides policy and practice recommendations that we present in Box 3 below.

### Box 3: Hanna et al 2011 Policy and Practice Recommendations

**Monitoring and incentives should be combined.** A programme that utilises this combination can prevent corruption by increasing the probability of being caught engaging in corrupt activities, and increasing the punishment for being corrupt (or, similarly, increasing the reward for not being corrupt). Monitoring on its own is ineffective, because the individual must face a punishment for being corrupt. Similarly, increasing the incentive to stay honest has no effect when the probability of getting caught is too small.

**The monitoring and incentives scheme must align with all involved parties' incentives and locally specific market structures.** When nurse managers permitted nurse absences to bypass a monitoring mechanism intending to punish absenteeism, the programme became toothless (Banerjee et al. 2007). Similarly, if auditors are corruptible themselves, monitoring will be ineffective.

**Community-level monitoring can be successful, but only when the community can punish corruption.** Giving community members an opportunity to report corruption has no effect on corruption when the corruptible officials do not face punishment if found corrupt (Banerjee et al. 2007, Olken 2007). However, when the community has the power to punish corrupt individuals, for example by holding elections that are likely to unseat a corrupt individual, then these programmes may succeed (Brollo 2009, Ferraz and Finan 2008). We emphasise, however, that community level monitoring has had mixed results, and appears to be an intervention whose success is highly variable and dependent on the conditions surrounding the incentives and the probability of getting caught, and a community's capacity. Therefore, community-based monitoring programmes should be carefully designed.

**Media can be a useful incentive for enforcing corruption reduction.** When bureaucrats or elected officials are held responsible for corruption, it is possible to use the threat of unseating those found corrupt or publicising their corrupt behaviour as an incentive (Brollo 2009, Ferraz and Finan 2008, Francken 2009, Reinikka and Svensson 2003). In this case, media such as newspapers, television or radio are useful and often necessary methods of publicising corruption to the electorate, to empower the community to punish corrupt bureaucrats and elected officials. Further implementation considerations include having an established and trusted media outlet in the community and using media that can best reach the community based on its education level.

**Decentralisation may be particularly successful where there is local capacity and high levels of participation.** Decentralisation can reduce corruption by bringing the accountability for programme implementation to elected officials who are elected exclusively by the population they serve, and who risk losing their elected position if a programme is highly corrupt. Because decentralisation shifts programme implementation responsibilities to a different set of individuals it is important that the new managing department has the capacity to run the programme in question. For this reason, decentralisation strategies had the greatest success when combined with high levels of community participation and when pre-implementation included building capacity of local government workers and infrastructure (Bjorkman and Svensson 2009, Chavis 2010). Thus, it is important to be aware that decentralisation may be an expensive policy when implemented in communities that lack participation and have limited local capacity. However, more research is needed to understand long-running effects of decentralisation.

**Decentralisation is only successful when decision-makers and service providers are held accountable by programme recipients.** When accountability is upheld through elections, then voters must be aware of corruption levels. Some successful decentralisation programmes combine decentralisation with community monitoring programmes, to ensure that the voters and service recipients know true corruption levels (Bjorkman and Svensson 2009, Chavis 2010).

**NGOs can be useful tools in implementing programmes that change the rules or alter monitoring and incentives schemes.** In several cases examined, anti-corruption strategies appeared to be more effective when a locally trusted NGO was able to provide training, supervision and support implementation (Banerjee et al. 2007, Bjorkman and Svensson 2009, Chavis 2010, Duflo et al. 2010, Francken 2009, Olken 2007, Reinikka and Svensson 2003).

Source: Hanna (2011:9)

As can be appreciated from Box 3 the most successful anti-corruption policies involve a situation in which the potentially corrupt agent after the policy face higher costs and/or lower benefits of engaging in corruption. Hanna et al. 2011 also highlight that this papers are relatively new and that the anti-corruption research is still in its infancy. Hence, it is expected that this line of research will receive more attention in the future.

The literature does not go into specific details regarding the implementation of anti-corruption policies. As a result we could not find information about the use of a 'mystery shopper' in anti-corruption. Mystery shopping is an established approach used by market research companies to measure the quality of services and it can certainly be used to monitor government services. I believe that it will be particularly useful to monitor regulatory reforms.

## 5.2 Fighting corruption in post-conflict countries

Post-conflict countries normally exhibit endemic corruption, low state legitimacy, low state capacity, weak rule of law, wavering levels of political will and high levels of insecurity. In addition, they are recipients of high inflows of aid. This dangerous combination of factors means that certain policies to fight corruption that may work in other developing countries may not be successful in fragile states.

Chêne (2012) provides recommendations for anti-corruption interventions in countries that are emerging from conflict. These recommendations are based on lessons that have been learned. First of all there are a number of pre-requisites before anti-corruption policies can be applied. The most important are: 1) Fight has to be over and relative peace should be observed, 2) there has to be credible political will from part of local leaders, 3) there has to be public support for the fight against corruption. In addition is important to start early. Reforming governance has to go hand in hand with state building.

In terms of specific recommendations for anti-corruption interventions, Chêne (2012) lists the following:

- a) Tailoring anti-corruption to corruption patterns and quality of leadership
- b) Securing early and visible victories
- c) Supporting anti-corruption champions and islands of integrity

## d) Strengthening rather than circumventing government structures

There can be also some unintended effects of anticorruption in post-conflict countries that needs consideration. Anti-corruption can be used against political opponents. In addition, false charges can be made against anti-corruption reformers themselves to hamper anti-corruption efforts.

In terms of anti-corruption approaches and good practices, Chêne (2012) argues that some recommended anticorruption practices may not be applicable in post-conflict countries.<sup>2</sup> For instance criminalisation of corruption can be effective in countries in which enforcement is feasible but in fragile states such approach may be counterproductive as it inflates the return of criminal activities. On the other hand, policies such as strengthening public finance management (PFM) have proved to be effective in post-conflict countries. In a comparative study of PFM reforms in eight post-conflict countries, the World Bank (2012b) finds that these reforms are positively associated with gains in state 'resilience' and control of corruption.

Some fragile states are rich in natural resources and this exacerbates the problem of corruption. An important initiative that can be used by governments in these countries (and in any country that is resource rich) is the Extractive Industries Transparency Initiative (EITI).<sup>3</sup> This initiative aims to strengthen governance by improving transparency and accountability in the extractive sector. It is a global standard that promotes revenue transparency. Each implementing country creates its own strategy based on the EITI standard overseen by participants in the government, companies and the civil society.

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<sup>2</sup> For an extensive discussion see Chêne (2012) pages 7-11

<sup>3</sup> <http://eiti.org/>

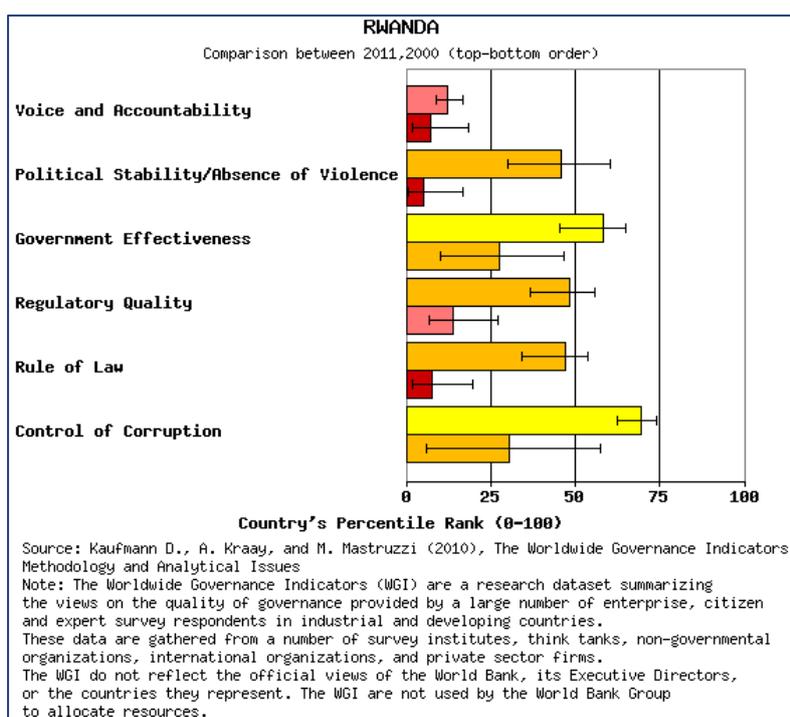
## 6 Anti-corruption and the business environment

Anti-corruption is very important in terms of improving the quality of institutions in an economy. There is ample evidence that good quality institutions are an important factor to explain economic progress. A channel through which corruption affects development is through its impact on firms, the wealth creation sector of the economy.

There is evidence that high levels of corruption are associated with a higher number of procedures to start a new business (Djankov et al., 2002). In addition high levels of corruption push firms to the informal sector (Friedman et al., 2000; Johnson et al., 1999). Firms that are forced to go underground do not have the same access to finance and public services, limiting its size and productivity (Dabla-Norris et al., 2008). In addition, data from UNIDO and UNODOC (2007) suggests that small and medium size (SMEs) firms report corruption to be a more important obstacle for business. SMEs also seem to pay a higher percentage of annual revenues in bribes than large firms. This evidence suggests that improvements in corruption may have a positive impact on the private sector.

The case of Rwanda is certainly one of these cases. Emerging from a bloody civil war, Rwanda began in 2000 an ambitious campaign to rebuild the country and reduce poverty. Starting early Rwanda has implemented many business regulation reforms that have transformed the private sector. Details of the reforms can be found in Doing Business (2013). In addition, an important implementation of anti-corruption policies has reinforced this effort producing a momentum that has improved governance. Details of the Rwandan Anti-corruption Policy can be found in Chêne and Mann (2011). In Figure 2 below we can see the extent by which Rwanda has improved in almost all governance indicators. The significant change in some indicators over an 11 year period is encouraging. This is a success story that has to be exploited by other post-conflict countries. It also illustrates that actions have to be taken in all fronts of the economy to improve governance.

**Figure 2: Rwanda Governance Indicators for 2000 and 2011**



# 7 Conclusion

In this document we discuss some of the existing practices on anti-corruption. Our findings can be summarised as follows:

- The theories behind the fight against corruption are moving from a principal-agent approach to a collective action problem. Principal-agent theories seem not to be suitable to target systemic corruption.
- The role of multilateral institutions has been crucial in the fight against corruption. UNCAC provides a common guideline for countries around the world. Both Transparency International and the World Bank provide assistance to national governments in term of diagnostic and design of anti-corruption policies.
- The use of anti-corruption agencies have proliferates in recent years after the signing of UNCAC. However there is no convincing evidence on the extent of their contribution, or the best way to structure them.
- Traditionally anti-corruption policies have been based on success experiences and common sense. In recent years there has been an effort to provide a more systematic evaluation of the effectiveness of anti-corruption policies. Unfortunately this literature is still in its infancy.
- Anticorruption policies that may be in general recommended to developing countries may not be suitable for post-conflict countries. Anti-corruption policies in fragile states have to be carefully tailored.
- Anticorruption policies can improve the business environment. There is evidence that lower corruption may facilitate doing business and improve firm's productivity. Rwanda in the last decade has made tremendous progress in improving governance and the business environment providing a model to follow for post-conflict countries.

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## Annex 1: Studies included in Hanna et al. 2011

Short title (first author)	Document details	Corruption description	Intervention details	Methodology	Location [country and region]	Participants
Anson, et al. (2006)	Journal article (peer reviewed)  <i>Journal of Economic Analysis and Policy</i>	<b>Type of corruption:</b> • Soliciting bribes  <b>Sector of corruption:</b> • Government administrators (bureaucrats) <i>tariff officials</i>  <b>Place of corruption:</b> • At point of transfer between lower-level government and recipient population • At point of transfer between customs officials and businesses	<b>Intervention category:</b> • Monitoring and incentives  <b>Intervention type:</b> • Monitoring by an institution, a private third party	Observational /econometric	Argentina South America  Indonesia South-East Asia  The Philippines South-East Asia	Firms, pre- shipment inspection (PSIs) companies and customs agents
Asthana (2008)	Journal article (peer reviewed)  <i>Public Administration and Development</i>	<b>Type of corruption:</b> • Soliciting bribes  <b>Sector of corruption:</b> • Public utilities  <b>Place of corruption:</b> • At point of transfer between lower-level government and recipient population • Between utility officials and contractors	<b>Intervention category:</b> • Changes rules • Intervention type: • Decentralisation at city/town/village level	Observational /econometric	India South Asia	Drinking water facilities staff, customer households, politicians and contractors in rural and semi- urban areas with poverty slightly below the regional average
Banerjee et al. (2007)	Journal article (peer reviewed)  <i>Journal of the European Economic Association</i>	<b>Type of corruption:</b> • Absenteeism  <b>Sector of corruption:</b> • Hospital or health workers  <b>Place of corruption:</b> • At point of transfer between lower-level government and recipient population	<b>Intervention category:</b> • Monitoring and incentives  <b>Intervention type:</b> • Audits/monitoring • Financial incentives	Randomised control trial	India South Asia	Assistant nurse midwives (ANMs) that have completed secondary school and 1.5 years of training and are located in a rural area

Short title (first author)	Document details	Corruption description	Intervention details	Methodology	Location [country and region]	Participants
<b>Banerjee et al.</b> (2009)	Unpublished working paper	<p><i>Type of corruption:</i></p> <ul style="list-style-type: none"> <li>• Soliciting bribes</li> <li>• Stealing public resources</li> <li>• Abuse of political position</li> </ul> <p><i>Sector of corruption:</i></p> <ul style="list-style-type: none"> <li>• Politicians (executive or legislative)</li> </ul> <p><i>Place of corruption:</i></p> <ul style="list-style-type: none"> <li>• Paper does not detail the types/places of corruption.</li> </ul>	<p><i>Intervention category:</i></p> <ul style="list-style-type: none"> <li>• Monitoring and incentives</li> </ul> <p><i>Intervention Type:</i></p> <ul style="list-style-type: none"> <li>• Information/education campaign about corruption</li> </ul>	Randomised control trial	India South Asia	Agricultural workers with low literacy levels located in a rural area
<b>Björkman &amp; Svensson</b> (2009)	Journal article (peer reviewed)  <i>The Quarterly Journal of Economics</i>	<p><i>Type of corruption:</i></p> <ul style="list-style-type: none"> <li>• Absenteeism</li> </ul> <p><i>Sector of corruption:</i></p> <ul style="list-style-type: none"> <li>• Hospital or health workers</li> </ul> <p><i>Place of corruption:</i></p> <ul style="list-style-type: none"> <li>• At point of transfer between lower-level government and recipient population</li> </ul>	<p><i>Intervention category:</i></p> <ul style="list-style-type: none"> <li>• Monitoring and incentives</li> <li>• Changes the rules</li> </ul> <p><i>Intervention type:</i></p> <ul style="list-style-type: none"> <li>• Community monitoring</li> <li>• Decentralisation</li> <li>• Information/education campaign</li> </ul>	Randomised control trial	Uganda Sub-Saharan Africa	Community representatives from different spectra of society (i.e. young, old, disabled, women, mother, leaders, etc.)
<b>Brollo</b> (2009)	Unpublished working paper	<p><i>Type of corruption:</i></p> <ul style="list-style-type: none"> <li>• Abuse of Political Position</li> </ul> <p><i>Sector of corruption:</i></p> <ul style="list-style-type: none"> <li>• Politicians (executive or legislative) - city mayors</li> </ul> <p><i>Place of corruption:</i></p> <ul style="list-style-type: none"> <li>• At point of transfer between higher-level government and lower-level government</li> <li>• Between higher-level officials (mayor) and contracted firms government</li> </ul>	<p><i>Intervention category:</i></p> <ul style="list-style-type: none"> <li>• Monitoring and incentives</li> </ul> <p><i>Intervention type:</i></p> <ul style="list-style-type: none"> <li>• Central government monitoring at the city level</li> </ul>	Observational /econometric	Brazil South America	Randomly selected municipalities from throughout Brazil, mayor for each municipality, citizens/voters

Short title (first author)	Document details	Corruption description	Intervention details	Methodology	Location [country and region]	Participants
Chavis (2010)	Journal article (peer reviewed)  <i>Journal of Development Economics</i>	<i>Type of corruption:</i> <ul style="list-style-type: none"> <li>Stealing public resources</li> <li>Abuse of political position</li> </ul> <i>Sector of corruption:</i> <ul style="list-style-type: none"> <li>Infrastructure production or procurement</li> </ul> <i>Place of corruption:</i> <ul style="list-style-type: none"> <li>When local elites steal from project funds</li> </ul>	<i>Intervention category:</i> <ul style="list-style-type: none"> <li>Changes the rules</li> </ul> <i>Intervention type:</i> <ul style="list-style-type: none"> <li>Decentralisation at the village level by districts</li> <li>Community driven development (CDD)</li> </ul>	Quasi-experimental	Indonesia South-East Asia	Districts throughout the country, villages within the districts, the community organisations formed and their leaders, the World Bank
Di Tella (2003)	Journal article (peer reviewed)  <i>Journal of Law and Economics</i>	<i>Type of corruption:</i> <ul style="list-style-type: none"> <li>Stealing public resources</li> </ul> <i>Sector of corruption:</i> <ul style="list-style-type: none"> <li>Hospital or health workers</li> </ul> <i>Place of corruption:</i> <ul style="list-style-type: none"> <li>Between procurement officers and suppliers</li> </ul>	<i>Intervention category:</i> <ul style="list-style-type: none"> <li>Monitoring and incentives</li> </ul> <i>Intervention type:</i> <ul style="list-style-type: none"> <li>Capital city level monitoring</li> </ul>	Quasi-experimental	Argentina South America	Buenos Aires' 28 hospitals and their procurement officers
Duflo et al. (2010)	Journal article (peer reviewed)  <i>Working Paper</i>	<i>Type of corruption:</i> <ul style="list-style-type: none"> <li>Absenteeism</li> </ul> <i>Sector of corruption:</i> <ul style="list-style-type: none"> <li>Schools or teachers</li> </ul> <i>Place of corruption:</i> <ul style="list-style-type: none"> <li>At point of transfer between lower-level government and recipient population</li> </ul>	<i>Intervention category:</i> <ul style="list-style-type: none"> <li>Monitoring and incentives</li> </ul> <i>Intervention type:</i> <ul style="list-style-type: none"> <li>Audits/monitoring</li> <li>Financial incentives</li> </ul>	Randomised control trial	India South Asia	Teachers with an average education of 10th grade, and their students in a rural area of India

Short title (first author)	Document details	Corruption description	Intervention details	Methodology	Location [country and region]	Participants
<b>Ferraz &amp; Finan (2008)</b>	Journal article (peer reviewed)  <i>Quarterly Journal of Economics</i>	<b>Type of corruption:</b> <ul style="list-style-type: none"> <li>Abuse of political position</li> </ul> <b>Sector of corruption:</b> <ul style="list-style-type: none"> <li>Politicians (executive or legislative) - city mayors</li> </ul> <b>Place of corruption:</b> <ul style="list-style-type: none"> <li>At point of transfer between higher-level government and lower-level government</li> <li>Between higher-level officials (mayors) and contracted firms</li> </ul>	<b>Intervention category:</b> <ul style="list-style-type: none"> <li>Monitoring and incentives</li> </ul> <b>Intervention type:</b> <ul style="list-style-type: none"> <li>Central government monitoring at the city level</li> </ul>	Randomised control trial	Brazil South America	Randomly chosen municipalities, mayors and voting citizens
<b>Francken (2009)</b>	Journal article (peer reviewed)  <i>World Development</i>	<b>Type of corruption:</b> <ul style="list-style-type: none"> <li>Stealing public resources</li> </ul> <b>Sector of corruption:</b> <ul style="list-style-type: none"> <li>Schools or teachers</li> <li>Government administration (bureaucrats)</li> </ul> <b>Place of corruption:</b> <ul style="list-style-type: none"> <li>At point of transfer between higher-level government and lower-level government</li> <li>At point of transfer between lower-level government and recipient population</li> </ul>	<b>Intervention category:</b> <ul style="list-style-type: none"> <li>Monitoring and incentives</li> </ul> <b>Intervention type:</b> <ul style="list-style-type: none"> <li>Community monitoring</li> <li>Information/education campaign</li> </ul>	Observational / econometric	Madagascar Sub-Saharan Africa	Government officials in charge of education funds, schools, community members and local media
<b>Olken (2007)</b>	Journal article (peer reviewed)  <i>Journal of Political Economy</i>	<b>Type of corruption:</b> <ul style="list-style-type: none"> <li>Stealing public resources</li> </ul> <b>Sector of corruption:</b> <ul style="list-style-type: none"> <li>Infrastructure production or procurement</li> </ul> <b>Place of corruption:</b> <ul style="list-style-type: none"> <li>At point of transfer between lower-level government and recipient population</li> <li>Between suppliers and implementation teams</li> </ul>	<b>Intervention category:</b> <ul style="list-style-type: none"> <li>Monitoring and incentives</li> </ul> <b>Intervention type:</b> <ul style="list-style-type: none"> <li>Central government monitoring at the village level</li> <li>Community monitoring</li> </ul>	Randomised control trial	Indonesia South-East Asia	Villages, in which 89% of adults could read and write

Short title (first author)	Document details	Corruption description	Intervention details	Methodology	Location [country and region]	Participants
Reinikka & Svensson (2003)	Unpublished working paper <i>Policy Research Working Paper Series</i>	<p><b>Type of corruption:</b></p> <ul style="list-style-type: none"> <li>Stealing public resources</li> </ul> <p><b>Sector of corruption:</b></p> <ul style="list-style-type: none"> <li>Government administration (bureaucrats)</li> <li>Politicians (executive or legislative)</li> </ul> <p><b>Place of corruption:</b></p> <ul style="list-style-type: none"> <li>At point of transfer between lower-level government and recipient population</li> </ul>	<p><b>Intervention category:</b></p> <ul style="list-style-type: none"> <li>Monitoring and incentives</li> </ul> <p><b>Intervention type:</b></p> <ul style="list-style-type: none"> <li>Community monitoring</li> <li>Information/education campaign</li> </ul>	Quasi-experimental	Uganda Sub-Saharan Africa	Government official in charge of education funds, schools, community members and local media
Tran (2008)	Unpublished working paper	<p><b>Type of corruption:</b></p> <ul style="list-style-type: none"> <li>Soliciting bribes</li> </ul> <p><b>Sector of corruption:</b></p> <ul style="list-style-type: none"> <li>Infrastructure production or procurement</li> </ul> <p><b>Place of corruption:</b></p> <ul style="list-style-type: none"> <li>At point of transfer between lower-level government and recipient population (<i>between government and sellers of goods to the government</i>)</li> </ul>	<p><b>Intervention category:</b></p> <ul style="list-style-type: none"> <li>Changes the rules</li> </ul> <p><b>Intervention type:</b></p> <ul style="list-style-type: none"> <li>Requires adoption of public procurement auctions</li> </ul>	Observational / econometric	Asia ( <i>country unspecified due to IRB contract</i> )	The internal records on contracts received and bribes paid from one firm to government officials

Source: Hanna et al. (2011)