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POLICY RESEARCH WORKING PAPER 2501

# Anti-Corruption Policies and Programs

## A Framework for Evaluation

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In a largely corruption-free environment, anti-corruption agencies, ethics offices, and ombudsmen strengthen the standards of accountability In countries with endemic corruption, however, the same institutions function in form but not in substance; under a best-case scenario such institutions might be helpful, but the more likely outcome is that they help to preserve social injustice.

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## Summary findings

The anti-corruption strategy the World Bank announced in September 1997 defined corruption as the "use of public office for private gain" and called for the Bank to address corruption along four dimensions:

- Preventing fraud and corruption in Bank projects.
- Helping countries that request Bank assistance for fighting corruption.
- Mainstreaming a concern about corruption in Bank work.
- Lending active support to international efforts to address corruption.

The menu of possible actions to contain corruption (in both countries and Bank projects) is very large, so Huther and Shah develop a framework to help assign priorities, depending on views of what does and does not work in specific countries. Their framework, based on public officials' incentives for opportunistic behavior, distinguishes between highly corrupt and largely corruption-free societies. Certain conditions encourage public officials to seek or accept corruption:

- The expected gains from undertaking a corrupt act exceed the expected costs.
- Little weight is placed on the cost that corruption imposes on others.

In a country with heavy corruption and poor governance, the priorities in anti-corruption efforts would then be to establish rule of law, strengthen institutions of participation and accountability, and limit government interventions to focus on core mandates.

In a country with moderate corruption and fair governance, the priorities would be decentralization and economic reform, results-oriented management and evaluation, and the introduction of incentives for competitive delivery of public services.

In a country with little corruption and strong governance, the priorities might be explicit anti-corruption agencies and programs, stronger financial management, increased public and government awareness, no-bribery pledges, efforts to fry the "big fish," and so on.

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# Anti-corruption Policies and Programs:

# A Framework for Evaluation

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## Anti-corruption Policies and Programs: A Framework for Evaluation

**By Jeff Huther and Anwar Shah[1]**

The Executive Board of the World Bank approved its anti-corruption strategy in September 1997. The strategy defined corruption as the "use of public office for private gain"[2] and called for the Bank to address corruption along four dimensions:

- Preventing fraud and corruption in Bank projects;
- Helping countries that request Bank assistance for corruption;
- Mainstreaming a concern for corruption in Bank's work; and
- Lending active support to international efforts to address corruption.

Following the adoption of this strategy, concrete steps to prevent fraud and corruption in Bank projects have included: the introduction of a confidential hotline, tightening of procurement guidelines, intensive audits of projects, and support for improving procurement systems in client countries.

Mainstreaming a concern for corruption has taken place through the Bank's economic and sector work which provides the analytic basis for country assistance strategy documents which, in turn, underlie the Bank's lending programs. Of the analytical tools used in economic and sector work, institutional reviews (IRs), country financial accountability assessments (CFAAs) and public expenditure reviews (PERs) offer substantial scope for addressing the governance failures that permit wide spread corruption, country procurement assessment reports (CPARs) identify sources of corruption in procurement and recommend remedies, country economic memoranda (CEMs) can be used for relatively quick assessments of corruption sources, and country assistance evaluations (CAEs) may highlight areas where corruption concerns are undermining Bank work. In addition to economic and sector work, all country assistance

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[1] The authors are with the US Treasury and World Bank respectively. The views expressed in this paper are those of the authors' alone and should not be attributed to these institutions. The paper has benefited from comments by Gregor Binkert, Gregory Ingram, Cheryl Gray, Daniel Kaufmann, Robert Klitgaard, Ruben Lamdany, Mita Marra, Robert Picciotto, Susan Rose-Ackerman, Mark Schacter, Rick Stapenhurst, Michael Stevens, P. Sharafudheen, Gerolf Weigel, and Alexandre Widmer. The authors are particularly grateful to Mark Schacter for substantive contributions. Please address comments to: ashah@worldbank.org

[2] Schacter and Shah (2000) list three broad varieties of corruption consistent with this definition: (a) bureaucratic or "petty" corruption – vast number of public officials (bureaucrats and politicians) abusing public office often extracting small bribes or favors; (b) grand corruption – theft or misuse of vast amount of public funds by a relatively small number of officials; and (c) "state capture" or "regulatory capture" – collusion among public and private agents for private benefit.

strategy (CAS) documents are now required to diagnose the state of governance and the risks that corruption poses to Bank projects.

The Comprehensive Development Framework unveiled in 1999 underscores the importance of governance and public sector institutional reform issues in the Bank's development assistance dialogue. The World Bank Institute has initiated courses on corruption for developing country officials and conducted surveys on service delivery. The Bank has also put a greater emphasis on institutional reform and capacity building through its lending program.

Bank assistance for international efforts to curtail corruption has been mainly in the form of sponsorship of major conferences, dissemination notes and support for the adoption of the 1999 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

The impact of corruption on public service delivery performance and poverty alleviation is widely recognized (see e.g. Tomaszewska and Shah, 2000 for empirical evidence). A wide consensus has also recently emerged that corruption is a symptom of failed governance (see World Bank 2000) and hence curtailing corruption requires addressing the causes of mis-governance. Nevertheless, the menu of potential actions to curtail corruption is very large so a framework is needed that provides guidance on ordering potential actions. Prioritization of various actions depends on both the conceptual and empirical views of what works and what does not work in the context of particular countries. Such a framework is also needed for evaluating both Bank and country anti-corruption programs. This note proposes a framework for such evaluations.

### *A Simple Evaluation Framework*

To focus attention on the corruption aspects of development programs, we use a framework based on the incentives for opportunistic behavior by public officials.[3] To distinguish between highly corrupt and largely corruption-free societies, consider the conditions that encourage public officials to seek out or accept corruption:

- The expected gains exceed the expected costs of undertaking a corrupt act.
- Little weight is placed on the cost that corruption imposes on others.

The first point is based on pure self-interest: corruption will only take place when officials expect to derive net positive benefit from the transaction. Successful anti-corruption programs will lower the expected gains and raise the expected penalties of corrupt behavior. That is, anti-corruption programs must change the cost-benefit calculations of public officials who believe that the expected net benefits of corruption

[3] A suggestion we received, based on an earlier version of this paper, was that we include the actions of private agents as well as public officials (the "demand side" for corruption in the case of bribery). We focus on the supply of corruption by public officials because a government that is unable to improve the incentives of its own employees is unlikely to affect private sector agents (i.e. demand can safely be thought of as constant in highly corrupt societies) since a government has significantly fewer policy actions for discouraging corruption by private agents than for discouraging corruption among public officials.

are positive. A self-interested individual will seek out or accept corruption if the expected gains outweigh the costs, i.e. when:

$$E[B] = n \times E[G] - \text{prob}[P] \times [P] > 0$$

where E is the expectations operator
n is number of corrupt transactions
G is the gain from the corrupt transaction
prob [P] is the probability of paying a penalty
P is the penalty for the corrupt activity

Based on cost-benefit considerations, anti-corruption programs can influence corruption through four mechanisms – reducing the number of transactions involving public officials, reducing the scope for gains from each transaction, increasing the probability of paying a penalty, or increasing the penalty from corrupt behavior. The factors influencing each element of a public official's cost-benefit analysis are described in the following paragraphs and listed in Table 1.

*Reducing expected gross benefits*:[4] The expected net benefit derived from corruption is context-dependent on the factors that influence a public official's expectations – a country's historical treatment of corrupt activities, the quality of the judicial framework, the strength and scope of enforcement institutions, and the potential for changes in these characteristics for escaping the procedures of legal recourse with illegal maneuvers. Thus relevant anti-corruption policies geared towards reducing the gross gains will vary with the institutional environment of each country. Transaction value can be reduced by scaling down of individual projects, requiring popular referenda for large projects with votes both on tax and expenditure allocation choices, de-monopolizing public services, promoting competition in the private sector, increasing the share of financing from domestic taxes or user charges,[5] and bringing a culture of new contractualism to the public sector.

*Reducing the number of transactions*: Policies which reduce the number of transactions that create opportunities for graft and private capture of public programs can include streamlining bureaucracy, economic or financial liberalization (e.g. deregulation, freer trade, etc.), improving service standards, and decentralizing government services. Privatization can reduce the number of transactions but, as recent experience in Eastern Europe shows, the privatization process itself involves transactions which may strengthen the hold of vested and sometimes corrupt interests so businesses operating in a

[4] A large subset of expected benefits is captured in the commonly cited formula, Monopoly + Discretion – Accountability (Klitgaard, 1988). By focusing on the actions of individual officials, we hope to highlight the difficulties in improving accountability and the implications of greater accountability on a country's institutional framework. In addition, in a country with adequate governance arrangements, discretion by public officials may be welfare-enhancing – it is discretion, after all, that is likely to provide efficiency gains in the public sector (even for public services that are not highly contestable).

[5] Domestic finance is important because it forces deliberate choices on the trade-off between the pain of taxation and the pleasure of spending by the government and the citizenry.

competitive environment, free of state financing, and with adequate governance safeguards may or may not emerge from privatization.

*Increasing the Probability of Paying Penalties*:[6] Increasing the probability of penalties is a three step process: detection, prosecution, and exacting the penalty. In cases where corruption is extortion for jobs that should be done as a matter of public service, improved detection is straight-forward – increase citizen participation in the electoral process, establish citizens' charters specifying expected service standards, allow media independence, make interactions between the public and private sectors more transparent, and strengthen the rule of law so that both individuals and the media do not fear reprisals. *Increasing the Magnitude of Penalties*: There are corrupt societies which have stiff penalties for corruption, suggesting the magnitude of penalties may not be a strong deterrent to corruption.[7] In general, people may not respond much differently to, say, an increase in penalties from five to ten years in prison, as Malaysia did in 1997 with no discernible change in perceptions of corruption (as measured by Transparency International). In some countries, however, the legislation setting penalties may be ambiguous or penalties may be set at the discretion of judges. In either case, a country may discourage corruption by clarifying corruption penalties. While the Bank may provide assistance in clarifying legislation, setting criminal penalties is outside the scope of its work.

In cases where corruption is in the form of bribes to alter the normal course of government, increased transparency of government operations reduces the opportunity for undetected corruption (e.g. clearly defined bidding processes, open judicial proceedings, strict rules on gift-giving) and increasing the number of competitors reduces the potential gains while increasing scrutiny of bidding processes. Prosecution requires judicial independence and transparency. For the judicial system to exact penalties, it must have sufficient resources and independence. To the extent that penalties are reputational, media independence is a crucial element to deterrence.

While a more complete treatment would include the incentives of private sector agents who interact with public officials, policies affecting private sector incentives are largely outside the scope of Bank work. Policies which increase the magnitude of penalties or the expected probability of paying penalties, however, are likely to have similar effects on the private sector as they do on the public sector. The focus on public officials excludes consideration of policies, typically in countries with low levels of corruption, that penalize private sector efforts to participate in corruption in other countries. These policies are potentially relevant to anti-corruption efforts, but are outside the scope of our framework (and most Bank work). In terms of domestic policies, we believe that the

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6 There may also be losses that occur with certainty, for example, if an official has to "buy" a position that offers potentially large gains from corrupt actitivities. While this type of situation should not affect the officials cost-benefit analysis (since the price paid for the position is a sunk cost), it does raise an equity issue. In cases where endemic corruption has led to a traditional of buying public positions, serious anti-corruption efforts could, conceivably, include partial compensation for current office holders (declining in value with tenure). In practice, such a system is likely to be too prone to abuse to be feasible.

7 For example, countries such as China and Vietnam, which are perceived to have relatively high levels of corruption, have sentenced people to death for graft.

focus on public officials is appropriate even if well-designed policies may reduce the incentives of the private sector to engage in corruption. The argument is that a government which cannot influence the incentives of its own officials is unlikely to be able to reduce private sector incentives to engage in corruption.

In the formulation above, an official's income does not have an effect on whether or not to engage in corrupt activities. Two concerns have been raised with this approach. One is that officials paid less than subsistence income are forced to undertake corrupt activities to survive, the second is that, at some high level of income, officials should be unwilling to risk that income to gain more through corrupt activities. Both arguments require an assumption that officials are motivated to follow the rule of law regardless of whether they see it as a threat to their income from corrupt activities. The argument put forward in this paper is that officials are not so motivated in countries in which the rule of law is weak.[8]

**Table 1: The Influence of Anti-Corruption Programs on Officials' Cost-Benefit Analysis**

| Number Of Corrupt Transactions | Gross Gains From Corruption | Probability Of Paying Penalty | Magnitude Of Penalty | Actions Not Influencing Cost Benefit Analysis |
|---|---|---|---|---|
| Bureaucratic Culture – Streamlining Services | Economic Reform – Improving Competitive Environment | Anti-Corruption Agencies | Rational-ization of laws | Raising Awareness of Public Through Seminars |
| Creating or Raising Public Service Standards | Scaling Down Individual Public Projects | Parliamentary Oversight | | Public Opinion Surveys |
| Reducing Public Employment | Bureaucratic Culture | Ombudsman | | Raising Public Sector Wages |
| Reducing Public Sector Size | Referenda on Large Public Projects | Financial Accountability | | Reducing Wage Compression |
| Financial Liberalization | | Media Independence | | |
| Increasing Transparency | | Judicial Independence | | |
| Decentralization of Public Services | | Citizen Participation | | |
| Economic Reform – Privatization | | Rule Of Law | | |
| | | Ethics Office | | |

[8] A similar argument applies on the penalties side. The alternatives to public sector employment tend to be worse in countries with high levels of corruption. Given poor alternatives, we would expect public officials to be unwilling to risk their careers for small temporary gains. While in some cases an argument can be made for desperation on the part of public officials, more generally it seems likely that officials in highly corrupt societies do not see the rule of law as a risk to their careers.

The large number of potential incentive targets and anti-corruption actions listed in Table 1 raise two questions:

- how to establish the priorities of anti-corruption campaign, and
- which actions should be used to meet those targets.

Economic theory suggests that high priority programs are those that address large welfare losses caused by corruption. Two practical considerations make prioritization based on welfare losses difficult: quantifying corruption losses is often not possible and large losses are often the result of multiple governance failures. The result is that prioritization of anti-corruption campaigns must rely on analysis of an individual country's economic, political and bureaucratic conditions.

Prioritization based on welfare losses highlights one of the problems with using survey data to construct an anti-corruption program. High visibility corruption, which is likely to be identified by surveys, may have significantly lower welfare costs than less visible corruption. It is possible, for example, that the public is highly aware of corruption causing marginal losses in traffic enforcement, utility hook-ups, or business permits but largely ignorant of the economic distortions caused by revenue losses through tax evasion by wealthy individuals and large corporations.

In determining which actions should be used, Table 1 suggests actions which vary depending on the weaknesses of a specific government. For a country in which the government that is disproportionally large, actions which reduce the size of government are likely to reduce the scope for corruption. For a country in which a few officials appear to have become very wealthy in public service, actions should aim to reduce the gross gains from corruption. For a country in which few are held accountable for corrupt activities, anti-corruption efforts should focus on judicial independence resources.

Empirical evidence for individual anti-corruption efforts is listed in Table 2. Wide-spread corruption, however, is likely to be the result of multiple governance failures so successful anti-corruption campaigns are likely to be multi-pronged. For example, an official's cost-benefit analysis suggests that raising public sector wages, by itself, is unlikely to lead to lower corruption.[9] A program that ties wage increases to increases in satisfaction with public services, however, may encourage public officials to trade income from corrupt sources for legitimate income. The effectiveness of such a program may be further enhanced if it is jointly undertaken with efforts to increase the probability of paying penalties, say through efforts to increase judicial independence.

[9] This assertion is supported indirectly by observation in countries facing wide spread corruption that wealthy officials are at least as susceptible to corrupt activities as poor ones (among examples of wealthy officials convicted of corruption are two former South Korean presidents, a former Pakistani prime minister and a former mayor of Beijing. In economic terms, we are arguing that, for an average individual, the utility of wealth function is not highly concave. Evidence directly supporting this assertions difficult to obtain, given the need to make inter-personal comparisons of utility.

**Table 2. Empirical Evidence on Selected Anti-corruption Programs**

| Program | Empirical Evidence |
|---|---|
| Anti-Corruption Agencies | Anti-corruption agencies have been successful in Chile, Hong Kong, New South Wales, Australia and Singapore (Allan; 1992, Clark; 1987, Holm; 2000; Doig; 1995; Klitgaard; 1998; Segal; 1999 and World Bank, 1999). Developing country officials however do not see these as effective anti-corruption tools in countries with endemic corruption (see Kaufmann, 1997). |
| Public Opinion Surveys | Public opinion surveys have served as a useful tool in articulating more precisely citizens' concerns (e.g. Bangalore scorecard and a "corruptometer" by an Argentine NGO). International surveys, such as those compiled by Transparency International, highlight countries in which corruption is perceived to be endemic. |
| Raising Public Sector Wages | Rijckeghem and Weder (1997) find no short run impact (as the income from bribery dominates total income). Gurgur and Shah (1999, 2000) find negative yet insignificant effect. Treisman (1999) and Swamy et al. (1999) find no relationship. The SDC experience in the forestry sector in Pakistan also confirms this. In corrupt societies public positions are often purchased by borrowing money from family and friends. Raising public sector wages simply raises the purchase price and subsequent corruption efforts to repay loans. Of course raising public sector wages which do not allow the employee to satisfy basic needs of his/her family, are likely to reduce petty corruption. |
| Reducing Public Sector Size | Tanzi and Davoodi (1998), LaPalombara (1994), La Porta et al (1999) find that reduction in public sector size leads to less corruption. Gurgur and Shah (1999) find that this result only holds when important variables such as judiciary, democratic institutions, colonial heritage, decentralization, and bureaucratic culture are omitted. Elliot (1997) finds an inverse relationship between the budget size and corruption. Privatization in some countries (e.g. Russia) has led to increased corruption and exploitation. Thus appropriate role of the government is the critical element for discussion on corruption. |
| Financial Accountability | Gurgur and Shah (1999, 2000) find a negative yet insignificant association. |
| Media Independence | Freedom of press is negatively correlated with the level of corruption (see Brunetti and Weder, 1998) |
| Judicial Independence | Judicial independence reduces corruption as confirmed by Ades and Di Tella (1996), Goel and Nelson (1998) and Gurgur and Shah (1999, 2000). |
| Citizen Participation | Citizen participation leads to reduced corruption as confirmed by Kaufman and Sachs (1998) and Gurgur and Shah (1999, 2000). |
| Decentralization | Huther and Shah (1998), Gurgur and Shah (2000) and Fisman and Gatti (2000) find a negative relationship between decentralization and corruption. |
| Bureaucratic Culture | Gurgur and Shah (1999, 2000) find a positive relationship between command and control type civil service orientation and corruption. |

*Corruption in the Presence of Altruism*

While the presence of wide-spread corruption suggests a lack of altruism among public officials, some may be motivated, in part, by a desire to perform civic duties or a desire to help others. In corrupt societies, however, otherwise altruistically motivated officials may participate in corruption because:

- Officials believe that their careers can be advanced by corrupt practices.
- Corruption acts as an insurance against risk in an unstable and uncertain political environment.
- Officials may believe that their marginal contributions to the burden of corruption are insignificant.
- Corruption may be reinforced by prejudice or tradition.
- Officials may believe that their actions are an appropriate "fend for yourself" response in an inhospitable environment with large income inequalities.

Policies which promote altruistic behavior face significant hurdles. Wide spread corruption is likely to be influenced by multiple factors. Consequently, an anti-corruption program which focuses on officials' concerns for others is unlikely to be effective unless it simultaneously addresses these factors -- awareness or selective enforcement campaigns may fail if officials do not believe most other officials will not change their ways, creation of ethics offices and ombudsmen may actually lead to greater entrenchment of underlying prejudices or traditions, and public opinion surveys may confirm officials' views of their clients.

While policies that promote altruism seem unlikely to be successful by themselves, programs which influence officials' cost-benefit analysis may also reinforce altruistic motivations. Efforts to improve service delivery or policies which reward performance should be effective from either a cost-benefit or altruistic perspective.

### *Adapting OED Methodology to the Evaluation of Anti-corruption programs*

The above discussion provides us with some background to apply the OED methodology in evaluating anti-corruption programs. In the following, the key criteria used in OED methodology are discussed[10].

*Relevance.* OED defines relevance as to "the extent which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals."[11] Thus anti-corruption programs are judged to be relevant if they have the potential to achieve their objectives given a country's existing institutional and policy environment.

Schacter and Shah (2000) argue that judgement about relevance combine two distinct factors: technical relevance and welfare relevance. Technical relevance refers to the imapct of specific activities on the incidence of corruption and the welfare relevance relates to the relative importance, for growth and poverty reduction of a particular type of corruption.

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[10] This section draws heavily upon Mark Schacter's comments on an earlier version of this note. Several of his comments have been added verbatim.

[11] For details on the definitions in this section and OED methodology more generally, see OED (2000).

Highly relevant Bank-supported interventions target (a) the known causes of given types of corruption and (b) the forms of corruption that are believed to have a strong negative effect on growth and poverty reduction. As a first step, Bank-supported intervention is assessed on whether it is likely to have an impact on a given form of corruption by changing the incentives of public officials (technical relevance). This requires identification of the particular causes of corruption in the particular country setting. The intervention then must be assessed on how that particular type of corruption is likely to be affecting growth and poverty-reduction. This requires a view on the link between a particular form of corruption and development within a specific country (welfare relevance).

So evaluation of the relevance of a Bank-supported interventions combines judgments about both the suitability of any particular intervention (targeting) and the importance of one particular form of corruption relative to any other (potential for welfare gains). For example, one could imagine a case where an intervention was well suited to the form of corruption in question, but where the particular form of corruption had relatively little negative impact on growth and poverty-reduction. Explicit anti-corruption efforts such as setting up of anti-corruption agency, ethics office and requiring no bribery pledge, for example, are likely to be less effective in countries lacking a functioning legal system, without accountability of government, or inadequate financial transparency. Given this breadth of issues, we have used a stylized view of countries based on broad categories of "Poor," "Fair" and "Good" governance to classify countries by incidence of corruption and the likely consequences of anti-corruption efforts (see Table 3).[12]

**Table 3. Ratings on Relevance of a Menu of Anti-corruption Programs**

| Program | Country's Quality of Governance | | | Comments |
|---|---|---|---|---|
| | **Weak** | **Fair** | **Good** | |
| Raising public awareness of corruption through seminars | Not relevant | Low | Medium | In countries with weak governance, corrupt practices and agents are generally well known. |
| Raising awareness of public officials through seminars | Not relevant | Low | Medium | Public officials may be aware of corruption but unwilling and/or unable to take action due to incentive problems in countries with weak governance. |
| Anti-corruption agencies / Ombudsman | Not relevant | Low | Medium | With endemic corruption, anti-corruption agencies or ombudsman may actually extort rents. Positive influence if pre-conditions for good governance exist. |
| Ethics office | Not relevant | Low | Medium | Positive influence may be limited to societies with good governance. |
| Raising Public Sector wages | Negligible | Low | Medium | May have positive impact on petty corruption but little impact on grand corruption. Negative impact if part of problem is excessive public employment. |

[12] For a discussion of the measurement of quality of governance and country rankings, see Huther and Shah, 1998 or Kaufmann, Kraay, and Zoido-Lobaton, 1999.

| Program | Country's Quality of Governance | | | Comments |
|---|---|---|---|---|
| | Weak | Fair | Good | |
| Reducing Wage Compression | Negligible | Negl. | Negligible | More relevant as an incentive mechanism for career development. May increase corruption if the public sector viewed as lucrative career option by greedy elements of society. |
| Merit based civil service | Low | Medium | High | May be derailed by bureaucratic processes in highly corrupt societies. |
| Public Opinion Surveys | Low | Medium | Medium | Public opinion surveys have served as a useful tool in articulating citizens' concerns (e.g. Bangalore scorecard). |
| Financial accountability | Low | Low | Medium | Appropriate when democratic accountability and a substantial accounting/bookkeeping infrastructure with some integrity are in place. |
| Parliamentary oversight | Low | Medium | Medium | Parliamentary oversight can be helpful but parliamentary micro-management not an effective form of governance. |
| Reducing Public Employment | Medium | Low | Low | May reduce opportunities for corruption . |
| Decentralization | Medium | Low | Low | May improve accountability and may increase sense of social purpose for public officials. |
| Client-based civil service / Bureaucratic culture | Medium | Medium | Low | Success depends upon service delivery orientation of public service, reinforced by accountability for results. |
| Economic policy reform | High | Medium | Low | Reduces potential corruption by shifting decision-making to the private sector. |
| Media and judicial independence, citizen participation | High | Medium | Low | Allows for detection, followed by accountability. |
| Reducing Public Sector Size | High | Medium | Low | By reducing the number of government activities, officials can focus on primary objectives of the state. |
| Rule of law | High | Medium | Low | Essential for any progress. |

*Efficacy.* OED defines efficacy as to "the extent to which the project's objectives were achieved, or expected to be achieved, taking into account their relative importance." This requires measurement of the effect of a given set of anti-corruption activities on levels of corruption or corrupt activities. Of interest is the measurement of changes in levels of corruption as well as the degree to which observed changes can credibly be attributed to the anti-corruption interventions. Both these issues are subject to large measurement errors. Judgments need to be made about the degree to which Bank-supported interventions have (i) reduced, (ii) had no impact upon, or (iii) led to an increase in, levels of various forms of corruption in the country. For practical purposes, efficacy evaluation will need to focus on the relationship between Bank-supported interventions and changes in key corruption drivers.

*Efficiency.* OED defines efficiency as "the extent to which the project achieved or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least compared to alternatives" (see OED 2000, p.3). An anti-corruption program is considered *efficient* if it generates maximum reduction in the incidence of corruption (good targeting) and associated welfare gains at the least cost. The same data constraints noted above apply here. Efficiency would ideally be based on the cost of Bank-supported interventions in relation to outcomes at the level of corruption. In the absence of direct measures of levels of corruption, assumptions about changes in levels of corruption have to be based on changes in proxy measures. Therefore, the evaluation will focus on the relationship between the cost of anti-corruption interventions and changes in incentives.

*Sustainability*. OED defines sustainability as "the resilience to risk of net benefit flows over time" (see OED 2000, p.4). Assessment of sustainability would take into account political, economic, financial, social and external factors. In terms of anti-corruption activities, sustainable actions are likely to be those which change the expectations of accountability of public officials. Risk reduction in anti-corruption efforts, like risk reduction in financial management, is likely to be aided by diversification. In countries with limited restraints on corruption, anti-corruption activities which rely on a single office, official, or regulation face a high risk that benefits will be lost over time. Conversely, broad-based efforts to improve accountability, reduce the monopoly power of government, or create judicial independence are likely to create sustainable reductions in corruption.

**Table 4: Summary of Proposed Rating Factors for Anti-Corruption Programs**

| | |
|---|---|
| Relevance | • Program objectives consistent with country's development priorities, with Bank strategy<br>• Program design underpinned by analytical work that recognizes country specific public sector mission and values, opportunities and constraints and an informed view of potential impacts of alternative actions<br>• Judgments as to (a) the degree to which the anti-corruption programs were targeted to corruption drivers; (b) the relationship between those drivers, corruption and welfare outcomes. |
| Efficacy | • The extent to which the project's objectives were achieved, or expected to be achieved, taking into account their relative importance in curtailing corruption.<br>• Judgments to be made about the degree to which Bank supported interventions have (i) reduced , (ii) had no impact, or (iii) led to an increase in, levels of various forms of corruption in the country. As a proxy focus on the relationship between Bank supported interventions and changes in key corruption drivers. |
| Efficiency | • generates most reductions in corruption and associated welfare gains for the least cost<br>• targets corruption that has large costs |
| Sustainability | • the resilience to risk of net benefit flows over time based upon an assessment of political, economic, financial, social and external influences |

This framework highlights the difficulty of an anti-corruption campaign – successful campaigns reduce the welfare of some public officials. In this environment, Bank staff have to operate opportunistically in pursuing anti-corruption policies. The implication is that anti-corruption campaigns cannot be applied uniformly in terms of either timeframe or policy reach. As a result, some evaluations may show that in some countries, at some times, anti-corruption efforts are not worthwhile either because the political opportunities do not exist or because the welfare gains are not likely to be significant.

### *Conclusion*

As noted earlier, path dependency is critical in determining the relative efficacy of various anti-corruption programs. For example in a largely corruption-free environment, anti-corruption agencies, ethics offices, and ombudsman serve to enhance the standards of accountability. In countries with endemic corruption, the same institutions serve a function in form only and not in substance. Under a best case scenario, these institutions might be helpful but the more likely outcome is that they help to preserve the existing system of social injustice.

Successful anti-corruption programs are those which address the underlying governance failures, resulting in lower opportunities for gain and a greater likelihood of sanctions.[13] Thus, programs have to be targeted to a country's existing quality of governance. Past experiences of industrialized world confirm these conclusions since, without exception, these countries did not achieve reduction in corruption by introducing technocratic solutions but, rather, by encouraging a sense of public duty among officials though accountability for results. Such an accountability culture came about by empowering people and decentralizing decision making (see Shah, 1999). These conclusions suggest the following stylized presentation of anti-corruption measures based on the existing quality of governance.

**Table 5: Effective 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. |

[13] The SDC experience supports this point. The SDC finds (personal communications with Gerolf Weigel and Alexandre Widmer) that in highly corrupt societies, three forces are essential for a fight against corruption:

- a well organized and motivated community in the directly concerned area, ready to defend its interests, combined with ;
- well targeted institutional development and reforms at the higher levels;
- an organized group of "activists" from the media can be very helpful to support the government reform process through well timed and coordinated newspaper, radio or TV publications for increasing the pressure on parliament and politicians to support reforms.

Addressing the governance failures which distort officials' cost-benefit assessment is likely to be the only route to success in countries with high levels of corruption and poor governance since direct dialogue on corruption is likely to be counter-productive (resulting in simply another level of corrupt officials under the name of anti-corruption offices). In countries with poor governance quality, Bank staff can promote economic liberalization, judicial reform and greater public participation in public expenditure decisions without explicitly raising contentious issues of corruption and, one hopes, without threatening their existing relationships. In countries with modest levels of corruption and governance quality, where the existing governance structure has the capacity to reform, Bank staff can focus on improvements in readily identifiable output indicators rather than uncertain measures of corruption as measures of success. In countries with high governance quality, explicit efforts to reduce corruption are likely to be successful – commissions on corruption, ombudsmen, ethics offices, and the like can rely on an infrastructure of public accountability and transparency to ensure that their findings result in lower incentives to commit corrupt acts.

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