

2002 Corruption Perceptions Index

Johann Graf Lambsdorff

Transparency International's annual Corruption Perceptions Index (CPI), now in its eighth year of publication, has since its inception facilitated research into the causes and consequences of corruption. This year, as in previous years, its methodology has again been improved. The CPI aggregates the perceptions of well-informed people with regard to the extent of corruption, defined as the misuse of public power for private benefit. The extent of corruption reflects the frequency of corrupt payments, the value of bribes paid and the resulting obstacle imposed on businesses.

This year's CPI used data collected between 2000 and 2002. The CPI is a composite index. Altogether 15 data sources were used in the 2002 CPI, from nine different institutions: the World Economic Forum, the World Business Environment Survey of the World Bank, the Institute of Management Development (in Lausanne), PricewaterhouseCoopers, the Political and Economic Risk Consultancy (in Hong Kong), the Economist Intelligence Unit, Columbia University, Gallup International on behalf of Transparency International, and Freedom House's *Nations in Transit*.

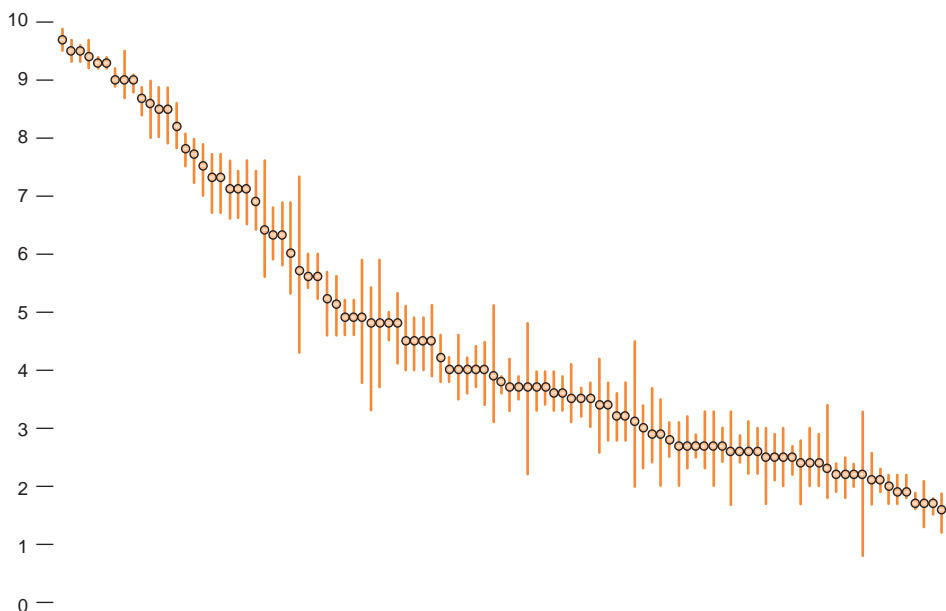
One precondition for the inclusion of a source in the index is that it must provide a ranking of nations. Another is that it must measure the overall level of corruption. Ensuring these conditions is essential to guarantee that we are not mixing apples with oranges. There exist sources that mix the level of corruption with other variables, such as xenophobia, nationalism, political instability or expected risks due to changes in corruption. Including such sources would distort the measurement of perceived levels of corruption. We take a conservative approach, and only include sources that strictly compare levels of corruption.

The strength of the CPI lies in the combination of multiple data sources in a single index, which increases the reliability of each individual score. The benefit of combining data in this manner is that erratic findings from one source can be balanced by the inclusion of at least two other sources, lowering the probability of misrepresenting a country's level of corruption.¹

The high correlation of the different sources used in the CPI indicates its overall reliability. The figure shows the 90 per cent confidence intervals for each country included in the 2002 CPI, indicating how a country's score may vary, depending on measurement precision. Most countries are measured with sufficient precision to allow a ranking of nations.

The index provides an annual snapshot of the views of decision-makers. Comparisons with the results from previous years should be based on a country's score, not its rank – a country's rank can change simply because new countries enter the

2002 CPI and 90% confidence intervals



index and others drop out. However, year-to-year comparisons of a country's score result not only from a changing perception of a country's performance, but also from a changing sample and methodology – each year different viewpoints are collected and somewhat different questions asked.

The robustness of the CPI findings is enhanced by the fact that residents' viewpoints were found to correlate well with those of expatriates. The CPI gathers perceptions that are invariant to cultural preconditions and represent a global perspective. In the past, the expatriates whose views were included in the CPI were often Western businesspeople, and the viewpoint of less developed countries seemed under-represented. For the 2002 CPI, however, Gallup International on behalf of Transparency International surveyed respondents from less-developed countries, asking them to assess the performance of public servants in industrial countries. The results from this group of expatriates correlated well with the other sources used in the 2002 CPI.

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- 1 Some technical adjustments were carried out this year to ensure that all reported values, including those for the high-low range and the confidence range, remain within the given scale from 0 to 10. This was achieved using a matching-percentiles technique for standardising the data, a beta-transformation for ensuring the year-to-year continuity of the data and a bootstrap approach to determine the confidence range.

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Rank	Country	2002 CPI score	Number of surveys used	Standard deviation	High-low range	90% confidence range
1	Finland	9.7	8	0.4	8.9–10.0	9.5–9.9
2	Denmark	9.5	8	0.3	8.9–9.9	9.3–9.7
	New Zealand	9.5	8	0.2	8.9–9.6	9.3–9.6
4	Iceland	9.4	6	0.4	8.8–10.0	9.2–9.7
5	Singapore	9.3	13	0.2	8.9–9.6	9.2–9.4
	Sweden	9.3	10	0.2	8.9–9.6	9.2–9.4
7	Canada	9.0	10	0.2	8.7–9.3	8.9–9.2
	Luxembourg	9.0	5	0.5	8.5–9.9	8.7–9.5
	Netherlands	9.0	9	0.3	8.5–9.3	8.8–9.1
10	United Kingdom	8.7	11	0.5	7.8–9.4	8.4–8.9
11	Australia	8.6	11	1.0	6.1–9.3	8.0–9.0
12	Norway	8.5	8	0.9	6.9–9.3	8.0–8.9
	Switzerland	8.5	9	0.9	6.8–9.4	7.9–8.9
14	Hong Kong	8.2	11	0.8	6.6–9.4	7.8–8.6
15	Austria	7.8	8	0.5	7.2–8.7	7.6–8.1
16	United States	7.7	12	0.8	5.5–8.7	7.2–8.0
17	Chile	7.5	10	0.9	5.6–8.8	7.0–7.9
18	Germany	7.3	10	1.0	5.0–8.1	6.7–7.7
	Israel	7.3	9	0.9	5.2–8.0	6.7–7.7
20	Belgium	7.1	8	0.9	5.5–8.7	6.6–7.6
	Japan	7.1	12	0.9	5.5–7.9	6.6–7.4
	Spain	7.1	10	1.0	5.2–8.9	6.5–7.6
23	Ireland	6.9	8	0.9	5.5–8.1	6.4–7.4
24	Botswana	6.4	5	1.5	5.3–8.9	5.6–7.6
25	France	6.3	10	0.9	4.8–7.8	5.9–6.8
	Portugal	6.3	9	1.0	5.5–8.0	5.8–6.9
27	Slovenia	6.0	9	1.4	4.7–8.9	5.3–6.9
28	Namibia	5.7	5	2.2	3.6–8.9	4.3–7.3
29	Estonia	5.6	8	0.6	5.2–6.6	5.4–6.0
	Taiwan	5.6	12	0.8	3.9–6.6	5.2–6.0
31	Italy	5.2	11	1.1	3.4–7.2	4.6–5.7
32	Uruguay	5.1	5	0.7	4.2–6.1	4.6–5.6
33	Hungary	4.9	11	0.5	4.0–5.6	4.6–5.2
	Malaysia	4.9	11	0.6	3.6–5.7	4.6–5.2
	Trinidad & Tobago	4.9	4	1.5	3.6–6.9	3.8–5.9
36	Belarus	4.8	3	1.3	3.3–5.8	3.3–5.4
	Lithuania	4.8	7	1.9	3.4–7.6	3.7–5.9
	South Africa	4.8	11	0.5	3.9–5.5	4.5–5.0
	Tunisia	4.8	5	0.8	3.6–5.6	4.1–5.3
40	Costa Rica	4.5	6	0.9	3.6–5.9	4.0–5.1
	Jordan	4.5	5	0.7	3.6–5.2	4.0–4.9
	Mauritius	4.5	6	0.8	3.5–5.5	4.0–4.9
	South Korea	4.5	12	1.3	2.1–7.1	3.9–5.1
44	Greece	4.2	8	0.7	3.7–5.5	3.8–4.6
45	Brazil	4.0	10	0.4	3.4–4.8	3.8–4.2
	Bulgaria	4.0	7	0.9	3.3–5.7	3.5–4.6
	Jamaica	4.0	3	0.4	3.6–4.3	3.6–4.2
	Peru	4.0	7	0.6	3.2–5.0	3.7–4.4
	Poland	4.0	11	1.1	2.6–5.5	3.4–4.5
50	Ghana	3.9	4	1.4	2.7–5.9	3.1–5.1
51	Croatia	3.8	4	0.2	3.6–4.0	3.6–3.9
52	Czech Republic	3.7	10	0.8	2.6–5.5	3.3–4.2
	Latvia	3.7	4	0.2	3.5–3.9	3.5–3.9
	Morocco	3.7	4	1.8	1.7–5.5	2.2–4.8

Rank	Country	2002 CPI score	Number of surveys used	Standard deviation	High-low range	90% confidence range
	Slovak Republic	3.7	8	0.6	3.0–4.6	3.3–4.0
	Sri Lanka	3.7	4	0.4	3.3–4.3	3.4–4.0
57	Colombia	3.6	10	0.7	2.6–4.6	3.3–4.0
	Mexico	3.6	10	0.6	2.5–4.9	3.3–3.9
59	China	3.5	11	1.0	2.0–5.6	3.1–4.1
	Dominican Rep.	3.5	4	0.4	3.0–3.9	3.2–3.7
	Ethiopia	3.5	3	0.5	3.0–4.0	3.0–3.8
62	Egypt	3.4	7	1.3	1.7–5.3	2.6–4.2
	El Salvador	3.4	6	0.8	2.0–4.2	2.8–3.8
64	Thailand	3.2	11	0.7	1.5–4.1	2.8–3.6
	Turkey	3.2	10	0.9	1.9–4.6	2.7–3.7
66	Senegal	3.1	4	1.7	1.7–5.5	2.0–4.5
67	Panama	3.0	5	0.8	1.7–3.6	2.3–3.4
68	Malawi	2.9	4	0.9	2.0–4.0	2.4–3.7
	Uzbekistan	2.9	4	1.0	2.0–4.1	2.0–3.5
70	Argentina	2.8	10	0.6	1.7–3.8	2.5–3.1
71	Côte d'Ivoire	2.7	4	0.8	2.0–3.4	2.0–3.1
	Honduras	2.7	5	0.6	2.0–3.4	2.3–3.2
	India	2.7	12	0.4	2.4–3.6	2.5–2.9
	Russia	2.7	12	1.0	1.5–5.0	2.3–3.3
	Tanzania	2.7	4	0.7	2.0–3.4	2.0–3.3
	Zimbabwe	2.7	6	0.5	2.0–3.3	2.4–3.0
77	Pakistan	2.6	3	1.2	1.7–4.0	1.7–3.3
	Philippines	2.6	11	0.6	1.7–3.6	2.4–2.9
	Romania	2.6	7	0.8	1.7–3.6	2.2–3.1
	Zambia	2.6	4	0.5	2.0–3.2	2.2–3.0
81	Albania	2.5	3	0.8	1.7–3.3	1.7–3.0
	Guatemala	2.5	6	0.6	1.7–3.5	2.1–2.9
	Nicaragua	2.5	5	0.7	1.7–3.4	2.0–3.0
	Venezuela	2.5	10	0.5	1.5–3.2	2.2–2.7
85	Georgia	2.4	3	0.7	1.7–2.9	1.7–2.8
	Ukraine	2.4	6	0.7	1.7–3.8	2.0–3.0
	Vietnam	2.4	7	0.8	1.5–3.6	2.0–2.9
88	Kazakhstan	2.3	4	1.1	1.7–3.9	1.7–2.9
89	Bolivia	2.2	6	0.4	1.7–2.9	1.9–2.5
	Cameroon	2.2	4	0.7	1.7–3.2	1.8–2.6
	Ecuador	2.2	7	0.3	1.7–2.6	2.0–2.4
	Haiti	2.2	3	1.7	0.8–4.0	0.8–3.3
93	Moldova	2.1	4	0.6	1.7–3.0	1.7–2.5
	Uganda	2.1	4	0.3	1.9–2.6	1.9–2.3
95	Azerbaijan	2.0	4	0.3	1.7–2.4	1.7–2.2
96	Indonesia	1.9	12	0.6	0.8–3.0	1.7–2.2
	Kenya	1.9	5	0.3	1.7–2.5	1.7–2.2
98	Angola	1.7	3	0.2	1.6–2.0	1.6–1.9
	Madagascar	1.7	3	0.7	1.3–2.5	1.3–2.1
	Paraguay	1.7	3	0.2	1.5–2.0	1.5–1.8
101	Nigeria	1.6	6	0.6	0.9–2.5	1.2–1.9
102	Bangladesh	1.2	5	0.7	0.3–2.0	0.7–1.6

Notes

- ¹ The '2002 CPI score' ranges between 10 (highly clean) and 0 (highly corrupt).
- ² 'Standard deviation' indicates differences in the values given by the sources. As indicated by shading, values below 0.5 indicate agreement (no shading), values between 0.5 and 0.9 indicate some agreement (pale shading), while values greater than or equal to 1 indicate disagreement (dark shading).
- ³ 'High-low range' provides the highest and lowest values given by the different sources.
- ⁴ '90 per cent confidence range' provides a range of possible values of the CPI score. This reflects how a country's score may vary, depending on measurement precision. This interval, particularly when only three sources are available, should only be regarded as a rough guide.

2002 Bribe Payers Index

Fredrik Galtung

In 2002 Transparency International published its second Bribe Payers Index (BPI) of leading exporting countries, which rates the likelihood that companies will pay bribes when they do business abroad. While numerous surveys study corruption in the public sphere, the BPI is the only major survey to track corrupt practices among international businesses.

TI commissioned one of the world's leading opinion polling companies, Gallup International, to measure the supply side of international bribery for the BPI. The questionnaire and sampling frame were developed by TI. The first BPI, published in 1999, ranked the world's 19 leading exporting economies in terms of the degree to which their companies were perceived to be paying bribes abroad. The 2002 BPI covered two additional economies, Hong Kong and Russia, but otherwise remained consistent with the first survey.¹

In the 2002 survey, interviews were conducted with 835 private sector leaders in Argentina, Brazil, Colombia, Hungary, India, Indonesia, Mexico, Morocco, Nigeria, the Philippines, Poland, Russia, South Africa, South Korea and Thailand (the same as in 1999 with the addition of Mexico). These 15 major emerging market economies account for more than 60 per cent of all imports into non-Organisation for Economic Co-operation and Development (OECD) countries. About 55 people were interviewed in each country; they were drawn from top executives at major national and international companies, chartered accountancies, foreign chambers of commerce, national and foreign commercial banks and senior partners at commercial law firms.

Within the 21 leading exporting economies, Russian and Chinese companies were perceived to bribe most frequently, and Australian, Swedish and Swiss companies least frequently (see table 1).

In a notable development, scores were found to have improved slightly since the 1999 survey: companies are marginally less likely to bribe now than three years ago. However, important exceptions to this trend were companies from Britain and the United States, which are now perceived as slightly more likely to bribe than they were in 1999.

The BPI was also intended to assess the implementation of the OECD Anti-Bribery Convention. As there has been little or no enforcement of the convention since it entered into force, except in the United States, it is perhaps too early to evaluate its impact. But, surprisingly, awareness of the convention has hardly improved in three years: only 7 per cent of all respondents expressed 'familiarity'

Table 1 **2002 Bribe Payers Index (BPI)**

Rank Economy Score (0 = high bribery; 10 = low bribery)

<i>Rank</i>	<i>Economy</i>	<i>Score (0 = high bribery; 10 = low bribery)</i>
1	Australia	8.5
2	Sweden	8.4
	Switzerland	8.4
4	Austria	8.2
5	Canada	8.1
6	Netherlands	7.8
	Belgium	7.8
8	Britain	6.9
9	Singapore	6.3
	Germany	6.3
11	Spain	5.8
12	France	5.5
13	United States	5.3
	Japan	5.3
15	Malaysia	4.3
	Hong Kong	4.3
17	Italy	4.1
18	South Korea	3.9
19	Taiwan	3.8
20	China (excluding Hong Kong)	3.5
21	Russia	3.2
	<i>Domestic companies</i>	1.9

Note

Respondents were asked: 'In the business sectors with which you are familiar, please indicate whether companies from the following countries are very likely, quite likely or unlikely to pay bribes to win or retain business in this country.' The standard error in the results was 0.2 or less.

with the convention, compared to 6 per cent in 1999. Respondents with the highest level of familiarity were the heads of bilateral chambers of commerce (13 per cent). Even among commercial lawyers, the level of awareness was only 12 per cent.

Transparency International also asked respondents to identify the business sectors in which bribery most commonly occurs. As indicated in table 2, bribery was perceived to occur most often in public works contracts and construction, followed by the arms and defence industry. On a scale of 0 to 10, where 10 indicates negligible bribery, even the cleanest business sectors – agriculture, light manufacturing and fisheries – only obtained passable scores of 5.9, indicating that international bribes are 'quite likely' to be paid in those sectors as well.

In the 2002 survey a distinction was made between the frequency and the size of bribes paid in certain sectors. Even when ranked by size, the extent of bribery was seen to be greatest in public works contracts, followed by the arms industry.

Table 2 **Bribery in different business sectors***Business sector* *Score (0 = high bribery; 10 = low bribery)*

Agriculture	5.9
Light manufacturing	5.9
Fishery	5.9
IT	5.1
Forestry	5.1
Civilian aerospace	4.9
Banking and finance	4.7
Heavy manufacturing	4.5
Pharmaceuticals/medical care	4.3
Transportation/storage	4.3
Mining	4.0
Power generation/transmission	3.7
Telecommunications	3.7
Real estate/property	3.5
Oil and gas	2.7
Arms and defence	1.9
Public works/construction	1.3

Note

Respondents were asked: 'Which are the sectors in your country of residence where senior public officials would be very likely, quite likely or unlikely to accept or extort bribes?' The standard error in the results was 0.2 or less.

Views were evenly split regarding the question of whether corruption in international business was on the increase (23 per cent indicated an increase, 27 per cent a decrease and 37 per cent said it remained the same).

The survey also asked respondents which governments they felt were most likely to engage in unfair practices – such as diplomatic or political pressure, financial and commercial pressure, tied foreign aid, or tied defence and arms deals – to give their own companies unfair business advantages. Respondents perceived the U.S. government to be the most associated with unfair practices by far, followed by the governments of France, Britain, Japan, China and Russia.

For more details on the survey, see www.transparency.org/surveys/index.html#bpi.

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- 1 In the 1999 survey Hong Kong was not distinguished from mainland China. The 2002 survey showed that Hong Kong companies are viewed more favourably than mainland Chinese companies. Only the 21 major economies were covered because (a) companies from the smaller exporters tend to have less of a global reach, although some are major players within their respective regions; and (b) the top 30 to 40 exporters would include the major exporters of oil and gas, which do not have an international profile in manufactured goods or international services.

National surveys on corruption in francophone Africa

Marie Wolkers

Transparency International (TI) developed household and private sector questionnaires and commissioned local institutes in Madagascar, Morocco and Senegal to carry out the surveys in 2001. The aim of the research – coordinated by TI national chapters – was to produce data that could shed light on the nature, causes, types and frequency of corruption in the countries surveyed. Another important goal was to design a model for national corruption surveys that could be used in other countries in order to produce consistent and comparable data at the international level. These studies combined a quantitative and qualitative approach.

The surveys were carried out by OSIPD and ECR in Madagascar, LMS and CSA-TMO in Morocco and Orgatech in Senegal. The institutes were free to choose the most appropriate methodology and to adapt TI's questionnaires to the context of each country. One-on-one interviews were conducted anonymously with heads of households and company representatives. In each country a sample of more than 1,000 individuals was interviewed for the household survey, drawn from both urban and rural areas, and between 400 and 800 representatives of the formal and informal private sector were interviewed for the company survey.

Corruption was seen to be one of the principal social problems facing all three countries. In Morocco, 87 per cent of respondents saw it as one of the country's worst problems and 94 per cent of companies viewed corruption as an important obstacle to the development of the private sector, second only to the rate of taxation. In Madagascar, 64 per cent of private sector respondents rated corruption as the principal problem they face. In Senegal, 40 per cent of company executives considered bribery necessary to obtain a public contract, while most respondents believed that vote buying is a common practice and that access to certain public services is often conditional upon 'grease payments'.

Most respondents perceived corruption to have worsened, or at least not improved, in the last few years. In Madagascar, 75 per cent of respondents said that grand corruption had increased in the previous five years and more than 60 per cent said this of petty corruption. In Morocco, a significant proportion of both households and companies said that corruption had increased in the previous three years (33 per cent and 40 per cent, respectively, for grand corruption and 41 per cent and 44 per cent for petty corruption). Nearly 90 per cent of respondents in Senegal observed that corruption is widespread and reported hardly any improvement since the recent change of government.

Proportion of interviewees seeing corruption as an important problem in different sectors

	<i>Madagascar</i>		<i>Morocco</i>		<i>Senegal</i>	
	<i>Households</i>	<i>Businesses</i>	<i>Households</i>	<i>Businesses</i>	<i>Households</i>	<i>Businesses</i>
Customs	31	87	75	95	60	64
Judiciary	76	83	69	88	36	35
Local administration	62	76	76	92	32	54
Police	n/a	n/a	82	99	50	61
Politicians	54	77	68	86	43	10
Public health	66	72	80	78	46	39
Registry and permit officials	65	84	n/a	n/a	51	48
Tax collection	42	83	60	82	33	43
Traffic police	82	94	86	97	63	72

Notes

- 1 The figures are the percentage of each group of interviewees who saw corruption in a given sector to be important or very important.
- 2 The percentages for Senegal are lower due to a higher proportion of interviewees not responding.

Lack of punishment was seen as a central reason for ongoing corruption. In Morocco, 80 per cent of households and 95 per cent of companies saw it as the main reason for corruption. More than 80 per cent of respondents in Madagascar identified personal gain as the main motive for corruption, followed by low salaries and the lack of punishment.

In comparing sectors, respondents in all three countries perceived the traffic police to be the most corrupt, while other police officers and customs officials were also seen as highly corrupt (see table). There were some differences in the perceptions of households and businesses. While business respondents in all three countries saw customs officials as among the most corrupt, households, particularly in Madagascar, viewed them as less corrupt.

The results of the three surveys will be compared and compiled in a forthcoming report. Similar surveys are planned for other francophone countries in Africa in 2003.

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Transparency and corruption within civil society organisations

Volkhart Finn Heinrich

The issue of ethical behaviour and accountability within civil society organisations (CSOs) has become a focus of attention in recent years, triggered as much by incidents of mismanagement and corruption within a small number of CSOs as by a backlash against civil society itself. Many countries have seen innovative and effective responses, such as the establishment of self-regulation frameworks and codes of conduct. Compared to other social phenomena, however, there has been a distinct shortage of information on the state of CSOs, including internal transparency and other corruption-related issues.

To fill this gap, CIVICUS developed the CIVICUS Civil Society Index to assess the state of civil society on a country-by-country basis.¹ The project provides a diagnostic tool to assess the health of civil society and develop knowledge-based strategies to strengthen civil society. By placing ownership of the implementation process and research findings in the hands of local civil societies, the index seeks to ensure an effective linkage between research, reflection and action.

A key element of the project is national workshops among civil society actors, which discuss and validate the research findings and develop action agendas for the future. In 2000–01, CIVICUS, together with its respective national partners, conducted the pilot phase of the project in 12 countries: Belarus, Canada, Croatia, Estonia, Ghana, Mexico, New Zealand, Pakistan, Romania, South Africa, Ukraine and Uruguay.

The research methodology employed a common framework for all countries, but left ample space for country-specific adaptations of the indicators used.² The data collected stemmed mainly from surveys of civil society stakeholders, supplemented by available secondary data sources. However, relying on ‘subjective’ stakeholder assessments made it difficult to compare results across countries since it is likely that respondents in different countries used different yardsticks.³ The following analysis should be read with this qualification in mind.

One dimension of the stakeholder surveys focused on the values of civil society. Three indicators in this dimension were: public accountability, financial transparency and perceptions of corruption (see table 1). Analysis of these indicators revealed three somewhat distinct types of civil society. A rather mature civil society was indicated by positive assessments of financial transparency and public accountability, coupled with low levels of corruption. This applied to CSOs in Canada and South Africa.⁴ A mixed type of civil society, prevalent in Eastern

Table 1 Survey respondents' views of transparency and corruption among CSOs (%)¹

	<i>Public availability of general information about CSOs</i>	<i>Financial transparency of CSOs</i>	<i>Perception of corruption cases among CSOs</i>
Canada	69	64	–
Croatia	39	20	58
Mexico	44	19	84
Pakistan	26	10	83
Romania	62	27	60
South Africa ²	65	46	–
Ukraine	58	26	62
Uruguay	32	11	84

Notes

- Percentage of respondents who held that, for the majority of CSOs in their country, (a) CSOs make information about their general activities publicly available; (b) CSOs make their financial statements publicly available; and (c) there are cases of corruption or self-interest in internal management. For some countries the answer scales had to be adjusted to enable cross-country comparisons.
- In South Africa, respondents were asked about their own organisation, not about CSOs in general. Care should therefore be taken in comparing South Africa with other countries in the table.

Europe and, to a lesser extent, in Mexico, was indicated by perceptions of relatively high levels of transparency and accountability but also perceived mismanagement and corruption. Here, while the influence of foreign donors may have introduced good accountability mechanisms, a donor-driven civil society with weak local roots

Table 2 Comparing corruption in civil society and in the public sector

	<i>Averaged CIVICUS civil society indicators</i>	<i>TI Corruption Perceptions Index 2001 (0 = corrupt, 10 = clean)</i>
Canada	66.5	8.9
Croatia	38.9	3.9
Mexico	48.9	3.7
Pakistan	39.6	2.3
Romania	49.9	2.8
South Africa	55.5	4.8
Ukraine	48.6	2.1
Uruguay	42.3	5.1

Notes

- The civil society column is the average of the three indicators presented in Table 1 (public availability of information, financial transparency, perception of corruption cases).
- Correlation coefficient of the two columns = 0.72.

may have provided incentives for mismanagement and corruption. The third type of civil society can be characterised as grassroots-driven, where less attention is given to accountability and corruption issues. Uruguay and Pakistan appeared to fall into this category.

When the CIVICUS indicators were compared with Transparency International's Corruption Perceptions Index, a relatively strong correlation emerged, which may indicate that similar 'corrupting' factors are at work in civil society as in the state bureaucracy (see table 2). However, the responsibility for ensuring that CSOs are accountable and behave ethically still lies with civil society itself. It is hoped that the CIVICUS Index can be used to track the progress made by civil society actors as they further develop mechanisms to ensure greater transparency and accountability and reduce corruption.

The tools and methodology of the CIVICUS Index are currently being refined and expanded. In 2003, a refined CIVICUS Index will be implemented in up to 25 countries. For this endeavour, CIVICUS is seeking the cooperation of national partner organisations.

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- 1 CIVICUS is an international movement of civil society organisations, with more than 600 members in over 100 countries, promoting stronger citizen participation and a greater role for civil society in governance and development. For more information on CIVICUS, please visit www.civicus.org.
- 2 For more information on the project approach and methodology, see Volkhart Finn Heinrich and Kumi Naidoo, 'From Impossibility to Reality: A Reflection and Position Paper on the CIVICUS Index on Civil Society Project 1999–2001', 2001, available on the CIVICUS website.
- 3 For an elaboration of this problem and of Transparency International's response to it, see Johann Graf Lambsdorff, 'The Transparency International Corruption Perceptions Index 2000 – Framework Document', 2001, available at www.transparency.org/cpi/2000/methodology.html.
- 4 Canadian stakeholders assessed the level of corruption within CSOs as very low. Owing to different question wording and answer categories, this indicator could not be included in the table. In South Africa, the question about corruption was not asked in the survey. Care should be taken in comparing South Africa since respondents there were asked about their own organisation, whereas respondents in other countries were asked about CSOs in general.

Budget transparency in Latin America

Juan Pablo Guerrero and Helena Hofbauer

As part of an international initiative of non-governmental and educational organisations that independently study the budget in their countries (the International Budget Project¹), academic and civic institutions in five Latin American countries came together in 2001 to analyse transparency in government budgets and public spending in Argentina, Brazil, Chile, Mexico and Peru.²

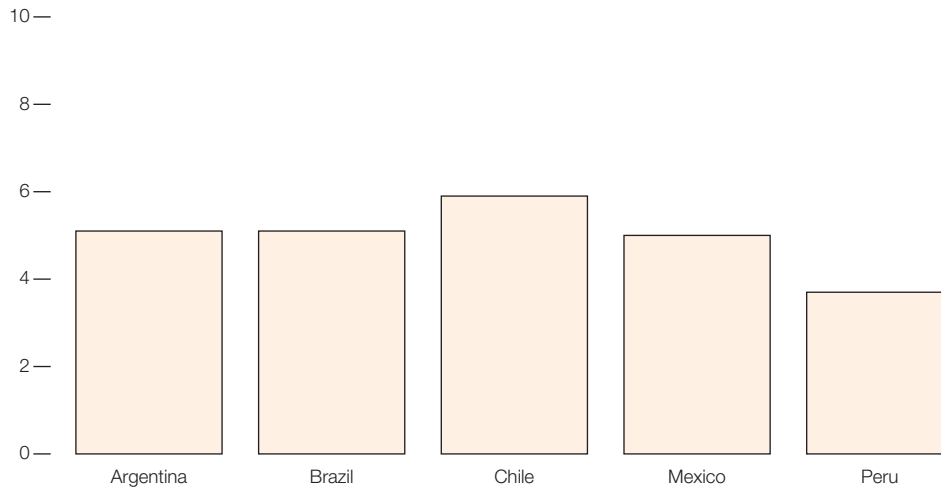
The main objective of the study was to present an Index of Budget Transparency that measured in a comparable form the degree of accessibility and usefulness of the information provided by national governments with respect to finances, revenue and expenditures. The second objective was to generate knowledge about the budget and the importance of transparency. The third objective was to identify the most opaque areas of the budget so that governments could find concrete ways to improve transparency. The study comprised two elements to achieve these multiple objectives:

- ◇ a survey of experts and key users of budget information in each country. The experts included members of the legislature (participants in budget, defence, education and health committees), journalists who write on budget issues for national newspapers or magazines, academics who have published on the budget, and NGOs specialising in budget or transparency issues. The survey included 78 questions that spanned many aspects of the budget: the participation of citizens and the legislature in the budget, transparency in budget elaboration and allocation, budget oversight and auditing, accountability during budget execution and access to budget information.
- ◇ analysis of the legal framework for the budget, prepared by an expert on budgetary issues from each country. The purpose of the analysis was to determine whether a lack of transparency was the result of weak legislation or the deficient application of existing legislation. The analysis involved answering 85 questions on different elements of the budgetary framework.

To gain an overall assessment, experts in each country were asked to score the transparency of their country's budget after completing the questionnaire. None of the five countries scored higher than 5.9 on a scale of 1 to 10, where 10 is 'very transparent', indicating a general lack of budget transparency. With a rating of 5.9, Chile's budget was considered the most transparent. Peru's was seen as the least transparent, with a rating of 3.7 (see the figure).

General index of budget transparency

0 = low, 10 = high



Only in the area of macroeconomic information did more than half the survey participants rate the transparency of their country's budget positively. Responses to detailed questions in the surveys revealed three areas in which budget transparency was particularly weak: citizen participation, accountability and supervision of federal officials (see table 1). These were classified as 'critical areas', since on average fewer than 30 per cent of experts gave positive responses to questions in these areas.

The area rated most 'critical' was citizen participation. Experts were asked whether they agreed with a number of statements including: 'Mechanisms exist, and are known by the public, to incorporate its opinion during the approval of the budget'; and 'In the event that there are substantial changes in the approved budget during its execution, the executive branch sufficiently informs the public about the changes'. Although there is a lack of citizen participation in many countries, the particularly low scores in these five requires a re-examination of the role of citizens, who finance and therefore should benefit from public spending.

The second area classified as 'critical' was accountability. Experts were asked whether they agreed with statements including: 'The purchase prices that the executive pays are public when large amounts of spending are involved'; and 'Data regarding the execution of the expenditures of whatever type of decentralised organisation are included in the reports on the execution of the budget'.

Table 1 **Three ‘critical areas’ of the budget process (% of positive responses to questions)**

	<i>Citizen participation</i>	<i>Accountability</i>	<i>Supervision of federal officials</i>
Argentina	8	25	20
Brazil	11	24	33
Chile	21	39	37
Mexico	8	24	17
Peru	6	19	26

Note

The percentages for each area indicate the average proportion of experts who ‘agreed’ or ‘totally agreed’ with a number of statements. Each statement was worded so that agreement implies high transparency, and disagreement low transparency.

Table 2 **Analysis of the legal framework (scale 0 to 1,000; 1,000 is most transparent)**

	<i>Citizen participation</i>	<i>Accountability</i>
Argentina	667	643
Brazil	167	548
Chile	571	864
Mexico	250	476
Peru	500	429

The third area that was classified as ‘critical’ was supervision of federal officials. Experts were asked whether they agreed with statements including: ‘In the event of an irregularity in the execution of the budget, it is possible to identify those that are responsible’; and ‘A functionary who misuses the budget for his or her own benefit or the benefit of others is penalised’.

The analysis of the legal framework revealed that the deficient application of legislation is a general problem. The ratings given for the transparency provisions of legal frameworks were high relative to the ratings given for the actual level of budget transparency. When the legal frameworks were rated on a scale of 0 to 1,000, where 1,000 implied that there were full provisions for transparency, Chile received the highest average score (770) and Mexico the lowest (507). Table 2 shows the ratings for two elements of the legal frameworks: citizen participation in the budget and budget accountability. Both elements of the legal framework were given relatively high ratings in Chile and Argentina. The gap between the legal framework and the actual implementation of the framework is especially notable in the case of Argentina.

The Index of Budget Transparency will be presented every year, and the 2002 survey will include a larger number of countries.

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or Helena Hofbauer, Fundar (helena@fundar.org.mx)*

- 1 www.internationalbudget.org. For more information on the Latin America study, see also www.transparencia.org.mx/Temas.htm.
- 2 Poder Ciudadano (in Argentina); El Instituto Brasileiro de Analices Sociais e Economicas (IBASE) (in Brazil); El Departamento de Economía de la Universidad de Chile (in Chile); El Centro de Investigación de la Universidad del Pacífico (in Peru); El Centro de Investigación y Docencia Económicas (CIDE); Equidad de Género: Ciudadanía, Trabajo y Familia; and Fundar: Centro de Análisis e Investigación (in Mexico). The technical assistance of Pearson S.A. de C.V. was used to develop the survey.

Corruption and trust in the New Europe and New Russia Barometers

Richard Rose

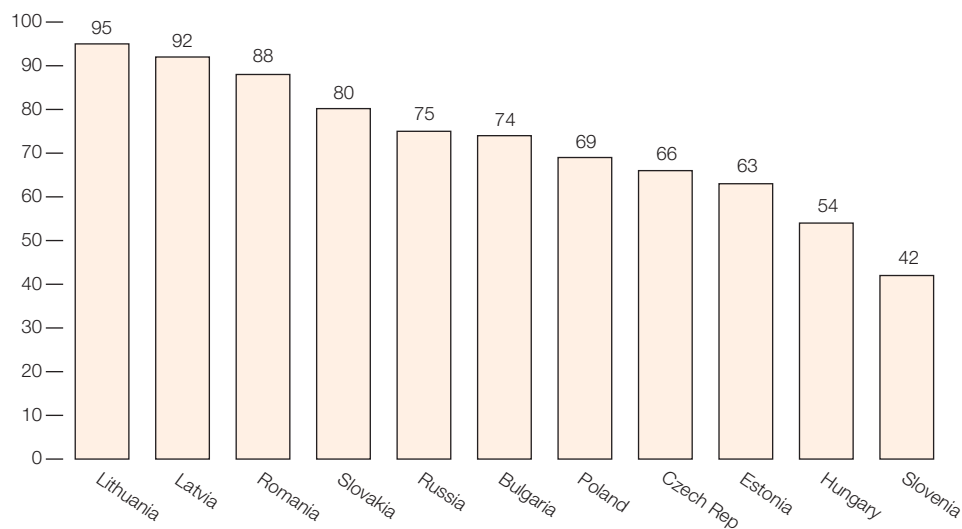
The Centre for the Study of Public Policy at the University of Strathclyde in Britain routinely carries out public opinion surveys aimed at assessing change across the former communist countries of Central and Eastern Europe, including Russia. In 2001, the centre conducted both the New Europe Barometer, a nationally representative survey in the 10 Central and East European countries negotiating membership of the European Union, and the New Russia Barometer. A total of 13,010 persons were interviewed.

The carry-over of communist practices, combined with new opportunities for wealth, make corruption the chief threat to the rule of law in post-communist countries today. When citizens were asked how widespread they think bribery and corruption are among public officials, a majority in all but one country said that 'most' or 'almost all' public officials are corrupt (see figure 1). The perception of corruption was highest in two Baltic states, Lithuania and Latvia. Corruption was not so widely perceived in Estonia or the Russian Federation. Slovenia was exceptional in that more than half its citizens rejected the idea that most officials are corrupt, while in Hungary almost half did so.

To find out how people expect to deal with public officials, the New Europe Barometer asked what people would do if they needed a government permit and, instead of getting a prompt reply, were told to be patient and wait. Only a quarter thought that officials would respond without prodding, while only a fifth thought that writing a letter or making a phone call as a reminder would be sufficient to get action. A substantial proportion thought the only way to obtain what they wanted was to go outside the law (see figure 2). One in four said they would use connections to get things done, one in eight would offer cash, and 6 per cent would simply do what they wanted without bothering to get a permit. In Latvia, Lithuania, Romania and Slovakia a majority was ready to go around the law to get things done. In Poland, the Czech Republic and Slovenia there were relatively high expectations that public officials would do what they were supposed to without the need to invoke connections. The use of connections to bypass the law is a reminder that social capital networks that are said to promote civic democracy can also be used to promote 'uncivil' corruption.

Corruption and crime, combined with the legacy of despised communist rulers, generate widespread civic distrust. The society of the communist era, in which individuals sought to insulate themselves from government through trusted face-

Figure 1 Perceptions of corruption among public officials (%)



Note

Figure indicates the proportion of interviewees who said that 'most' or 'almost all' public officials in the country are corrupt.

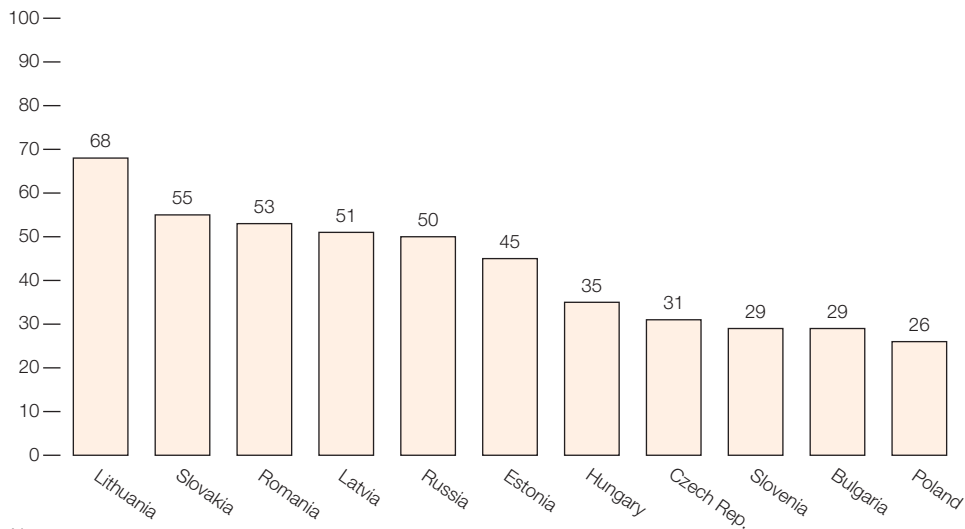
to-face relations, remains important today. Most citizens do not trust civil society institutions to act on their behalf in holding government accountable. Instead, they look to informal friendship networks to protect them from all types of political and social institutions.

When the New Europe Barometer asked whether people trusted or distrusted a dozen different institutions, ranging from the army and police to television and trade unions, only 30 per cent on average showed trust. Distrust was greater for governmental than non-governmental institutions (such as the media, churches and trade unions). Only 28 per cent trusted the police and 25 per cent trusted the courts. These figures reflect popular suspicions that the police collude with criminals, rather than fight them.

Trust in political parties was lower than in any other public institution; in Central and Eastern Europe as a whole, only one in eight trusted parties and only one in seven positively trusted their members of parliament. In Russia trust in politicians was lower still: only 7 per cent of Russians trusted parliament and 7 per cent trusted parties. It is telling that Boris Yeltsin and Vladimir Putin were both elected president by running as independents.

In contrast, 64 per cent positively trusted most people they knew. The contrast between interpersonal trust and civic distrust was especially great in the three Baltic states and in Russia (see figure 3). In every country the proportion

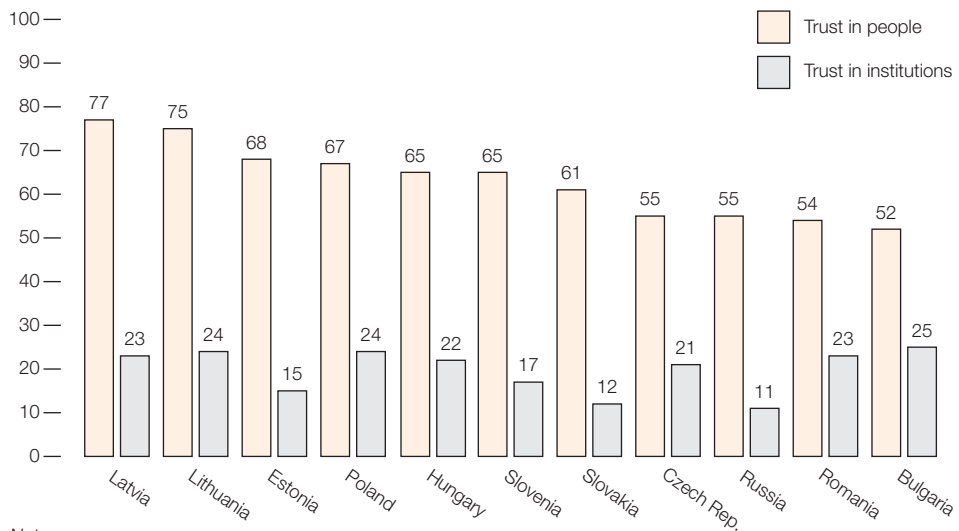
Figure 2 **Citizens willing to break the law to get things done (%)**



Note

The figure indicates the proportion of interviewees who, when asked what they would do if they needed a government permit but were told by an official to wait, said they would 'offer a tip', 'use a connection' or 'act without the permit'.

Figure 3 **Comparing trust in people with trust in institutions (%)**



Note

'Trust in people' indicates the proportion of interviewees who said they trust most people they know. Interviewees were also asked whether they trust 12 different social and political institutions – 'trust in institutions' is the average proportion of interviewees who said they did.

trusting people they knew was double or triple those trusting major institutions of society.

In such circumstances, people will readily help one another but are hesitant about trying to make distrusted democratic institutions work. Furthermore, inasmuch as citizens perceive public officials to be helping each other to obtain lucrative contracts and maintain expensive lifestyles, ordinary people are encouraged to help themselves get what they want from government. If following the rules does not work, they may well resort to cajolery, connections or cash.

For more information about the surveys, see www.cspp.strath.ac.uk.

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Public opinion of corruption in Latin America

Marta Lagos

Latinobarómetro is an annual public opinion survey carried out in 17 Latin American countries by the NGO Corporación Latinobarómetro.¹ There are approximately 1,000 respondents in each national representative sample. One of the core areas of the survey is corruption, both perceptions of its extent and people's actual experience of it.

In the 2002 survey, corruption was regarded as the most important problem in the region by 11 per cent of respondents, second only to unemployment, which was seen as the most important problem by 26 per cent.

Almost every country in the region was marked by a widespread perception of rising corruption. When asked how they thought the extent of corruption had changed during the previous 12 months, 80 per cent of respondents across Latin America as a whole said that corruption had increased (as shown in table 1, 72 per cent said it had increased 'a lot' and 8 per cent that it had increased 'a little'). In Argentina and Paraguay, 90 per cent or more of respondents said that corruption had increased 'a lot'. Only in Honduras and Chile did fewer than 60 per cent of respondents say this. The perception of change cannot, of course, be equated with the actual level of corruption. In Mexico, where a relatively small proportion stated that corruption had increased, the perception may simply reflect the fact that corruption has long been recognised as a problem.

Every year a large proportion of respondents state that corruption is increasing. Comparing responses in 2002 with those given in 2000 (see final column of table 1), only Honduras and Nicaragua saw a significant fall in the proportion of people who say that corruption is on the rise. In Honduras, only 38 per cent reported a rise in corruption in 2002, compared to 95 per cent in 2000, reflecting the impact on corruption perceptions of the change in government following the 2001 elections.

Respondents were also asked about their actual experience of corruption (see table 2). In the 2002 survey, 27 per cent reported that they or members of their families had had direct experience of corruption during the previous 12 months. In 14 of the 17 countries, the proportion that reported direct experience of corruption was between 13 per cent and 31 per cent, with the lowest proportions in Chile and Uruguay. The three striking exceptions, in which the proportion ranged between 41 per cent and 61 per cent, were Brazil, Mexico and Nicaragua.

As a third indicator of corruption, Latinobarómetro asked respondents to estimate what proportion of civil servants are corrupt (see table 3). Across Latin

Table 1 Perception of change in the level of corruption (%)

	2000 – Corruption increased ...		2002 – Corruption increased ...		Change: 2000 'increase' to 2002 'increase'
	a lot	a little	a lot	a little	
Argentina	87	5	90	3	+ 1
Bolivia	83	8	80	8	- 3
Brazil	85	5	78	6	- 6
Chile	60	15	58	13	- 4
Colombia	80	9	85	4	0
Costa Rica	89	5	83	6	- 5
Ecuador	87	5	82	9	- 1
El Salvador	72	14	74	7	- 5
Guatemala	63	13	84	5	+ 13
Honduras	91	4	27	11	- 57
Mexico	56	19	61	14	0
Nicaragua	92	2	65	5	- 24
Panama	72	11	79	10	+ 6
Paraguay	92	2	95	3	+ 4
Peru	56	18	62	10	- 2
Uruguay	62	20	63	19	0
Venezuela	54	11	73	7	+ 15
South America & Mexico	72	11	74	9	0
Central America	80	8	69	7	- 12
Latin America	75	10	72	8	- 5

Note

The question asked was: 'Do you think corruption has "increased a lot" or "a little"; "decreased a lot" or "a little"; or "remained the same" in the last 12 months?'

America as a whole, 71 per cent of civil servants were regarded as corrupt. The perception of widespread corruption in the public administration is notable, given that only about a quarter of respondents report direct experience of corruption. It is possible that the perception of corruption among civil servants reflects not just the extent of corruption, but also the degree of social and economic inequality; that civil servants have greater access to social and economic goods than the rest of the population. Even in Chile and Uruguay, where the proportion of corrupt civil servants was perceived to be lowest and where there was relatively little reported experience of corruption, as many as 50 per cent of civil servants were perceived to be corrupt.

In Argentina, which was marked by economic crisis and civil unrest during 2001–02, a greater proportion of civil servants were perceived to be corrupt (89 per cent) than in any other country in the region in 2002. Argentina also saw the largest increase in this proportion from the 2001 survey, in which only 76 per cent of civil servants were perceived to be corrupt, even though there was minimal change

Table 2 **Direct experience of corruption (%)**

Argentina	25	Mexico	59
Bolivia	20	Nicaragua	41
Brazil	61	Panama	23
Chile	13	Paraguay	22
Colombia	19	Peru	25
Costa Rica	24	Uruguay	13
Ecuador	21	Venezuela	27
El Salvador	16	South America & Mexico	27
Guatemala	31	Central America	26
Honduras	23	Latin America	27

Note

Proportion of respondents who stated that they or somebody in their family had had direct experience of corruption in the last 12 months.

Table 3 **Proportion of civil servants perceived to be corrupt (%)**

Argentina	89	Mexico	77
Bolivia	76	Nicaragua	68
Brazil	61	Panama	71
Chile	48	Paraguay	74
Colombia	78	Peru	67
Costa Rica	58	Uruguay	52
Ecuador	85	Venezuela	67
El Salvador	74	South America & Mexico	71
Guatemala	79	Central America	71
Honduras	74	Latin America	71

Note

Proportion of public employees that are perceived to be corrupt.

between 2001 and 2002 in the proportion of respondents who reported direct experience of corruption (25 per cent).

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¹ For more information, see www.latinobarometro.org.

Corruption in Balkan countries

Martin Dimov

Two independent, representative surveys of corruption in the Balkan region were conducted in February 2001 and February 2002 by the Southeast European Legal Development Initiative (SELDI).¹ The surveys were administered in seven countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania and Yugoslavia (with Serbia and Montenegro also examined separately). Sample sizes were greater than 1,000 for each country.

Although respondents noted a range of serious social and economic problems in their countries, including unemployment and poverty, corruption was perceived to be one of the foremost problems. Its continuing prominence suggests that the public has not yet seen tangible results from anti-corruption campaigns.

Questions on people's attitudes to corruption indicate that corruption is not tolerated in the Balkan region. This is particularly true in Bulgaria. Tolerance of corruption is somewhat greater in Serbia, Bosnia and Herzegovina and Croatia. On a scale of 0 to 10, where 0 means low tolerance, the 'acceptability in principle' index value in Bulgaria in 2002 was 1.4, whereas in each of Serbia, Bosnia and Herzegovina and Croatia it was 2.0 or more.

Across the whole region, however, in spite of a low tolerance of corruption, citizens reported engaging in corrupt behaviour. The surveys suggest that engaging in corrupt behaviour is motivated by consciously pursued gains. Reasons given tend to be individual economic or institutional interests or even practical necessity, rather than extortion by 'corruptive agents' in the public sector. The 'corruption pressure' index reveals relatively low levels of extortion by public officials (between 1.4 and 4.3 out of a maximum of 10). Comparing results in 2001 and 2002, it appears that the level of extortion has risen in Macedonia (with a 0.6 rise in the index value) and in Bosnia and Herzegovina (with a rise of 0.5).

The surveys indicate that corruption is sustained by a fairly small section of the population. In most of the countries surveyed there has been a decline in the proportion of respondents who report personal involvement in corruption (see figure 1, in which 0 is the lowest level of corruption and 10 the highest). The change is most striking in Albania, where the index value fell by almost a full point between 2001 and 2002 (from 2.8 to 2.0). Over the same time period, however, the index value doubled in Macedonia, where political instability and mounting ethnic tension may have affected people's inclination to resort to corruption.

Perceptions of the extent of corruption among public sector employees (see figure 2, in which 0 is the lowest level of corruption and 10 the highest) are much

Figure 1 Actual involvement in corrupt practices
0 = low; 10 = high

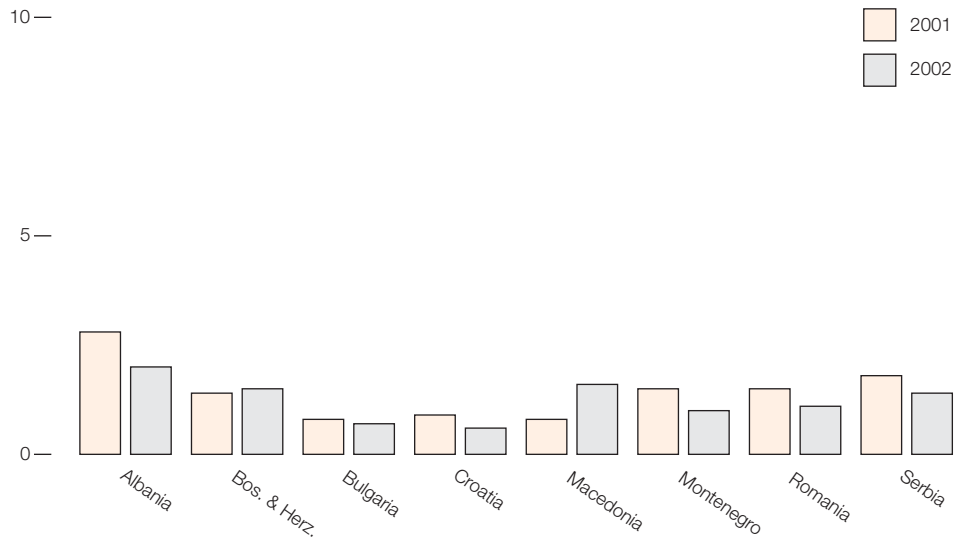
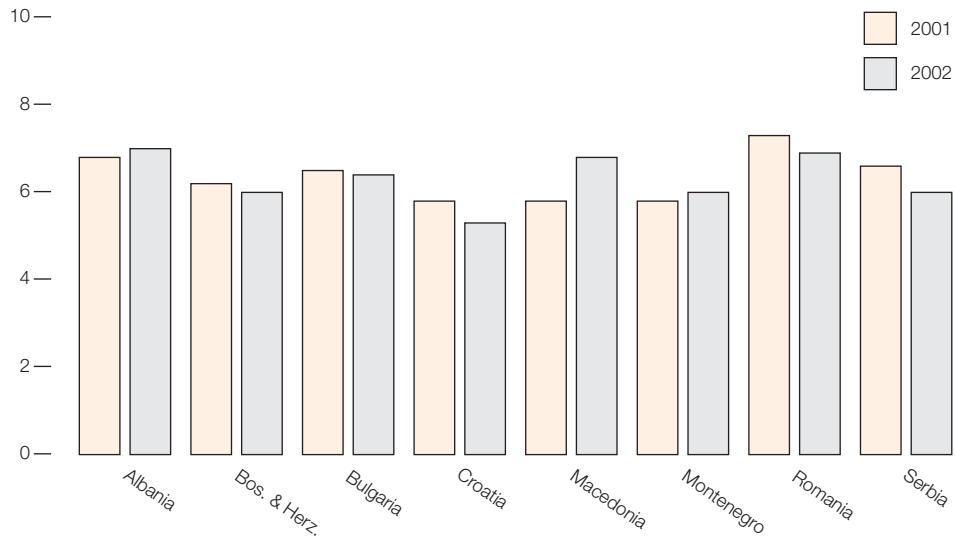


Figure 2 Perception of the extent of corruption among public sector employees
0 = low; 10 = high



Perceptions of corruption among different occupational groups (%)

	Albania 2001	Bosnia & Herz. 2001	Bulgaria 2001	Macedonia 2001	Romania 2001	Croatia 2001	Serbia 2001	Montenegro 2001
Customs officers	87	90	75	72	63	51	81	62
Lawyers	71	59	53	42	55	45	56	37
Public prosecutors	71	64	51	39	49	30	57	33
Judges	80	74	50	49	56	38	64	38
Tax officials	79	80	54	52	49	41	64	47
Investigating officers	53	51	44	30	45	28	57	33
Members of parliament	62	60	52	61	66	33	46	31
Officials in ministries	66	66	50	48	55	47	56	43
Police officers	56	66	54	46	64	47	73	51
Doctors	72	61	44	45	54	53	63	45
Ministers	68	77	55	61	58	37	55	42
Political party and coalition leaders	55	44	44	45	54	39	58	41
Businesspeople	43	39	41	34	41	41	64	50
Administrators in the judicial system	63	61	40	31	52	33	50	33
Municipal officials	69	64	42	37	48	48	60	47
Local political leaders	50	43	37	39	48	42	57	42
Municipal councillors	55	56	46	33	43	28	45	31
Bankers	24	18	32	20	45	34	49	35
University officials or professors	46	32	36	43	25	40	39	26
Representatives of NGOs	23	16	24	17	18	14	26	30
Journalists	19	15	14	17	22	23	34	36
Teachers	12	10	22	19	20	19	29	18

Note

Percentage of people saying 'almost all of them are involved' or 'most of them are involved'.

higher than people's own experience of corruption. In most countries in the region there has been a slight change in a favourable direction in people's perceptions. The exceptions are Albania, Macedonia and Montenegro, where perceptions of the rate of corruption rose in the year from 2001 to 2002.

Perceptions of the extent of corruption among different occupational groups are compared in the table. Notwithstanding some differences between countries, it appears that corruption is more common among certain occupational groups: customs officers, those engaged in law enforcement and the administration of justice (judges, prosecutors, investigators), and, with some exceptions, representatives of the executive. There was variation across the region in perceptions of corruption among doctors and police officers; in Serbia and Montenegro they were ranked among the most corrupt professional groups, whereas they tended to be placed in the middle of the ranking in the remaining countries. Among the occupations perceived to be the least corrupt in all the countries surveyed were journalists, teachers and non-governmental organisation (NGO) representatives.

- 1 SELDI was launched in 1998. It was initiated by the Center for the Study of Democracy (Bulgaria) and the International Development Law Institute (Italy). SELDI brings together various government organisations and experts from different countries of Southeast Europe. See www.seldi.net.

Controlling corruption through high wages

Rafael Di Tella and Ernesto Schargrodsky

One policy proposal to combat corruption is to increase wages in the civil service. The idea is theoretically appealing because the temptation to accept a bribe should be lower if one risks losing a high-paying job. However, the hypothesis that high wages are associated with low corruption levels has so far largely failed to find empirical support in studies that use data across countries.¹

A potential reason for this is the difficulty of isolating all the relevant forces with the data available. There may be variables that should be taken into account but for which no good country-level data can be produced. One such variable is auditing intensity (table 1 sets out the expected effects). It is expected that if there are no audit controls, civil servants will tend to be corrupt regardless of the wage they receive. In contrast, if there are intense controls civil servants will tend to be honest, even if wages are low. Studies that do not take into account differences in auditing intensity tend to reject the hypothesis that high wages reduce corruption, even if it is in fact true for countries with intermediate levels of auditing.

A policy experiment in Buenos Aires in 1996–97 allowed the link between wages and corruption to be examined in a situation where the intensity of audit controls could also be taken into account.² In August 1996, following allegations of widespread corruption under the previous administration, the newly elected city government gathered data on the prices paid by all public hospitals in the city for a number of basic supplies, such as ethyl alcohol and hydrogen peroxide. These are homogeneous inputs, so variations in prices could not be attributed to officers legitimately buying products of higher quality. Observing variation in the prices paid (an indicator of corruption), the city government embarked on an anti-corruption crackdown with close monitoring of hospital procurement.

Subsequent analysis showed that prices fell by an average of 15 per cent following the introduction of the monitoring policy. As in previous, informal accounts of

Table 1 **Expected effects**

	<i>Intensity of audit controls</i>		
	<i>Low</i>	<i>Intermediate</i>	<i>High</i>
Expected level of corruption	High	Medium	Low
Expected effect on corruption of raising wages	No change	Fall in corruption	Little change

Table 2 **Observed effects**

	<i>Intensity of audit controls</i>		
	<i>Before crackdown (low audit intensity)</i>	<i>Beginning of crackdown (high audit intensity)</i>	<i>End of crackdown (intermediate audit intensity)</i>
Prices paid for hospital inputs	100 ¹	85	90
Effect of wages on prices	0	0	-0.2 ²

Notes

1 Price index = 100 for the pre-crackdown period.

2 This means that prices fall by 0.2% for an increase of 1% in wages.

corruption crackdowns, the estimated effects of the policy fell over time as the intensity of auditing inevitably waned. After nine months, the average prices paid by procurement officers crept back up, but were still 10 per cent lower than during the pre-crackdown levels. Since the prices of these homogeneous inputs responded to the anti-corruption initiative, they can be taken as a reasonable proxy for the level of corruption.

Taking into account the change in audit intensity over time, the link between officials' wages and corruption was assessed using the prices paid for hospital inputs as the measure of corruption. Relative to the pre-crackdown period, the effect of wages on input prices was negative but insignificant during the first phase of the crackdown, when audit intensity was likely to have been at its greatest. The effect was larger (more negative) later in the crackdown, when the monitoring intensity can be expected to have been higher than in the pre-crackdown period but lower than during the initial phase. Table 2 summarises the findings. Given the volume of purchases made by these hospitals, estimates for the later stage of the crackdown suggest that anti-corruption wage policies would be cost effective even if the cost of auditing the procurement officers were implausibly large.

This analysis provides empirical evidence that 'carrots' and 'sticks' should be viewed as complementary tools in fighting corruption. The degree of audit intensity (the 'stick') is crucial for the effectiveness of anti-corruption wage policies (the 'carrot'). On the one hand, exclusive emphasis on wage raises may be misplaced, as such policies only work if there are audit policies in place. On the other, exclusive emphasis on auditing may be difficult to sustain over time.

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1 See, for example, J. Rauch and P. Evans, 'Bureaucratic Structure and Bureaucratic Performance in Less Developed Countries', *Journal of Public Economics*, no. 75/1 (2000); and D. Treisman, 'The Causes of Corruption: a Cross-national Study', *Journal of Public Economics*, no. 76/3 (2000). See also, however, C. Van Rijckeghem and B. Weder, 'Bureaucratic Corruption and the Rate of Temptation: Do Wages in the Civil Service

Affect Corruption, and by How Much?', *Journal of Development Economics*, no. 65/2 (2001), in which there is a smaller sample of countries.

- 2 The research is presented more fully in Rafael Di Tella and Ernesto Schargrotsky, 'The Role of Wages and Auditing during a Crackdown on Corruption in the City of Buenos Aires', forthcoming in *Journal of Law and Economics* (April 2003).

Wages and corruption: the case of Madagascar

Mireille Razafindrakoto and François Roubaud

The findings of successive household surveys have shown a strong negative correlation between civil servant wages and levels of petty corruption in Madagascar. The surveys were conducted as part of the MADIO (Madagascar-Dial-Instat-Orstom) project, which was designed in 1994 to analyse the island's transition from a socialist regime to a democratic market economy.

The project was implemented at Madagascar's national statistics office in partnership with the IRD,¹ a Paris-based research institution specialising in international development, and DIAL,² a centre for research on economic development. The MADIO team first attempted to measure corruption through a household survey in 1995. The survey was repeated in 1998 and a corruption 'module' has been included in the annual labour force survey since 2000.

Of the five standardised questions in the survey, four deal with objective indicators (personal experience of corruption, types of corruption, the public services involved and direct monetary cost). The fifth concerns the evolution of perceived corruption over the year.

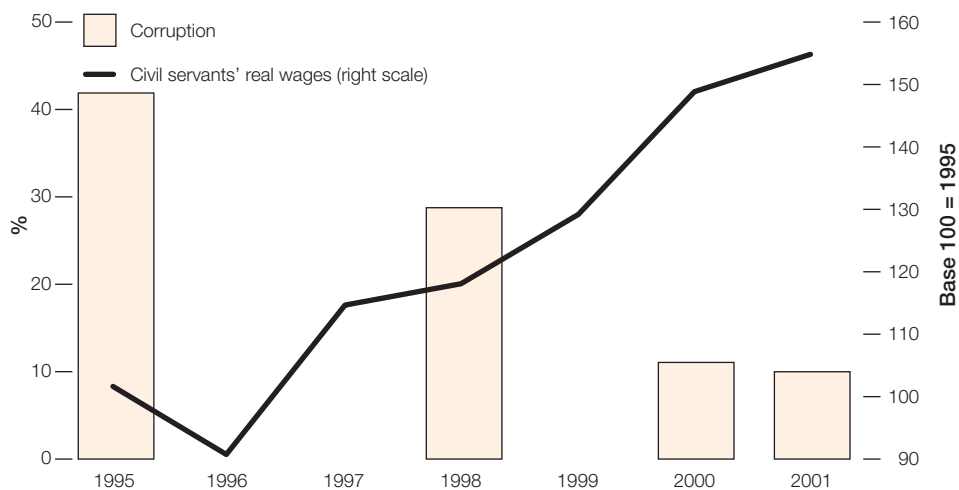
In terms of methodology, MADIO demonstrated that household surveys could be a useful tool in monitoring petty corruption and formulating policy.³ The objective measurements of corruption yield indicators that are comparable over time and more reliable than subjective ones, which are volatile and sensitive to individual perceptions.

Furthermore, since the survey employed large and representative samples of the population, the results can be disaggregated according to different categories.⁴ Disaggregation helps to demonstrate that the incidence of corruption may not be uniform among disparate social groups. Results of the 2000 survey show that 9 per cent of households in the poorest quartile of the population were victims of corruption, compared with 16 per cent among the wealthiest quartile.

Disaggregated survey results also show that corruption affects all sectors of the population: in 1998, 29 per cent of the urban population, 20 per cent of rural households and 36 per cent of industrial operators were victims. More than 90 per cent of the inhabitants surveyed – including civil servants – saw an urgent need to combat corruption.

While the role of civil servant pay has been a controversial issue in debates about the causes of corruption, empirical evidence from the surveys highlights *a strong negative correlation between the level of corruption and state employee wages*. The

Civil servants' wages and corruption levels in Madagascar, 1995–2001



Note

The corruption figures are an objective indicator, reflecting the percentage of victims of corruption during the previous year. The corruption module was not included in the survey in 1996, 1997 or 1999.

survey results show a steep and continuous decrease in the incidence of petty corruption, from 42 per cent in 1995 to 11 per cent and 10 per cent in 2000 and 2001, respectively. At the same time, wages increased by 50 per cent in real terms from 1995 to 2001 (see figure). This relationship cannot be formally tested because the time series are too short and because other factors (such as inflation rates and political stability) may also influence corruption. Nevertheless, the performance of the public administration can be argued to be largely dependent on the salaries of its employees. This result contrasts with other international findings based on cross-section regressions, which show no significant link between the perception of corruption and civil servant wages.

If confirmed on a larger sample, the new finding could have important implications for administration reform in less developed countries. It could also help explain the failure of the first generation of civil service reform, which has been characterised by severe cuts in public wages.

By the end of 2001, the MADIO surveys had been adapted and launched in the capitals of seven West African countries (Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal and Togo) by their respective national statistical offices, with the support of AFRISTAT⁵ and DIAL. In 2002–03, the survey will also be adapted to the five countries of the Andean Pact (Bolivia, Colombia, Ecuador, Peru and Venezuela).

For more information on the MADIO project, please see www.dial.prd.fr.

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- 1 Institut de recherche pour le développement.
- 2 Développement et insertion internationale.
- 3 Only petty corruption can be measured by household surveys. Other instruments (such as enterprise surveys and public finance audits) can be used to track grand corruption.
- 4 In 1995, 1,000 households were surveyed; 6,000 households were surveyed in 2000 and 2001.
- 5 Observatoire économique et statistique d'Afrique subsaharienne.

Gender and corruption

Stephen Knack and Omar Azfar

Several Latin American cities, including Lima and Mexico City, have replaced male traffic police with women in an attempt to reduce the prevalence of police stopping law-abiding motorists solely to solicit a bribe. There is strong evidence to suggest that women are less tolerant of soliciting bribes and that policies that increase women's role in public life reduce graft.¹

The table, based on data from the World Values Survey, summarises more than 50,000 responses from several dozen nations to questions about the acceptability of various types of behaviour that inflict costs on others, including bribery. Across a range of issues, a significantly larger percentage of women than men responded for every question that the uncooperative behaviour 'can never be justified.'

The magnitude of these differences is not dramatic, but they are statistically significant even when differences in age, education, employment status and numerous other variables are taken into account. The differences, moreover, are relatively consistent across countries. In 54 of the 61 national surveys conducted between 1981

Gender and socially cooperative attitudes

		% saying the behaviour 'can never be justified'	
		Male	Female
1	Claiming government benefits which you are not entitled to	63.7	67.9
2	Avoiding a fare on public transport	60.3	64.9
3	Cheating on taxes if you have the chance	54.4	61.5
4	Buying something you knew was stolen	72.9	79.5
5	Taking and driving away a car belonging to someone else	83.1	87.2
6	Keeping money that you have found	43.9	51.6
7	Lying in your own interests	45.1	50.9
8	Someone accepting a bribe in the course of their duties	72.4	77.3
9	Fighting with the police	52.0	57.1
10	Failing to report damage you've done accidentally to a parked vehicle	61.8	67.6
11	Throwing away litter in a public place	69.1	74.4
12	Driving under the influence of alcohol	74.2	83.4

Note

Data are pooled from 61 national surveys. Sample sizes vary between 52,107 and 83,532. All differences are significant at the .0001 level.

and 1990, women were more likely than men to say that accepting bribes could 'never be justified'.

Modest differences in attitudes towards bribery do not necessarily imply that raising women's profile in public life will affect corruption levels. This question is better addressed using cross-country data. Regression analyses using the Graft index from Kaufmann et al. (1999) showed that a larger share of women in parliament, in ministerial and sub-ministerial positions or in the labour force were each associated with significantly reduced corruption levels.² These tests controlled for a host of other factors linked in other studies to corruption, including per capita income, education, political liberties, colonial heritage and religious composition.

While the Kaufmann et al. index has the broadest cross-country coverage among existing corruption indicators, it is available only for the post-1998 period. The International Country Risk Guide corruption index³ was therefore also used to conduct stronger tests examining changes between 1982 and 1997 in corruption and in women's participation. Countries with larger increases in women's participation had significantly larger reductions in corruption over the period, controlling for income growth and changes in political liberties.

It is possible that part of the association between gender and corruption reflects reverse causality. Corruption might lower the number of women in government: if women are more averse to corrupt behaviour, as indicated by the survey data, they might be less inclined to become government officials in more corrupt countries. While some reverse causation certainly cannot be ruled out, this argument cannot explain why a higher share of women in the labour force is also associated with lower corruption.

It is also possible that these effects are transitory and that, with modernisation, convergence in sex roles and socialisation processes will reduce gender gaps in tolerance of dishonest behaviour. However, gender gaps in tolerance of bribery are not systematically larger among countries with low income or education levels.

Findings from this study provide an additional justification for policies aiming at increasing the role of women in politics and business. Proposals to reserve for women a certain number of seats in parliament or positions in the civil service are generally advocated to improve the well-being of women. However, if such proposals also reduce corruption, they may also indirectly improve men's well-being, because numerous studies link reduced corruption to better economic performance.

These results show the impact on corruption of more women in the labour force and in parliament, and do *not* necessarily imply that corruption will be reduced where individual women emerge as heads of large corporations, political parties or governments. The selection process for these top-level positions is likely to have strong homogenising effects, with little difference on average in attitudes between men and women who rise to the very top of the hierarchy. Corruption scandals involving female party or government leaders in recent years in

India, Turkey, Pakistan and the European Commission are consistent with this cautionary note.

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- 1 For more on the evidence presented here, see A. Swamy, S. Knack, Y. Lee and O. Azfar, 'Gender and Corruption', *Journal of Development Economics*, no. 64 (February 2001).
- 2 D. Kaufmann, A. Kraay and P. Zoido-Lobaton, 'Aggregating Governance Indicators', World Bank Policy Research Working Paper no. 2195, 1999.
- 3 This index reflects not only observed levels of corruption but also corruption anticipated from governments that have been in power for a long time. Although imperfect, it is the only corruption indicator with good data coverage over time.

The governance of corruption: a survey of current business practice

Karina Litvack and Robert Barrington

The current business environment is changing to reflect both stricter anti-corruption legislation and heightened expectations on the part of a range of stakeholders, including shareholders. Fund management company ISIS Asset Management (formerly Friends Ivory & Sime) carried out a study in 2001–02 to investigate how businesses are facing up to the risks posed by operating in corrupt environments, with a view to enabling shareholders to gauge the strength of internal risk controls and disclosure practices.¹

ISIS surveyed 82 companies (the ‘companies surveyed’) from its pan-European portfolios, with specific questions regarding policies and practical operational procedures. The study raised serious concerns about how companies are managing the risk of bribery and corruption.

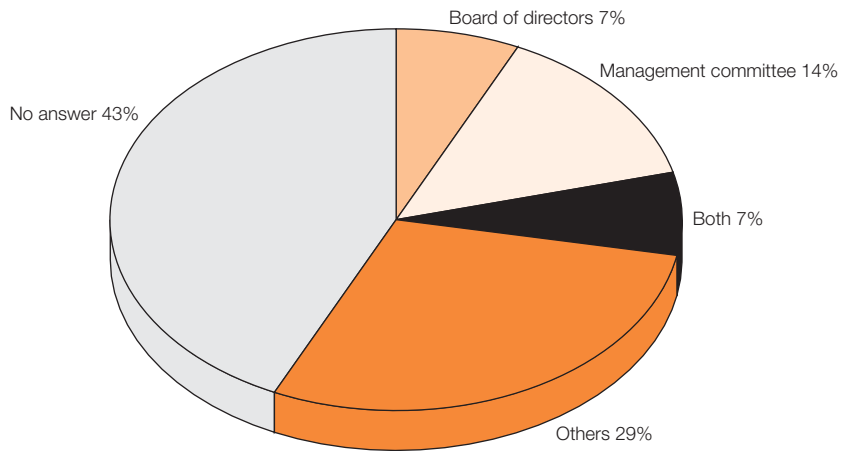
The study achieved a 67 per cent response rate (the ‘respondents’). A further 20 per cent of the companies surveyed positively declined to respond, sometimes on the grounds that it was against company policy to divulge information of this kind, while 13 per cent did not respond at all. A number of companies were unwilling to make their codes of conduct available because they considered the information commercially sensitive.

Eighty-seven per cent of respondents stated that they had a formal written policy or code of conduct on combating bribery and corruption. However, this represents only 59 per cent of the total number of companies surveyed, raising questions about the 33 per cent of non-respondents.

Closer inspection of the codes and of the practical measures taken to implement them revealed alarming deficiencies. The findings suggested that the majority of companies might be relying on the presence of a code alone to ensure sufficient protection against corruption. Moreover, awareness and understanding of codes may not reach beyond head office level.

When asked who was responsible for enforcing codes of conduct, 42 per cent of the respondents said that responsibility lay with ‘others’ beyond the board of directors or management committee, and a further 16 per cent gave no answer (see figure 1). A considerable number of companies in the ‘others’ category noted that responsibility lay with ‘individual managers’, indicating that no one department had specific responsibility for enforcing the anti-corruption code of conduct. Lack of clarity in this regard is particularly alarming, since it undermines accountability for the implementation of the policy, allowing managers to ‘pass the buck’ from department

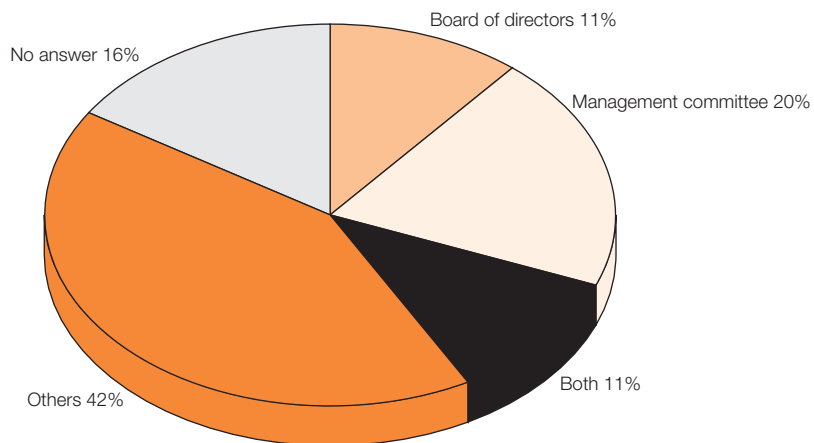
Figure 1a **Responsibility for enforcing codes of conduct (total sample)**



Note

The 'no answer' category includes both companies that had no code of conduct and companies that chose not to answer the question even though they did have a code of conduct.

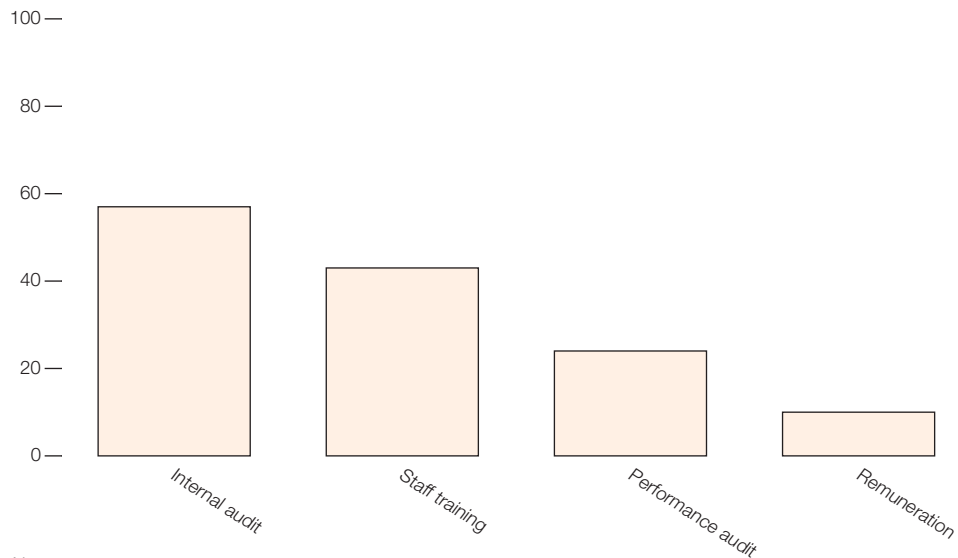
Figure 1b **Responsibility for enforcing codes of conduct (respondents only)**



Note

The 'no answer' category includes both companies that had no code of conduct and companies that chose not to answer the question even though they did have a code of conduct.

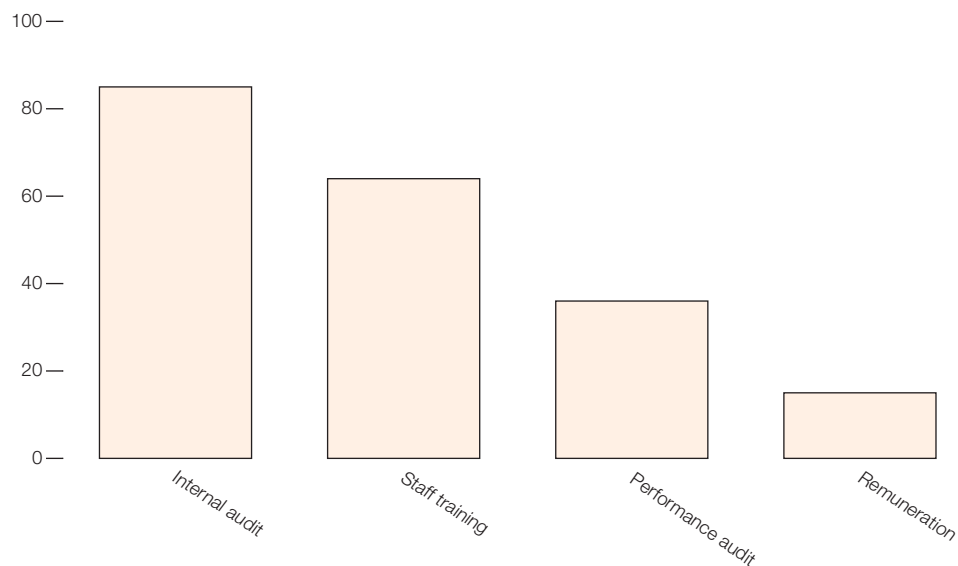
Figure 2a **Implementation of anti-corruption measures, % (total sample)**



Note

Percentage of the total sample that answered 'yes' to the question: 'Do you integrate anti-corruption measures in ...'

Figure 2b **Implementation of anti-corruption measures, % (respondents only)**



Note

Percentage of the total sample that answered 'yes' to the question: 'Do you integrate anti-corruption measures in ...'

to department and making it hard for individuals to be certain of their specific responsibilities.

Eighty-five per cent of the respondents used their internal auditing system to supervise and enforce anti-corruption policies (see figure 2). As a proportion of the entire sample of companies surveyed, this is only about half, again raising questions about the quality of implementation among non-responding companies. Staff training was cited as a method for embedding proper practice in the organisation by only 64 per cent of respondents. A mere eight companies were experimenting with performance and remuneration techniques that place corruption at the core of their management evaluation policy.

Just under half of the respondents reported having a whistleblower protection policy, and closer analysis revealed varying degrees of commitment to it. While a number of companies went to great lengths to ensure the policy had a high profile within the company and to guarantee the confidentiality of any information given, others appeared to do little more than state that whistleblowers are protected.

The survey suggested to ISIS that, as a shareholder, it needed to engage both respondents and non-respondents to help define and promote good practice. ISIS therefore launched an engagement programme with a focus on spreading good practice in the area of bribery and corruption.

A copy of the full study can be downloaded from the website: www.isisam.com/FIS/PDFs/1/Bribery_and_Corruption_130202.pdf.

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1 The study was carried out in collaboration with the Prince of Wales International Business Leaders Forum.

Governance and growth in the very long run: updated indicators, new results

Daniel Kaufmann and Aart Kraay¹

Per capita income and the quality of governance are strongly positively correlated across countries. This can be seen in the figure, which plots two measures of governance on the horizontal axis ('control of corruption' in the upper panel and the protection of property rights, or 'rule of law', in the lower) against real per capita gross domestic product (GDP) – adjusted for differences in purchasing power – on the vertical axis.

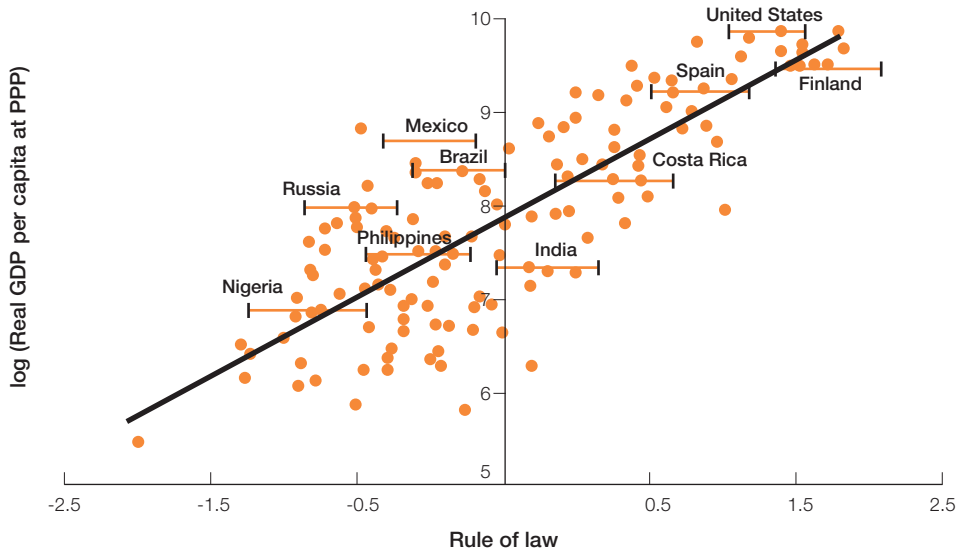
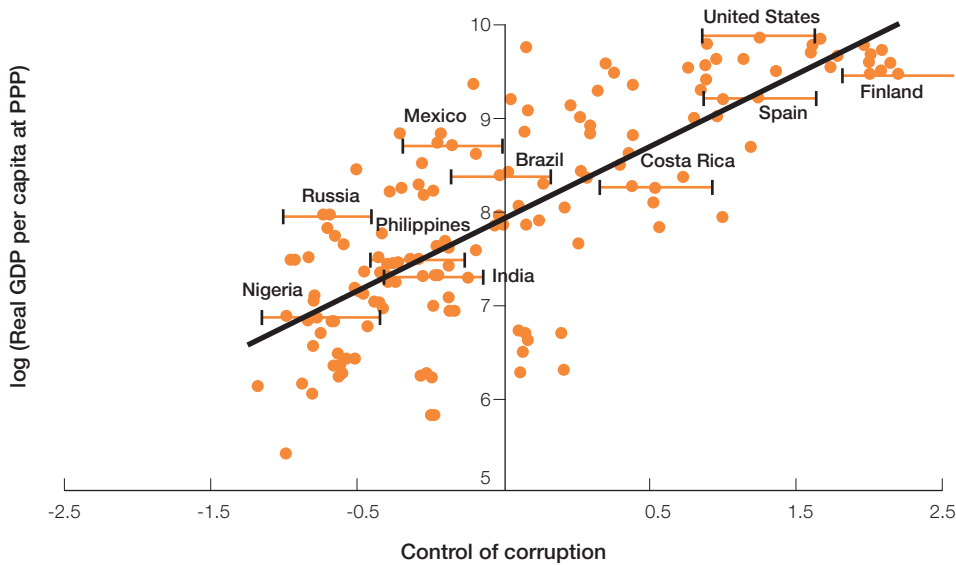
The measures of governance are two of a set of six composite governance indicators, first constructed by World Bank researchers in 1997–98 and recently updated to cover 170 countries for the period 2000–01.² These composite indicators are based on over 190 measures of perceptions of governance compiled by 17 organisations worldwide. The six dimensions are: control of corruption, rule of law, government effectiveness, voice and accountability, regulatory quality and political stability.

One of the key innovations in these governance measures is that they are accompanied by statistically sound margins of error for individual country estimates. In the figure, the margins of error for selected countries are shown as horizontal bars on either side of the countries' estimated values. An important qualification to keep in mind when using these or other measures of governance is that the margins of error are substantial. As shown in the figure, the statistically likely range of values for many pairs of countries overlap (such as Nigeria and Russia, or Spain and the United States), indicating that one should be cautious in ascribing much significance to differences in the reported estimates of governance for such pairs of countries.

What might explain the strong positive correlation between per capita income and the quality of governance? Logically there are three complementary possibilities: (1) better governance exerts a powerful effect on income; (2) higher income leads to improvements in governance; and (3) there are other factors that both make countries richer and are associated with better governance. Recent research is beginning to shed light on the first two of these possibilities.

Consider first the effect of governance on income. As recently as 200 years ago, per capita income did not differ much between countries. As a result, the wide gaps in per capita income that we see today reflect very different growth rates over the last two centuries. Recent research has attributed much of the difference in very long-run growth to deep historical differences in the quality of institutions.³

Comparing governance and per capita income worldwide



Note

The two panels plot measures of the control of corruption and the rule of law in 2000–01 (horizontal axes) against real per capita GDP in 1995 (vertical axis). The horizontal bars for selected countries indicate the statistically likely range of values for each index for those countries. The governance ratings are based on subjective assessments from a variety of sources, are subject to substantial margins of error and in no way reflect the official view of the World Bank, its executive directors or the countries they represent.

Does causation also run in the opposite direction, from income to the quality of governance? Conventional wisdom holds that it does, on the grounds that richer countries are better able to afford the costs associated with providing a competent public administration, sound rule of law and an environment in which corruption is not condoned. Yet to date, this conventional wisdom has not been subject to much empirical scrutiny. A recent study called this conventional wisdom into question.⁴ A new methodology made it possible to separate out the causal effect of per capita income on governance and evidence was found that per capita income has a negative effect on governance.⁵ However, this effect was small relative to the large positive effect of governance on per capita income, so that overall the correlation between governance and per capita income is positive, as shown in the figure.

This finding has two important implications. First, the strategy of waiting for improvements in governance to come automatically as countries become richer is unlikely to be successful. Second, there is unlikely to be a 'virtuous circle' of better governance improving income, in turn leading to a further improvement in governance, and so on. Together, these two implications point to the fundamental importance of positive and sustained interventions to improve governance in countries where it is weak.

When designing strategies to improve governance, it is important to understand the possible reasons for the negative effect of income on governance. One possible explanation is 'state capture', defined as the illicit influence of the elite in shaping the laws, policies and regulations of the state.⁶ When the institutions of the state are 'captured' in this way, entrenched elites benefit from misgovernance and can successfully resist demands for change even as incomes rise over time. In such an environment, the focus of efforts to combat corruption needs to shift from a narrow emphasis on procedures and compensation within the public administration to a broader agenda of political accountability, transparency, independence of the media and the establishment of effective mechanisms through which public opinion can be heard.

- 1 The views expressed here are the authors' and do not represent those of the World Bank, its executive directors or the countries they represent.
- 2 The updated indicators are available interactively at www.worldbank.org/wbi/governance/govdata2001.htm. For a description of the data sources and methodology, see www.worldbank.org/wbi/governance/pubs/aggindicators.htm; www.worldbank.org/wbi/governance/pubs/govmatters.htm; and www.worldbank.org/wbi/governance/pubs/govmatters2001.htm.
- 3 See, for example, Robert E. Hall and Charles Jones, 'Why Do Some Countries Produce So Much More Output per Worker than Others?', *Quarterly Journal of Economics* 114, no. 1 (1999); and Daron Acemoglu, Simon Johnson and James A. Robinson, 'The Colonial Origins of Comparative Development: An Empirical Investigation', *American Economic Review* (2001).
- 4 See Daniel Kaufmann and Aart Kraay, 'Growth without Governance', *Economia* (2002), available at www.worldbank.org/wbi/governance/pdf/growthgov.pdf.
- 5 In order to identify both directions of causation between per capita income and governance, it is necessary to find exogenous sources of variation in both variables that can be used as instrumental variables. The existing literature has used the exogenous historical determinants of governance to identify the effect of governance on per capita income. However, it is difficult to do the opposite since it is difficult to find convincing, truly

exogenous determinants of per capita income to use as instruments. Instead, this new study used information on the precision of the governance indicators, reflected in the statistically likely ranges discussed above, together with reasonable assumptions on the importance of other variables driving both income and growth, in order to isolate the effects of per capita income on growth.

- 6 Joel Hellman, Geraint Jones and Daniel Kaufmann, 'Seize the State, Seize the Day: State Capture, Corruption and Influence in Transition', *Journal of Comparative Economics* (2002), available at www.worldbank.org/wbi/governance/pubs/seizestate.htm. See also recent evidence from some Latin American countries, available at www.worldbank.org/wbi/governance/tools.htm.

'Second generation' governance indicators

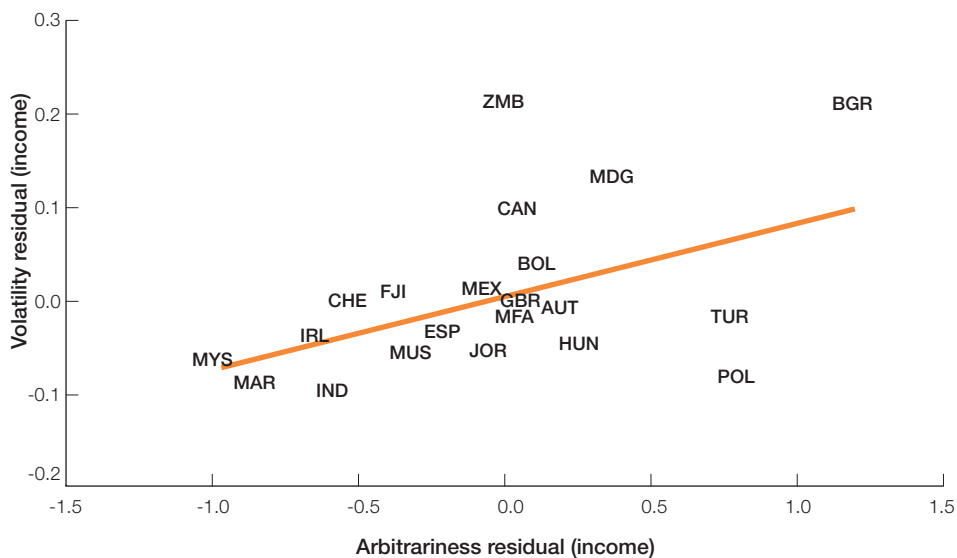
Stephen Knack, Mark Kugler and Nick Manning

So-called 'first generation' indicators of the quality of governance, such as the Freedom House measures of political and civil liberties and TI's Corruption Perceptions Index, have been invaluable in drawing attention to the importance of good governance for development. However, broad indicators such as these have limited utility in pointing to particular public sector reforms; they implicate many institutions and policies at the same time and do not naturally suggest solutions, or who should implement them. A related problem is their lack of country 'ownership' – many developing country governments object to donors' use of indicators constructed from expert or investor perceptions, which label countries as badly governed but provide little indication of what governments can do to improve their scores.

There is now a strong demand, therefore, for a set of 'second generation' governance indicators which should be: (1) more specific in measuring performance or institutional arrangements and (2) more transparently constructed. The indicators should also be available for most developing countries, with institutionalised procedures for regularly updating the data. A World Bank project, supported by the British Department for International Development and building on work by the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee, has been examining potential indicators. The project focuses primarily on identifying indicators that have already been developed for other purposes, but which meet the specified criteria. The aim is to establish a set of indicators for eventual inclusion among the United Nations (UN) Millennium Development Goals.¹

Second generation governance indicators fall into two broad categories: indicators of capacity and indicators of accountability. Capacity indicators measure the ability of governments to execute their functions efficiently (for example, the degree of budgetary volatility). Accountability indicators measure the degree to which government policy reflects the positions advocated by stakeholders (the degree of fiscal decentralisation and the level of delays in the reporting of audits to the legislature).

Some indicators (such as measures of human rights or participatory development) reflect aspects of good governance that are inherently valued. Other indicators may be of interest only to the extent that they can be linked – whether directly or indirectly – to valued development outcomes, an important one being the reduction of corruption. For the latter, the project will empirically test links between the

Figure 1 **Budgetary volatility and arbitrary decision making**

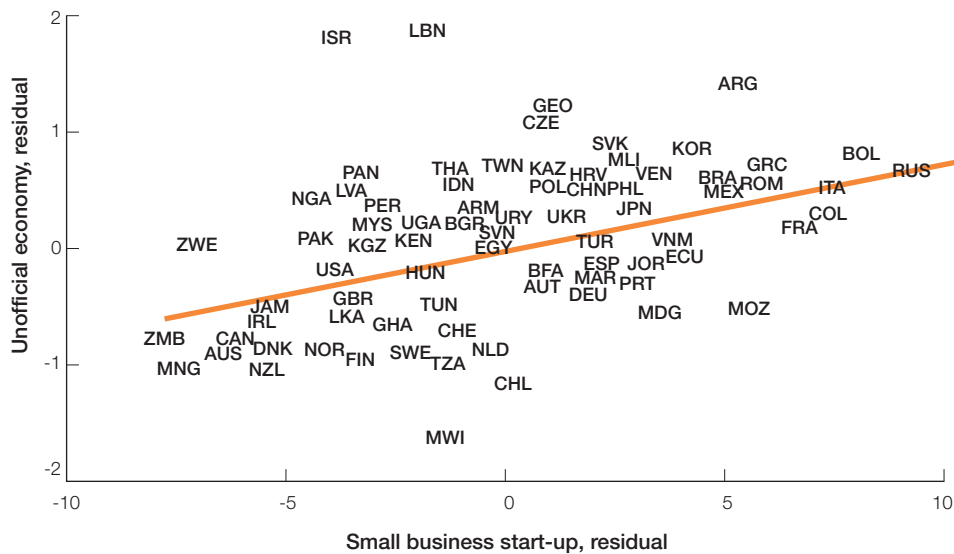
relevant governance indicator and an appropriate 'intermediate' outcome. Two illustrative examples of candidate 'second generation' indicators follow:

1 Budgetary volatility

An important aspect of the quality of government policy is its coherence and predictability. Volatile and unpredictable government policy reduces private investment and can lead officials charged with implementation not to take policy pronouncements seriously. The budget is one key arena in which government policy issues are played out: stable policy should be reflected in stable budget allocations. One proposed 'second generation' indicator is therefore budgetary volatility.

The particular measure proposed uses data on fluctuations in expenditure over a four-year period across the 14 functional classifications of the budget used in government reporting to the International Monetary Fund. If this indicator does in fact reflect an uncertain policy environment, then we would expect it to be correlated with alternative measures of unpredictable policy-making. Consistent with this expectation, figure 1 shows that budgetary volatility tends to be high in the same countries in which businesses report that government policy-making is arbitrary and unpredictable, using data from the World Bank's World Business Environment Surveys. This relationship is not simply capturing differences between rich and poor nations, as per capita income is controlled for in the figure.

Figure 2 **Levels of government regulation and levels of activity in the unofficial economy**



2 Obstacles to business start-ups

The number of procedures and fees incurred in starting new businesses varies dramatically across countries. Excessive government regulation of small businesses tends to increase the share of economic activity in the informal sector, as hypothesised by Hernando de Soto in *The Other Path*, and can enable regulators to collect bribes from potential entrants.

Djankov et al. collected data on the number of procedures that are officially required for a company to operate legally.² Data were also collected on the costs and on the minimum length of time required to complete the process (assuming no delays by government officials). Because costs and time can vary according to factors such as the size of the firm and whether it engages in international trade, information was collected for a hypothetical 'standardised firm' for which these and other firm characteristics were carefully specified, facilitating cross-country comparison.

Figure 2 shows that even when controlling for levels of gross domestic product, inflation, illiteracy and per capita income, there is a strong, positive relationship between the number of procedures required to start a new business and the level of unofficial economic activity.³

As part of the process of building consensus on a set of governance indicators, candidate indicators identified by this project are being posted on a public website

hosted by the OECD Development Assistance Committee:
www.bellanet.org/indicators/info.cfm.

Contact: Stephen Knack (sknack@worldbank.org)

- 1 The UN Millennium Development Goals are a series of commitments adopted by the member states of the UN in September 2000 to promote a broader vision of development that focuses not only on economic development, but also on human development and social progress.
- 2 Simeon Djankov, Rafael La Porta, Florencio Lopez-de-Silanes and Andrei Shleifer, 'The Regulation of Entry,' forthcoming in *Quarterly Journal of Economics*.
- 3 The measure of the level of unofficial economic activity is taken from the Heritage Foundation's Index of Economic Freedom.

World Governance Survey: a new approach to assessing governance

Julius Court and Goran Hyden

UN Secretary-General Kofi Annan has stated that 'good governance is perhaps the single most important factor in eradicating poverty and promoting development'.¹ If governance matters, so does the need for more reliable and valid data on key governance processes. The United Nations University (UNU) has begun to address this need with a World Governance Survey (WGS). A pilot phase was carried out in early 2001 and a larger round of country assessments is planned for 2003.²

In the pilot phase, governance assessments were undertaken in 16 developing and transitional societies, representing 51 per cent of the world's population (see table). In each country, a national coordinator selected a panel of experts to complete the assessment. The panel comprised persons with extensive experience of the governance realm, including parliamentarians, researchers, lawyers and civil servants; around 35 people were interviewed per country.

The project identified 30 indicators based on widely held 'principles' of good governance: participation, fairness, decency, accountability, transparency and efficiency. Respondents were asked to score each indicator on a scale from 1 to 5; the higher the score, the better. In addition, respondents were invited to provide qualitative comments.

The table shows the median indicator rating for each country for the 10 indicators that relate particularly to accountability and transparency. It also shows the total governance score for each country. The total governance scores have a very robust correlation (0.77) with the country scores in Kaufmann et al.'s aggregate governance indicators, indicating the validity of the results.³

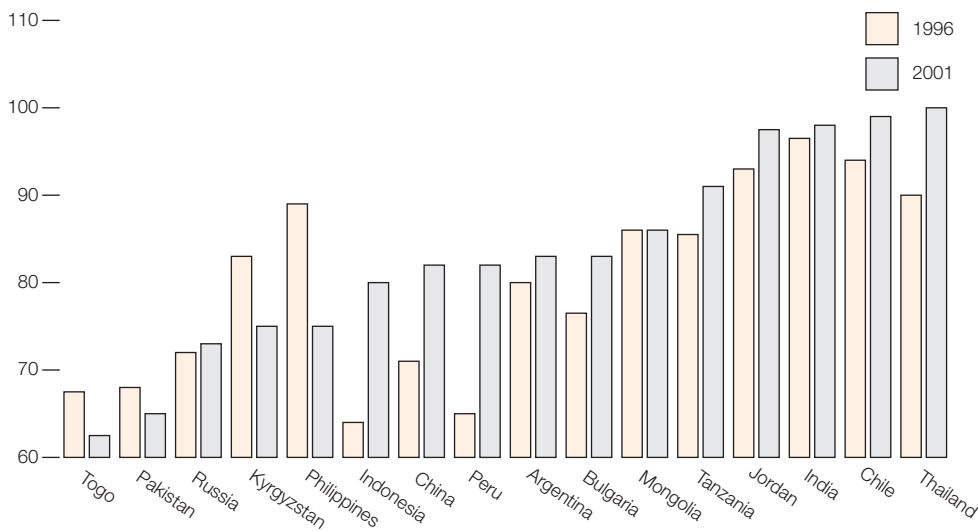
One widespread finding was the low score for the accountability of legislators. This indicator received the lowest average rating. In their qualitative comments, local experts remarked that many legislators run for office because of financial advantages, and that legislators tend to be more accountable to their parties than to the public. Qualitative comments suggest that the particularly low rating given to Togo reflects dissatisfaction with the way elections have been administered and with the lack of effectiveness of the national assembly after a long period of autocratic rule. The particularly low rating given to Pakistan was a reflection of its military rulers, a point strongly emphasised in comments.

A second finding was that civil servants are generally seen not to be accountable and that the operations of civil services are seen to lack transparency. India was an exception: qualitative comments confirmed the reputation of the civil service as the

Selected governance indicators for transition societies, 2001

	Freedom of expression	Government open to public input	Accountability of legislators	Accountability of civil servants	Transparency in the civil service	Respect for property rights	Equal application of regulations	Access to justice	Transparency in judicial process	Accountability of judicial officials	Total country governance score (min. = 30, max. = 150)
Togo	2	1	1	2	2	3	3	2	2	2	62.5
Pakistan	3	2	1	2	2	3	3	2	2	2	65.0
Russia	3	2	2	2	2	2	2	2	2	2	73.0
Kyrgyzstan	3	3	2	2	2	3	2	2	2	2	75.0
Philippines	4	2	2	2	2	3	1	2	3	3	75.0
Indonesia	4	3	2	2	2	2	2	2	2	2	80.0
China	3	2	3	2	2	3	3	3	2	3	82.0
Peru	3	3	2	3	2	3	3	2	2	2	82.0
Argentina	4	2	2	2	2	3	2	2	2	2	83.0
Bulgaria	3	2	2	2	2	3	2	3	2	2	83.0
Mongolia	3	2	3	2	3	3	3	2	3	3	86.0
Tanzania	3	3	3	3	3	3	3	3	3	3	91.0
Jordan	3	3	2	3	3	4	4	4	4	3	97.5
India	4	3	3	3	3	3	3	3	3	3	98.0
Chile	4	3	2	3	3	4	4	3	3	3	99.0
Thailand	4	4	3	3	3	3	3	4	4	4	100.0
Average	3.31	2.50	2.19	2.38	2.38	3.00	2.69	2.50	2.56	2.56	83.25

Total governance score: comparing 1996 and 2001



backbone of government in India. Local experts also held Thailand's civil service in high regard.

The ratings and comments also suggest that transactions between government and the private sector are marked by cronyism and bribery. This was highlighted as the number one problem in India. Russia and Indonesia were also rated poorly in this regard. In contrast, comments and ratings from Chile suggest that transactions between government and private sector there are relatively free from corruption.

Local experts were also critical of the quality of justice systems, observing that the rich have easier access to justice and that judges can be bribed. Court cases were seen to be processed slowly and it was felt that many poor and illiterate people fear the courts. However, there has been much judicial reform in the pilot countries. Local experts in India felt there had been a very positive impact from the reform of community justice institutions such as *Lok Adalats* (People's Courts), which allow the resolution of conflicts that are not, or cannot be, taken to court. Local experts in Chile felt that recent reforms would improve the administration of justice in the future.

Overall, there was significant variation in the total governance scores (see final column of the table). Experts in Thailand and Chile rated their countries as highest in the sample (100 and 99 out of a maximum of 150), whereas Togo and Pakistan were rated lowest (just over 60, compared to a minimum possible score of 30).

The local experts were also asked to compare the present situation with what they perceived it to have been five years previously (see figure). Assessments of Indonesia and Peru indicated particularly impressive improvements in governance, following the ouster of autocratic regimes. The Philippines' governance was seen to have declined the most, partly because the assessment took place at the time the senate was considering whether to impeach former president Joseph Estrada.

There is an urgent need for more reliable, relevant and timely cross-country data on governance issues in order to facilitate appropriate policy-making. Developing such information will be of immense local and international policy relevance. It is hoped that the WGS is a move in this direction. Indicators of political participation, democracy and human rights should eventually join the UN Millennium Development Goals and become part of the Human Development Index.

The project website contains the findings and data as well as a questionnaire: www.unu.edu/p&g/wgs.

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- 1 Kofi Annan, *Partnerships for Global Community: Annual Report on the Work of the Organisation* (UN, 1998).
- 2 The World Governance Survey was directed by Julius Court (Overseas Development Institute) and Goran Hyden (University of Florida). Ken Mease (University of Florida) was Senior Adviser. The project was carried out in partnership with local institutions in assessment countries, with generous support from UNU and the United Nations Development Programme.
- 3 Daniel Kaufmann, Aart Kraay and Pablo Zoido-Lobaton, 'Governance Matters II: Updated Indicators for 2000/01', World Bank Policy Research Working Paper no. 2772, 2002.

The International Crime against Businesses Survey

John van Kesteren¹

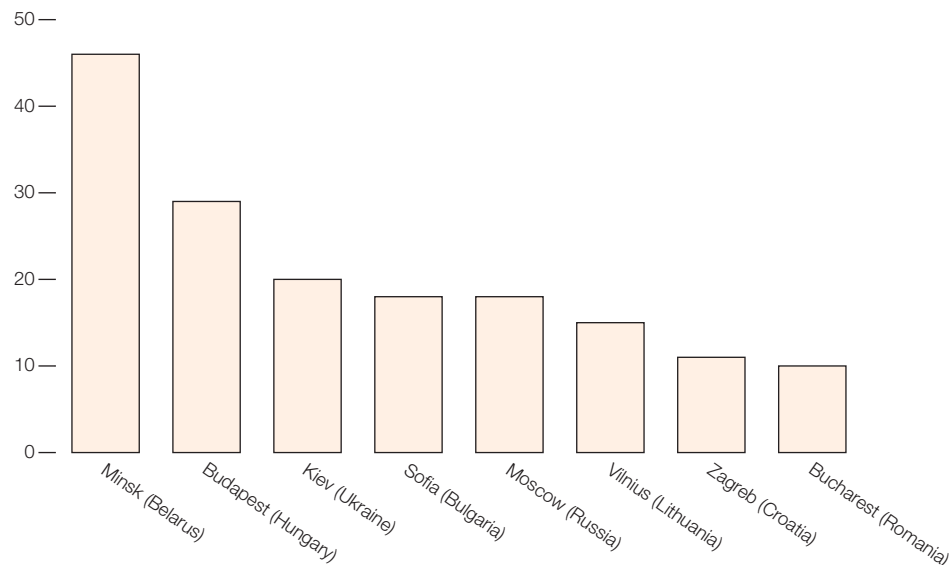
The International Crime against Businesses Survey (ICBS) involved asking business managers about their experiences of crimes and their companies' reactions to those crimes. One of the main topics of interest in the survey was corruption.

In 2000 the ICBS was carried out in eight capital cities in Central and Eastern Europe. Managers of 4,000 companies were interviewed, 500 in each city, and in such a manner as to ensure a representative sample of differently sized companies and different business sectors.

More than 50 per cent of the companies interviewed believed that corruption is a significant obstacle to business in their respective countries. This opinion was particularly widely held in Romania, Croatia and Bulgaria, where approximately two-thirds of the managers stated this. By contrast, a minority of managers in Hungary and Lithuania said that corruption was a significant obstacle to business.

Businesses were also asked about their actual experience of corruption. The figure shows the percentage of companies in each city that were requested to pay

Percentage of businesses that were asked for a bribe in 1999



Reasons given for not reporting a corruption incident to the police

Percentage of managers giving explanation

Police wouldn't have done anything/wouldn't have been interested	28
Involving the police was not appropriate/it was an internal matter	28
Lack of proof/evidence/witness	24
Not worth reporting/not serious enough	22
Police wouldn't have been able to do anything/slight chance of success	21
Not company policy	18
Lack of time/too much trouble	10
Fear of reprisals	10
Fear of negative publicity	10
Didn't bother because no insurance claim was involved	1

bribes in the year preceding the survey. The highest rates were 46 per cent in Minsk (Belarus) and 29 per cent in Budapest (Hungary). The lowest were 10 per cent and 11 per cent in Zagreb (Croatia) and Bucharest (Romania), respectively. Of those who said their companies had been asked for bribes, 40 per cent said it had happened more than five times during the year.

These findings reveal a negative, but not significant, correlation ($r=-.46$, $n=8$, n.s.) between the actual experience of corruption and the perception of corruption as an obstacle to doing business. The more frequent the experience of corruption, the less likely it is to be seen as an obstacle. One possible explanation is that where bribery is common, it is seen as the 'grease' that allows businesses to function, not as an obstacle. The correlation has to be assessed with great care, however. Since data are only available for eight cities, there is a good chance that the inverse relation may be a coincidence. Further research is needed.

In cases where actual experiences of corruption were reported, businesses were asked who had requested the bribes. Tax or revenue officials were most frequently cited by managers (mentioned by 28 per cent of managers), followed by police officers (27 per cent), inspectors (25 per cent) and customs officers (24 per cent). However, 'private-to-private' cases of corruption were mentioned by almost half the managers.

When asked which areas of business activity were most likely to be affected by corruption, more than half the managers mentioned customs, fitness certificates for vehicles, municipal authorisations, business licences and procurement of goods or services from government.

Of the 855 companies that said they had experienced corruption in the previous year, only 13 said they reported the incident to the police, less than 2 per cent of the total. Some of the reasons why are indicated in the table. Companies could give more than one answer. The most frequent explanations were that the police would have done nothing or would not have been interested, that it was an internal matter

or that the police were not the appropriate agency for reporting. Other common reasons included a general distrust of the police, insufficient proof, that the incident was not serious enough or that it was not company policy to report.

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- 1 Principal researchers were Anna Alvazzi del Frate and John van Kesteren (United Nations Interregional Crime and Justice Research Institute, Turin), plus national coordinators in each of the participating countries. Data were collected by the Gallup Organisation and its affiliates.

Electoral rules and corruption

Ugo Panizza

Is there a relationship between corruption and electoral rules and, if so, what kind of electoral rules are associated with lower levels of corruption? A study carried out at the Inter-American Development Bank (IDB) shows that such a relationship does exist and that electoral systems that limit politicians' incentive to cater to local interests tend to yield lower levels of corruption.¹

The aspect of electoral rules that was examined in this research was their degree of 'political particularism'. This is a measure of politicians' incentives to build personal support bases in particular geographical constituencies, rather than adhere to party platforms.² A high score on an index of political particularism indicates that the system is 'candidate-centred', while a low score is associated with 'party-centred' electoral systems.

The index has three components. One captures the extent to which parties can control how a candidate appears on an electoral ballot. The second measures the extent to which a candidate can benefit from the votes of other candidates belonging

Figure 1 **Political particularism and corruption**

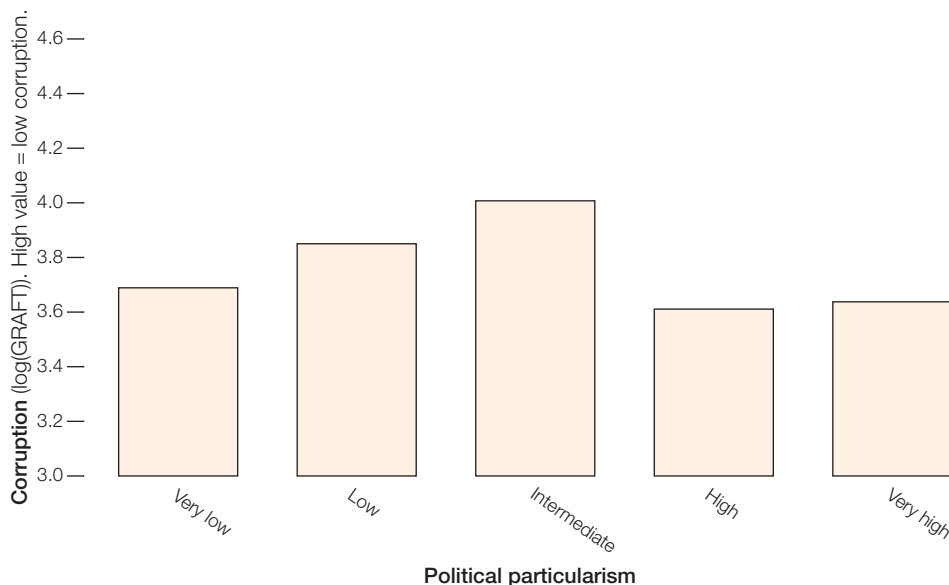
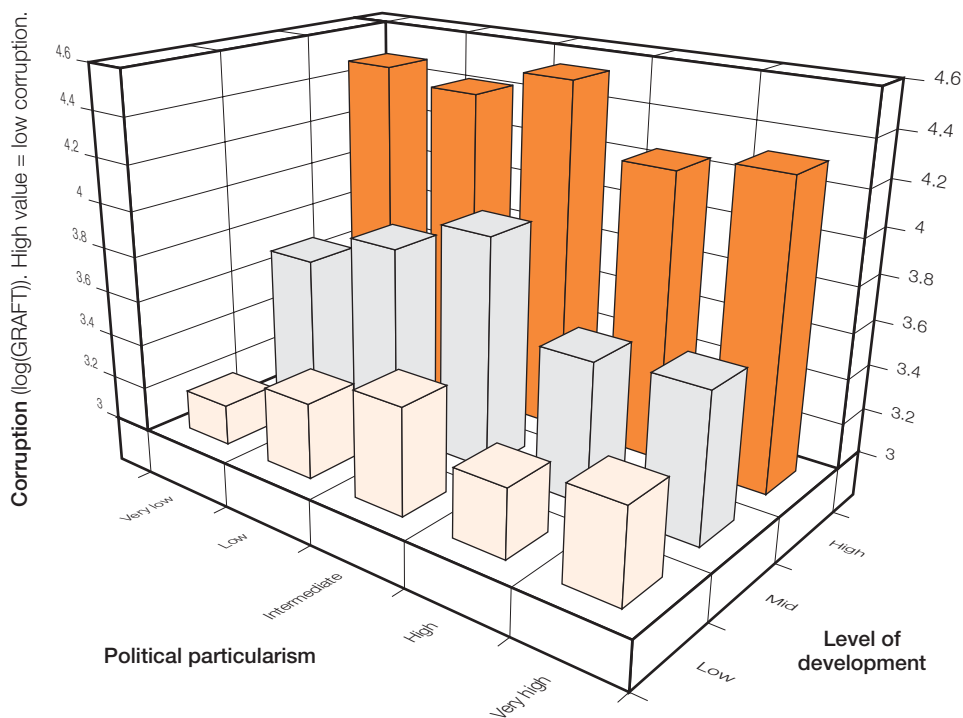


Figure 2 Particularism, development and corruption



to her party, reducing the need for candidates to build personal reputations. The third measures the limitations on the number of individual candidates that electors can support: where voters can choose only among parties, and not among individuals, legislators have less incentive to cater to their home constituency.

The index of political particularism was compared with data on corruption from Kaufmann, Kraay and Zoido-Lobaton, namely their GRAFT variable.³ The GRAFT variable is not a perfect index of corruption, for example because it also includes a component (the Political Risk Services survey) that measures political instability, which, in turn, can be affected by electoral rules. But it is an indicator that has been widely used in the literature on corruption and is highly correlated with other corruption measures. Furthermore, the results of the research were found to be robust to the use of several other indicators of government effectiveness and regulatory burden that are also correlated with corruption.

Statistical analysis found a strong, non-linear relationship between political particularism and corruption (see figure 1). The figure shows that low and interme-

diated levels of political particularism tend to be associated with lower corruption. At the same time, extreme levels of particularism (either very low or very high) are associated with higher levels of corruption.

Why might this be the case? The finding is likely to reflect a tension between the benefits of low particularism and the benefits of high particularism. Where particularism is high, there may be excessive ‘pork barrel’ policies, such as spending on special projects by legislators to benefit their constituents disproportionately. On the other hand, high particularism has a definite advantage in terms of representation and in the incentives legislators have to gather information on the preferences of their constituencies. Particularistic systems can also generate mechanisms of yardstick competition among legislators and improve the efficiency of the political process.

Figure 2 shows that this relationship is particularly strong for middle-income countries. No matter what their electoral system, poor countries tend to have high levels of corruption and rich countries low levels. It is only in middle-income countries that electoral rules play an important role in shaping good institutions and reducing corruption.

Since low-income countries tend to be characterised by relatively low levels of democracy, it is not surprising that the precise electoral rules do not seem to be important in these countries. The finding that electoral rules are not important in high-income countries is more puzzling. It may be due to the fact that countries with a longer democratic tradition have found ways to mediate different political interests that go beyond the simple electoral rules examined here.

Data on political particularism can be downloaded from the website: www.ugo.panizza.org/particular.zip.

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- 1 For the full study, see Ugo Panizza, ‘Electoral Rules, Political Systems, and Institutional Quality’, *Economics and Politics*, no. 13/3 (2001). The data set is described in Jessica Seddon, Alejandro Gaviria, Ugo Panizza and Ernesto Stein, ‘Political Particularism Around the World’, Inter-American Development Bank, Research Department, Working Paper 463, 2002.
- 2 John Carey and Matthew Shugart, *Presidents and Assemblies: Constitutional Design and Electoral Dynamics* (Cambridge: Cambridge University Press, 1992).
- 3 See Daniel Kaufmann, Aart Kraay and Pablo Zoido-Lobaton, ‘Aggregating Governance Indicators’, World Bank Policy Research Working Paper no. 2195, 1999.

Managing conflicts of interest in OECD countries

János Bertók

Ensuring that the integrity of public decision-making is not influenced by the private interests of public officials is a growing priority in preventing corruption in government. To examine how successfully that goal is being pursued, in 2001 the Public Management Service (PUMA) of the OECD surveyed the mechanisms central governments use to prevent and resolve conflicts of interest in the public service.

The objective of the survey was to select promising practices and develop guiding principles for managing conflicts of interest. The central governments of all 30 OECD countries provided answers to a survey questionnaire.

The governments reported a growing emphasis on preventive measures. More and more OECD countries are actively engaging in counselling and requesting disclosure of interest in a written form, so that potential conflict situations may be identified. Eight OECD countries oblige all civil servants to declare their financial

Figure 1 Sources of conflict of interest

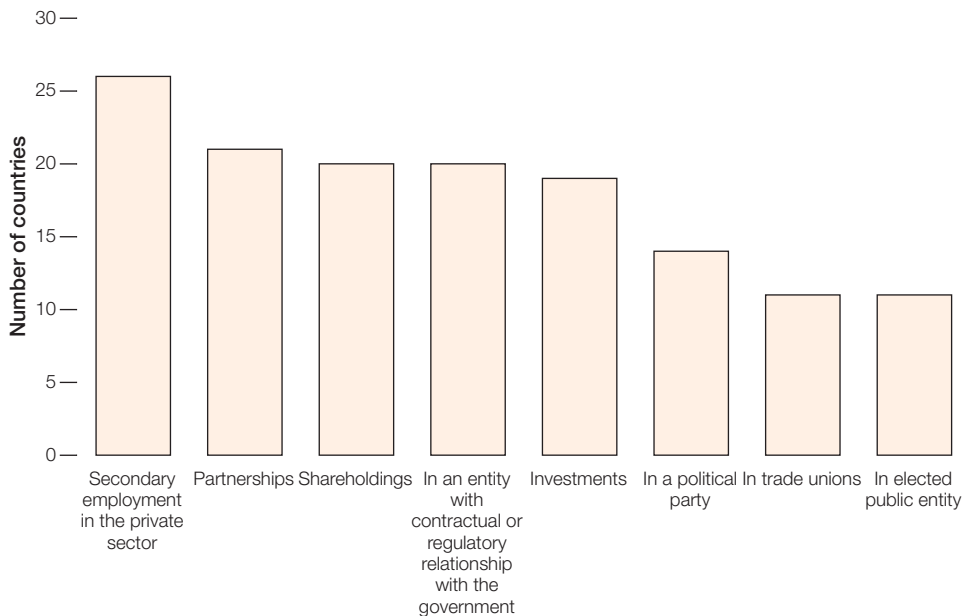
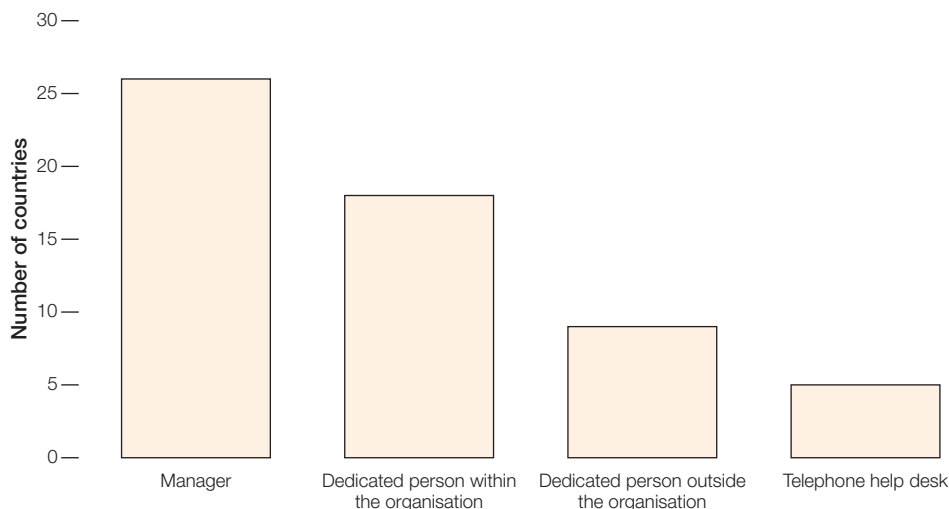


Figure 2 Who can be consulted if an official is in doubt?



interests regularly. Although the governments argued that no single instrument can be characterised as the most effective in avoiding conflicts of interest, they identified a combination of mechanisms – especially those that raise awareness and ensure transparency – as effective in several countries.

In countries that rely on individuals to disclose their private interests, governments named the following key mechanisms: the annual updating of statements on private interests (in Australia, Poland, Portugal, Spain and the United States) and training and consultation (in Australia, Hungary, Norway and South Korea). In countries that rely less on individual disclosure (for example, Austria and Germany), the maintenance of relevant legal regulations was seen to be the key.

Figure 1 indicates which sources of conflict of interest were identified as most problematic. Secondary employment in the private sector was seen to hold potential for conflicts of interest by the largest number of governments (26 out of 30). Many governments indicated that sources of conflicts of interest also include partnerships, shareholdings, investments and involvement in entities with a contractual or regulatory relationship with government.

As indicated in figure 2, public officials in most OECD countries can turn to their managers or immediate superiors when they are in doubt as to how to resolve potential conflicts of interest. In some countries, they can also turn to dedicated personnel or legal staff within the organisation, or to external organisations (such as the Public Offices Commission in Ireland, the State Services Commission in New Zealand and the Office of Government Ethics in the United States).

Managers play a key role in monitoring whether their staff comply with conflict of interest rules. In addition, an overall interest in monitoring the implementation of policies is taken by central government organisations (for example, the National Public Service Ethics Board in Japan and the Department of Civil Service in Italy) and external institutions (such as Ireland's Parliamentary Select Committee on Members' Interest, the attorney-general's office and the constitutional court in Portugal). Bodies such as these also monitor the compliance of senior public officials and parliamentarians.

Based on the results of this survey, the OECD Guidelines for Managing Conflicts of Interest have been designed to help governments to review existing solutions and to modernise mechanisms in line with good practice. The guidelines and the full survey report (due out at the end of 2002) may be viewed at the PUMA area of the OECD website at www.oecd.org/puma/ethics.

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