



# HOW TO BUILD CONTROL OF CORRUPTION

# Outline

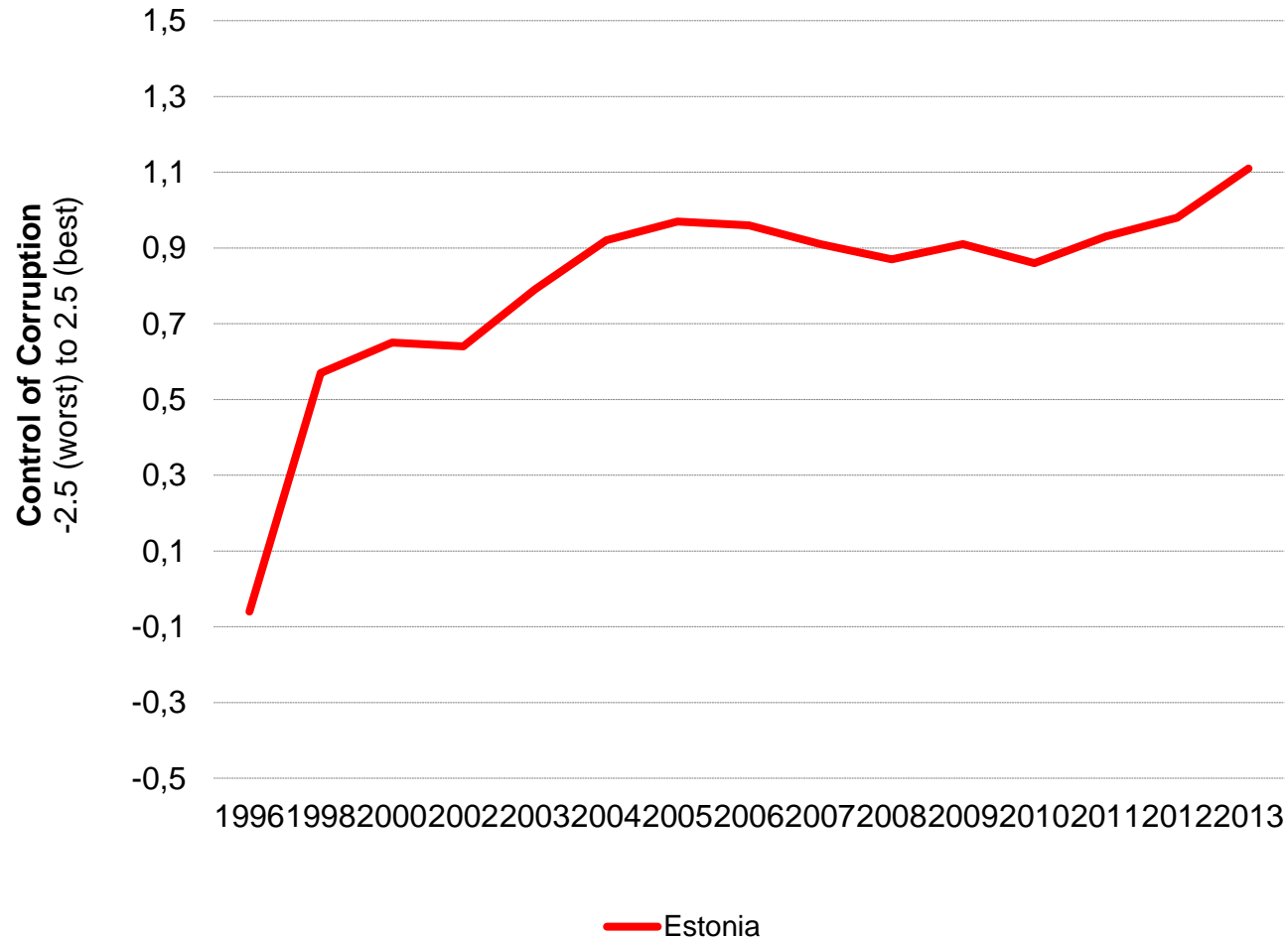
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- ✓ Once upon a time in the Soviet Union, there was a small and very corrupt country...



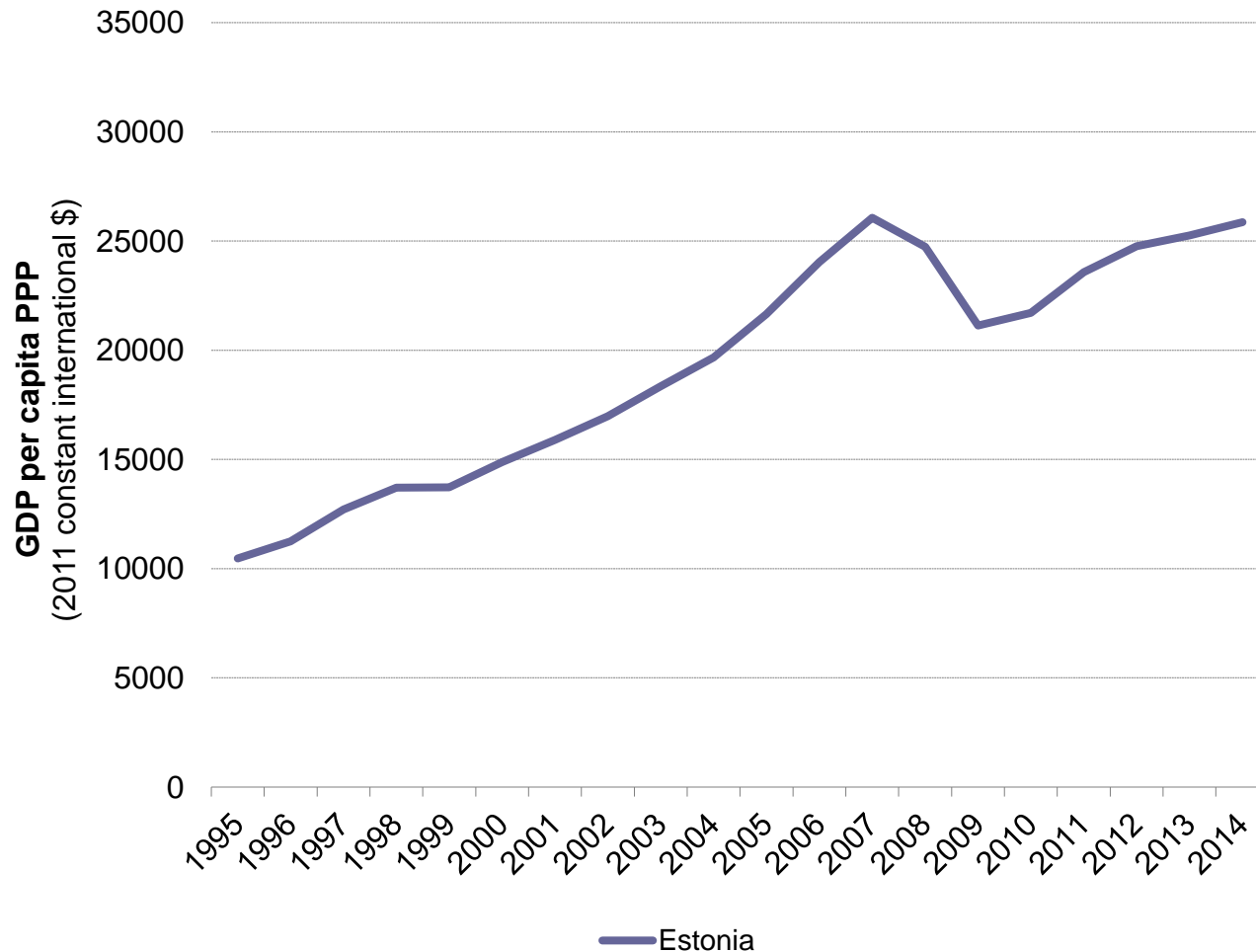
# Estonia- Control of corruption evolution

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# Estonia – The good governance reward- GDP EVOLUTION

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# Corruption subverts merit system and thus innovation and growth

## Brain-drain and Control of Corruption

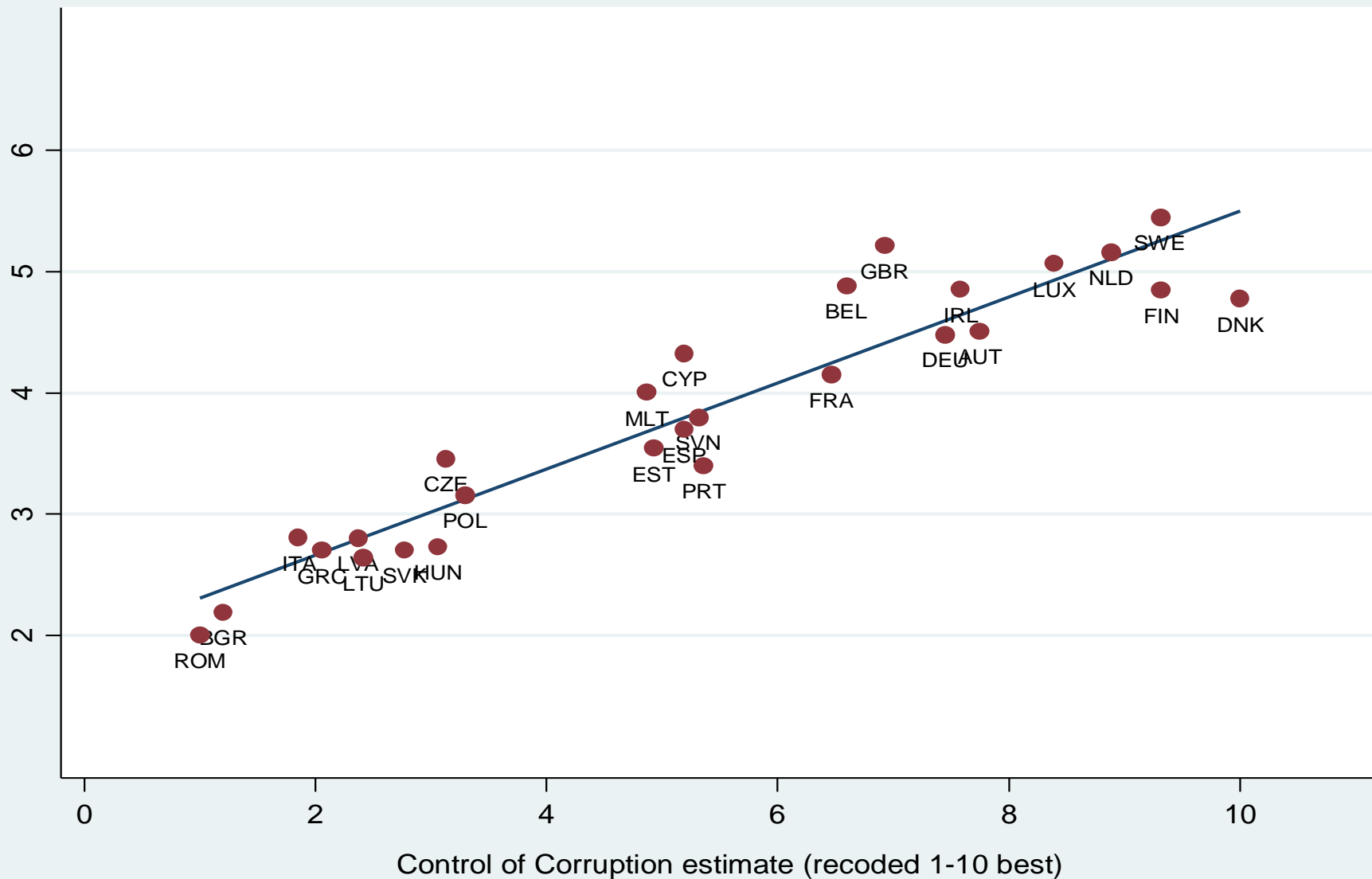
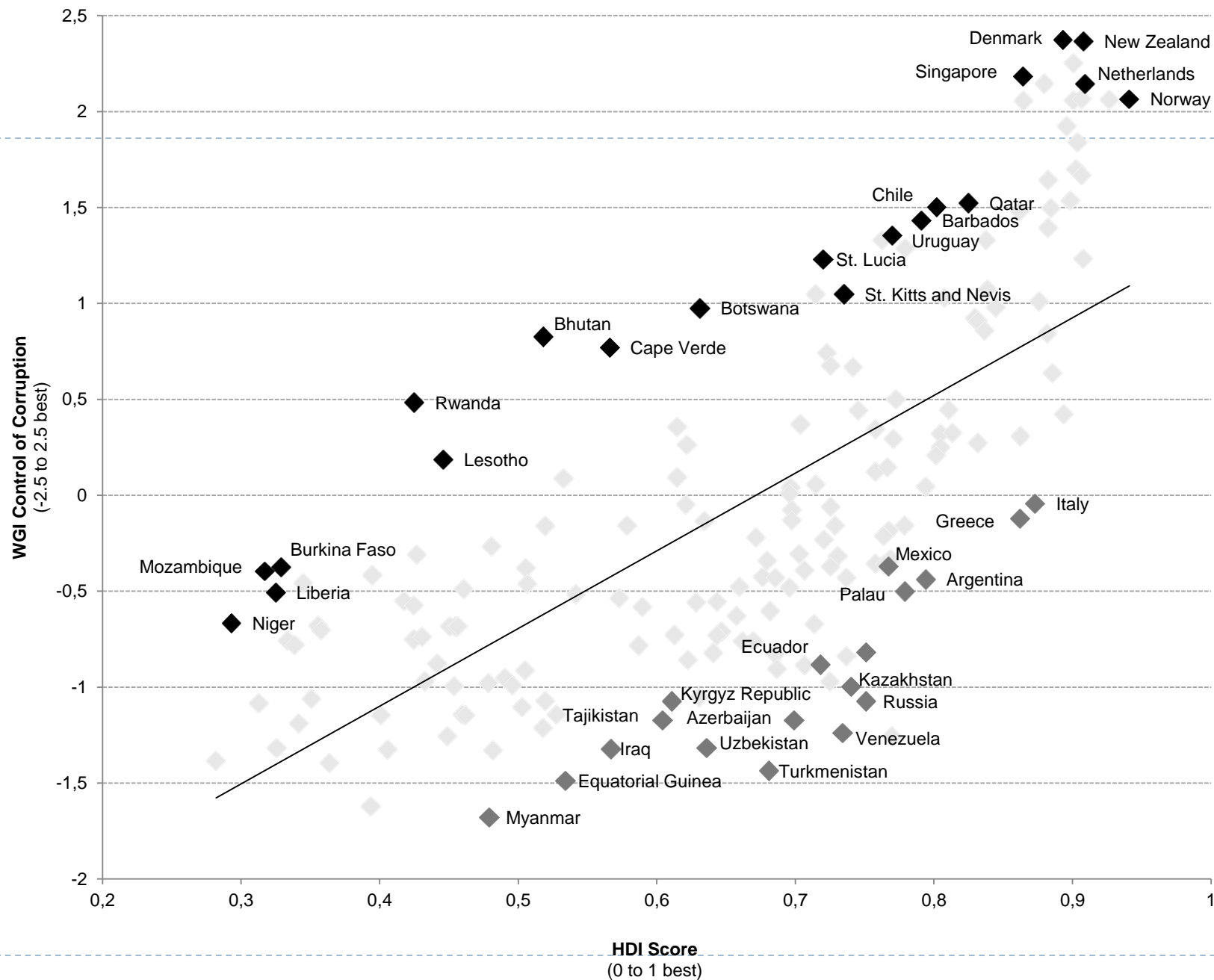


Figure 4.1. Predicted Control of Corruption Scores Based on the Modernization Model





# The ANTICORRP answer to the challenge

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1. Corruption defined a macro level (country, sector) as
  2. PARTICULARISM - deviation from the norm of social allocation (as defined in law, rules, and modern principles of impersonality, impartiality and equality) resulting in undue benefit from public resources for individual or group to the detriment of other taxpayers
    - ▶ Method- monitoring, data mining on whole universe of govt transactions, not just samples
    - ▶ Diagnosis- focus on outcomes of social allocation- how many transactions are particularistic?
    - ▶ Treatment- Focus on who succeeded and why
    - ▶ Big data
    - ▶ Cross-cutting databases, methods
    - ▶ Objective and evidence based
- 



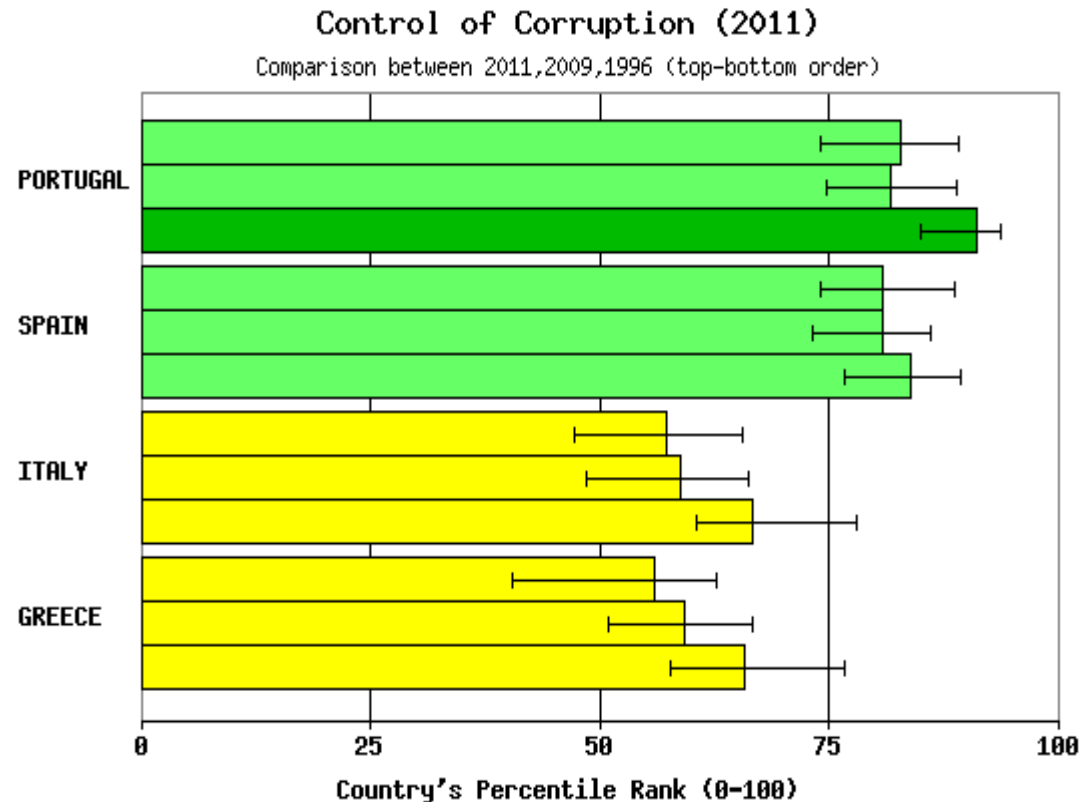
# What we seek: a new generation of corruption ACTIONABLE indicators

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- ▶ First generation (expert surveys, polls)
- ▶ Comparable across countries: CPI, CoC, ICRG, etc
- ▶ Second generation:
  1. Sensitivity to change (longitudinal)
  2. Sensitivity to policy intervention (longitudinal plus)
  3. No longer based on perception
  4. Prescriptive- from indicator clear path to solution



# Does Europeanization change governance? Not at first generation



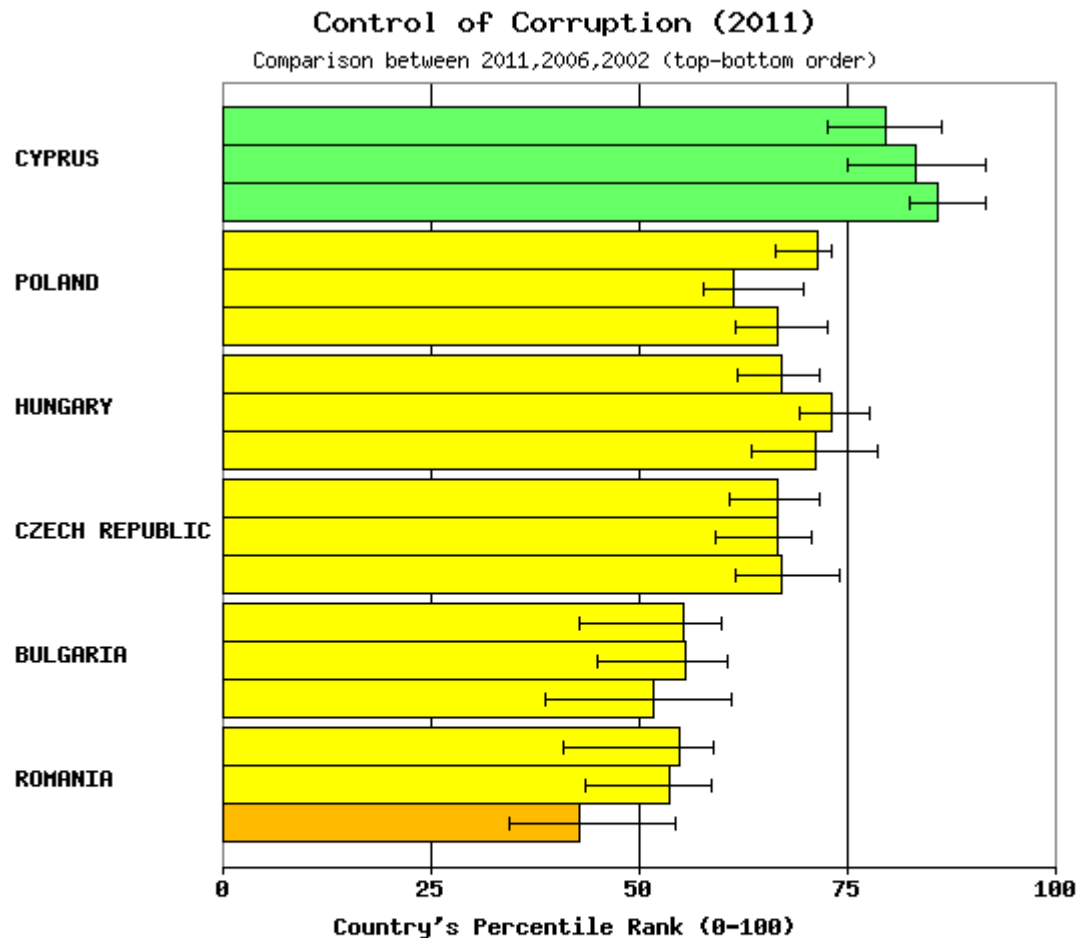
Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues

Note: The Worldwide Governance Indicators (WGI) are a research dataset summarizing the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries.

These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, international organizations, and private sector firms.

The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

# Current....



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues

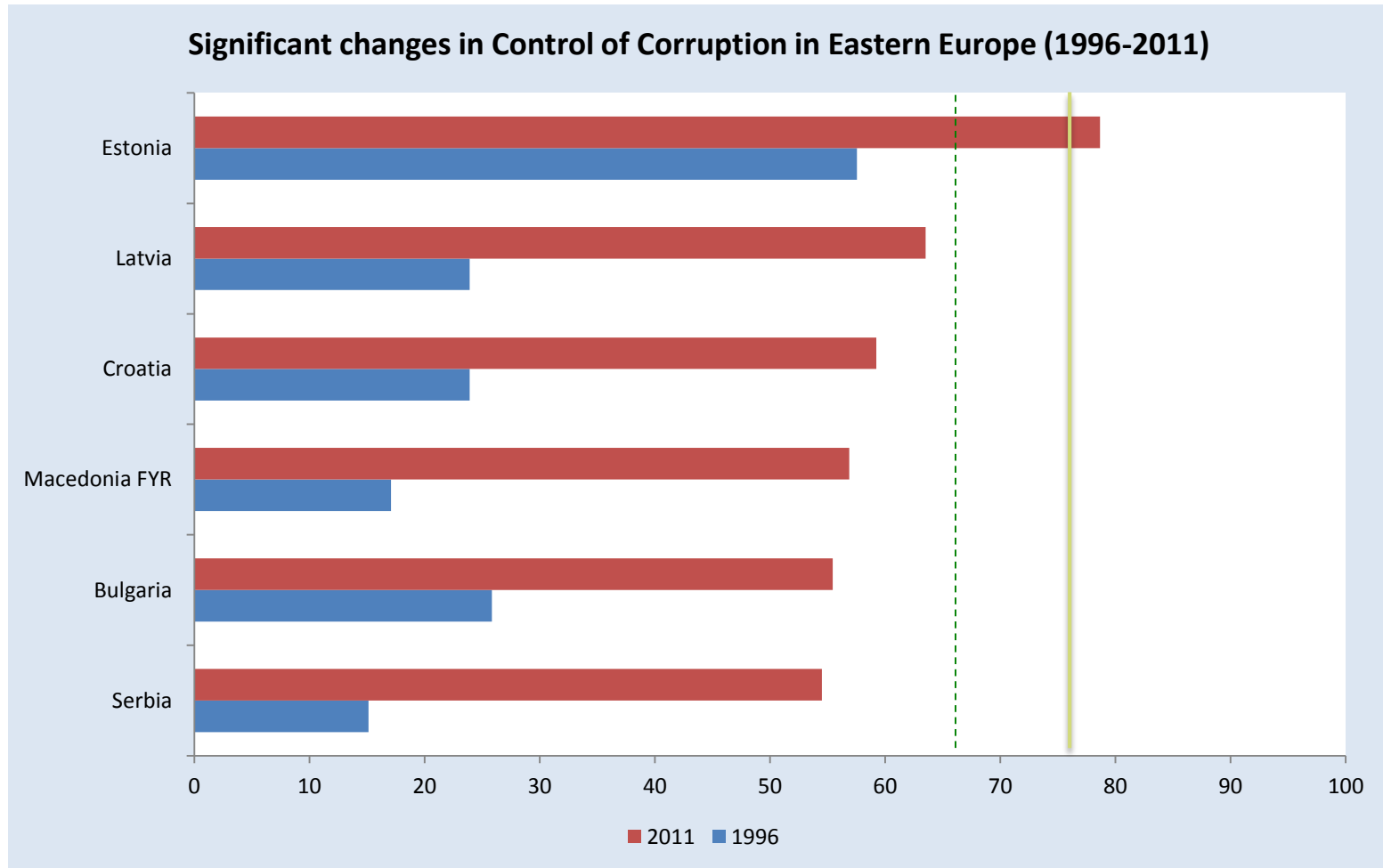
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# Second generation: jury still out

## Central Europe and the Balkans: changes 1996-2011



# Inferring on national corruption, however

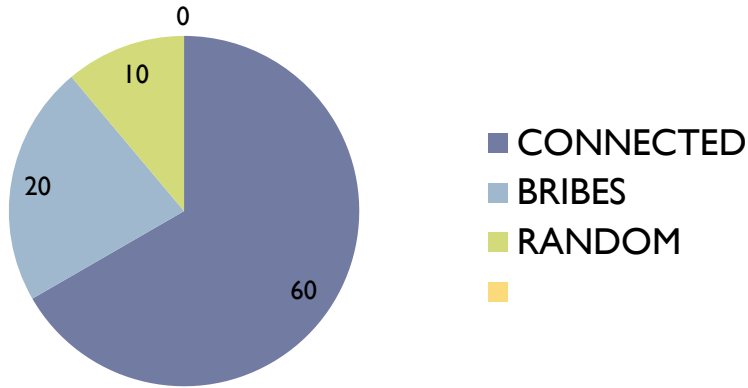
## Problems with data

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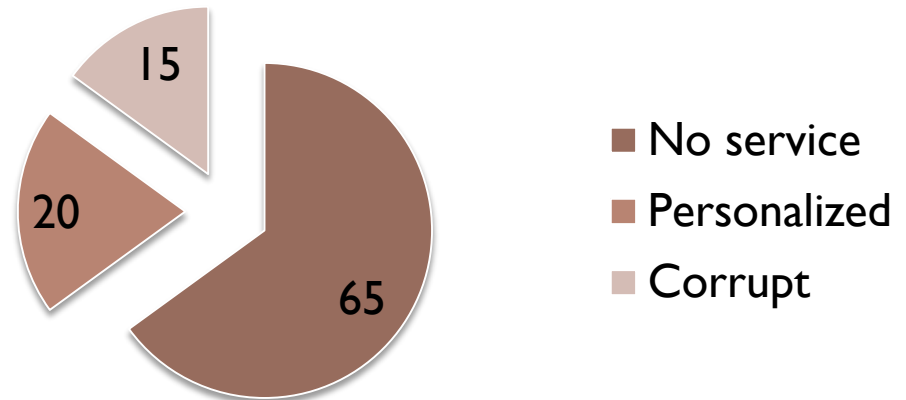
- ❑ -Experts might be biased and their criteria not always transparent
- ❑ -Respondents have uneven experiences
- ❑ -Large areas not covered by anybody and far from public eye
- ❑ -Representativeness of respondents is not representativeness of govt transactions

# Our strategy- establish the rule of the game in public goods allocation

## Favoritism in government contracts allocation



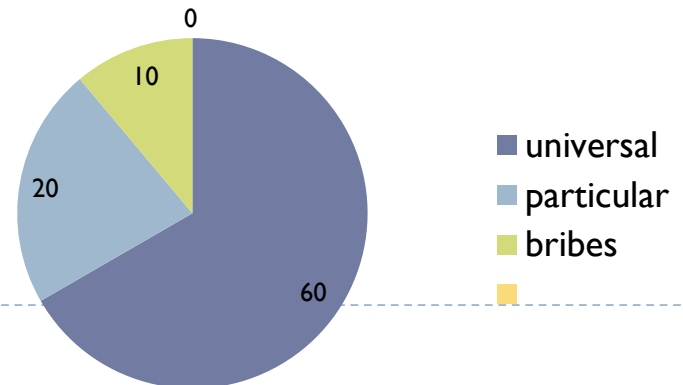
## Favoritism in public service allocation to citizens



## Favoritism in transfers to sub-national govt



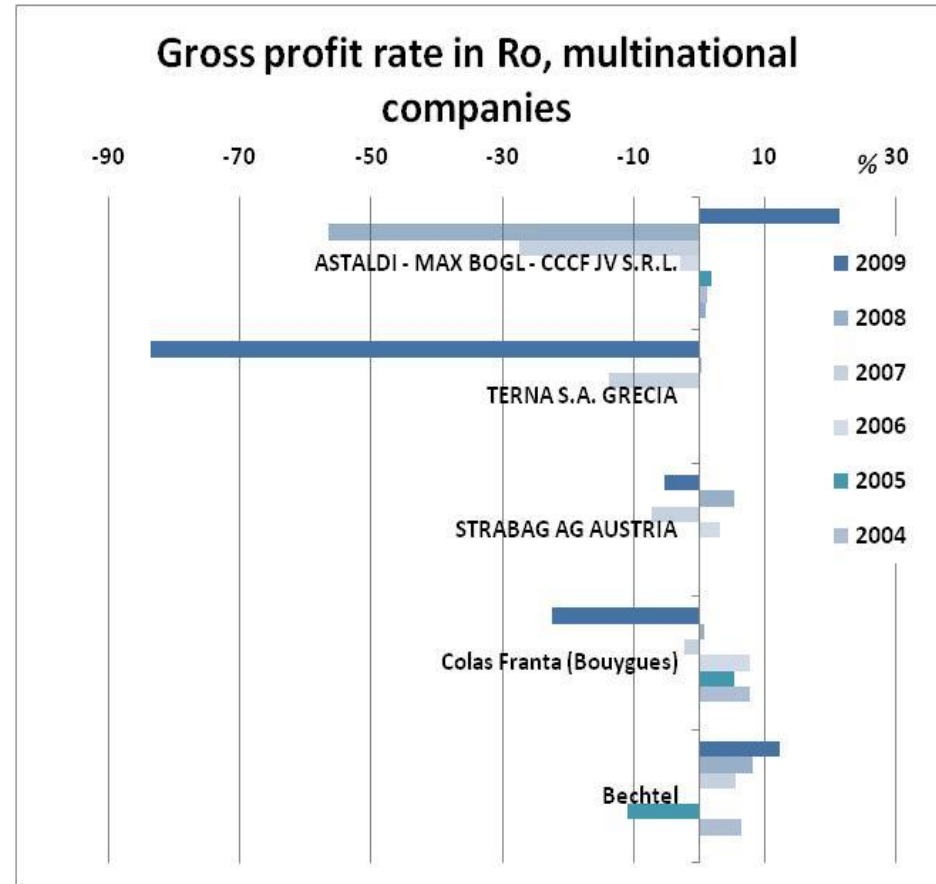
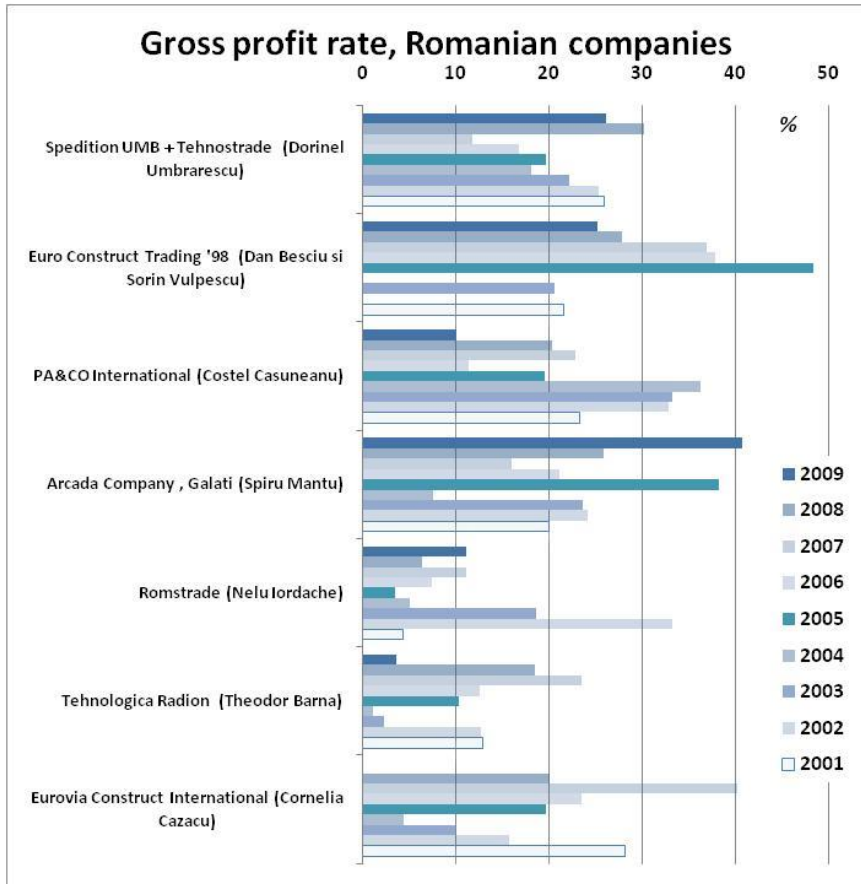
## Favoritism in legislation (market favors)



# DATA MINING

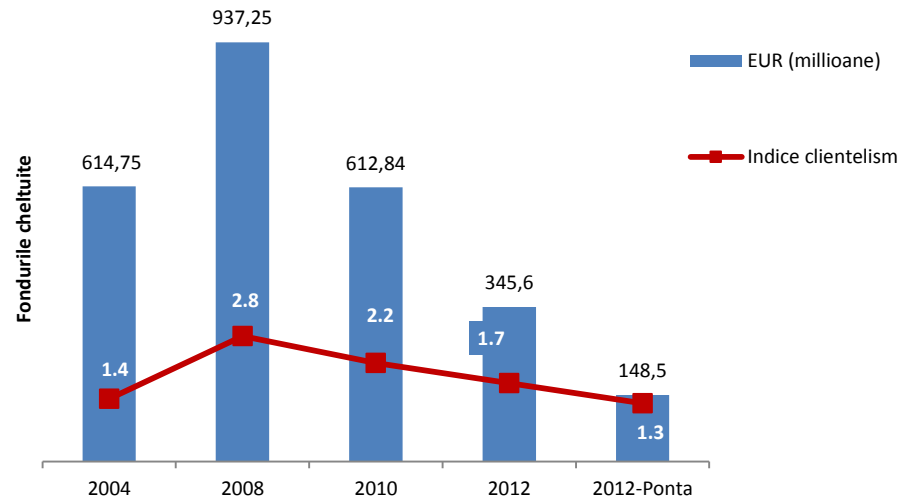
## Public works contracting after EU accession

### Gross profit rate Romanian 'networked' versus foreign companies



# DATA MINING.

## Govt transfers allocation. Evolution of the government reserve fund for natural disasters 2002-2010



	2004 (SDP)	2008 (Liberals)	2010 (Democrat Liberals)
Share of funds for main govt party %	49	45	62
Share of vote in local elections of govt party %	36	16	29

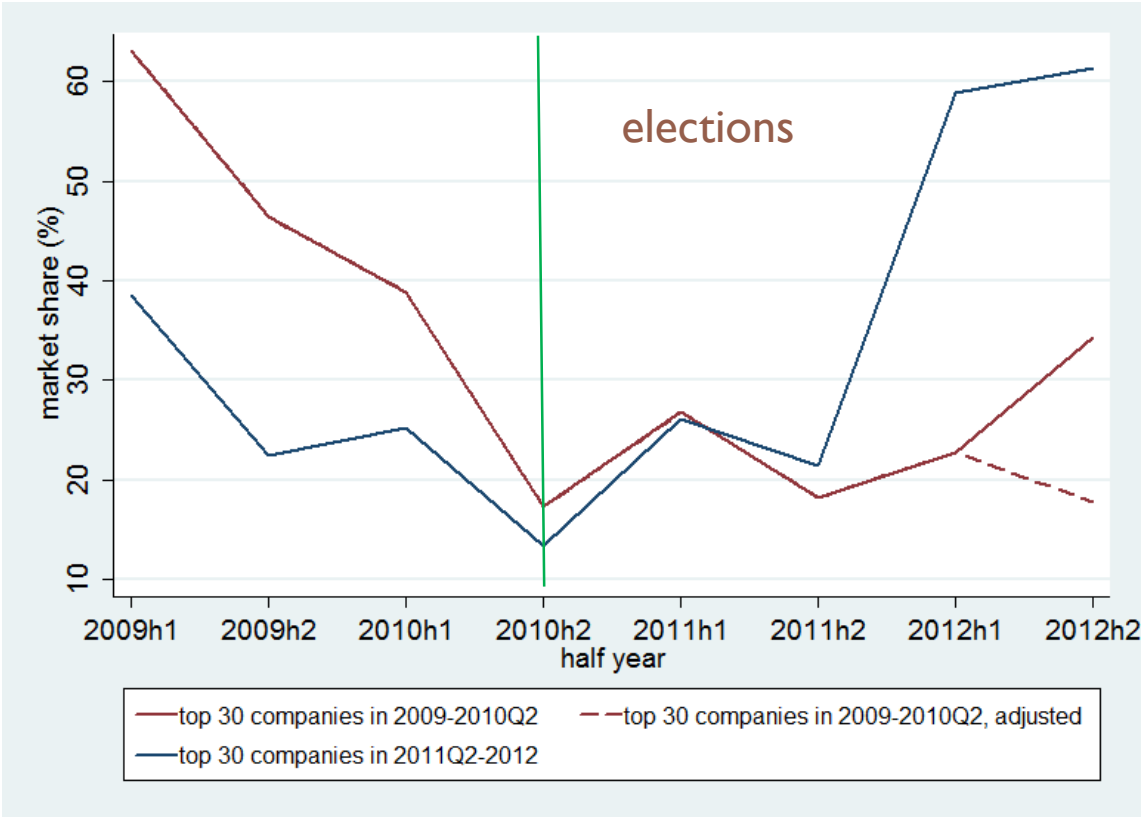


# Procurement data- DATA MINING

## Fazekas and all - 2 indicators

### principal component CRI

Change in market shares of large companies (EU funded construction, 2009-2012)



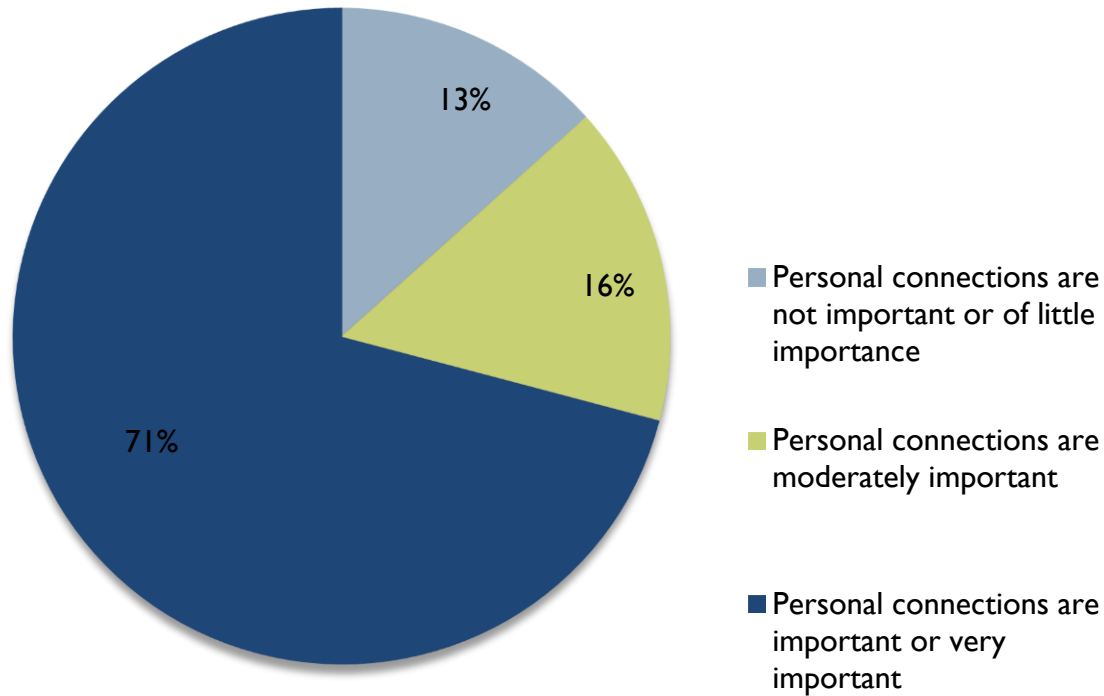
Source: MaKAB, Note: market share = total value of contracts won / total value of contracts won in EU funded construction in time t

# Surveys – Quality of Govt

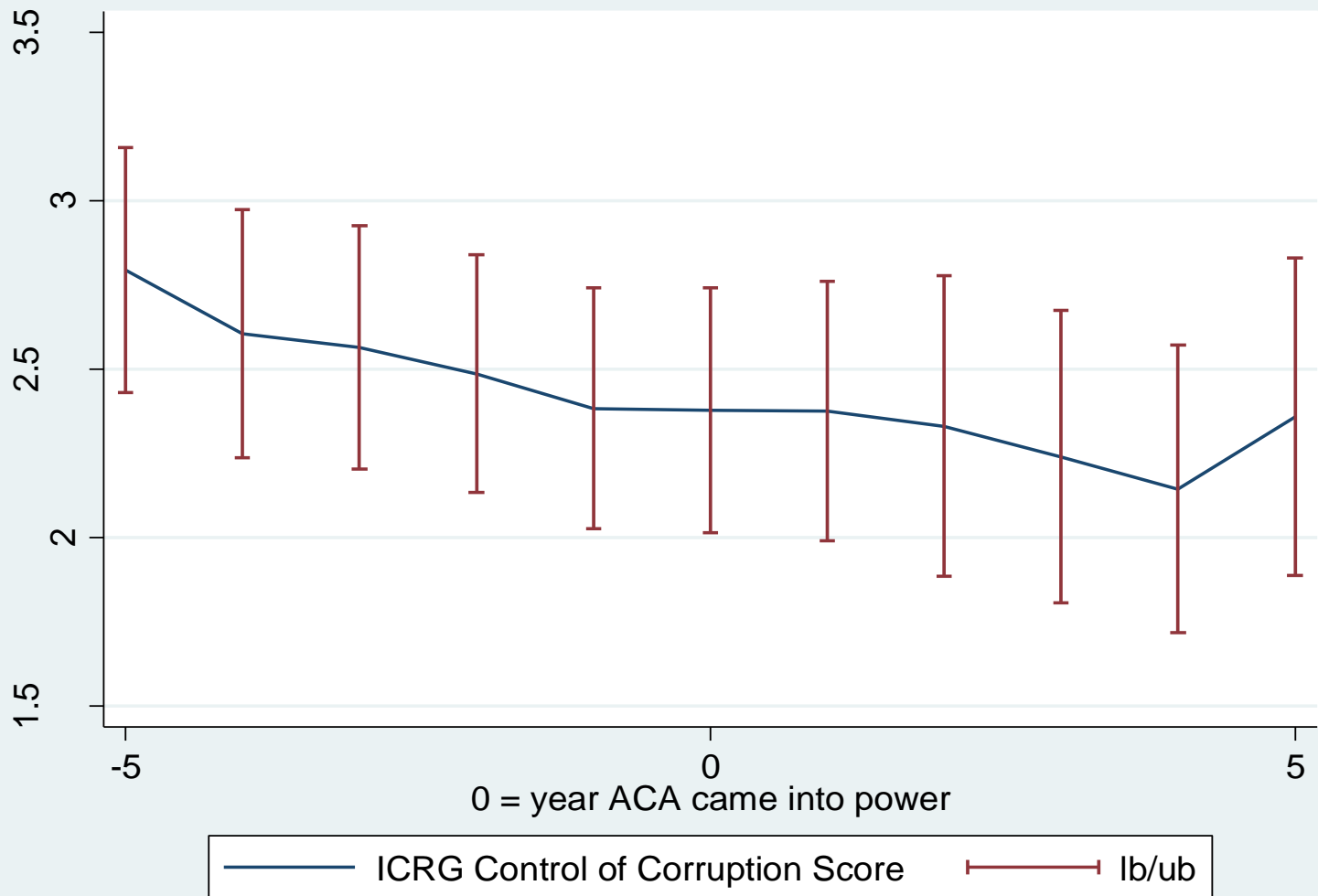
Region	Answer	All citizens are treated equally	Paid a bribe
Northern Europe	Yes	64%	2%
	No	35%	98%
	Don't know / No answer	1%	0%
Total			
Mediterranean Europe	Yes	58%	7%
	No	42%	93%
	Don't know / No answer	0%	0%
Total			
New EU Members (2004-2013)	Yes	47%	13%
	No	52%	87%
	Don't know / No answer	1%	0%
Total			
Non EU	Yes	53%	10%
	No	47%	90%
	Don't know / No answer	0%	0%
Total			

# Importance granted to favoritism by respondents perceiving high corruption

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# Testing policies



# Control of corruption is broader than anticorruption !

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- ▶ **Factor Group 1- Opportunity** /resources– size of PUBLIC resources which can be spoiled (jobs, tax money, assets such as natural resources...), increases with scope of state
- ▶ **Factor Group 2- Deterrent/ constraints** to power discretion by society

Political AND social pluralism – social capacity of collective action

(Constraints/deterrents)



# Equilibrium theory

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## Modernity goodness of fit

(urbanization, life expectancy, education, cohesiveness, personal autonomy, etc.)

### Opportunities:

- Red tape
- Lack of transparency
- Concentrated power
- Large amounts of discretionary funds
- Foreign aid

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### Constraints:

- Independent judiciary
- Independent media
- Active civil society
- Demanding voters

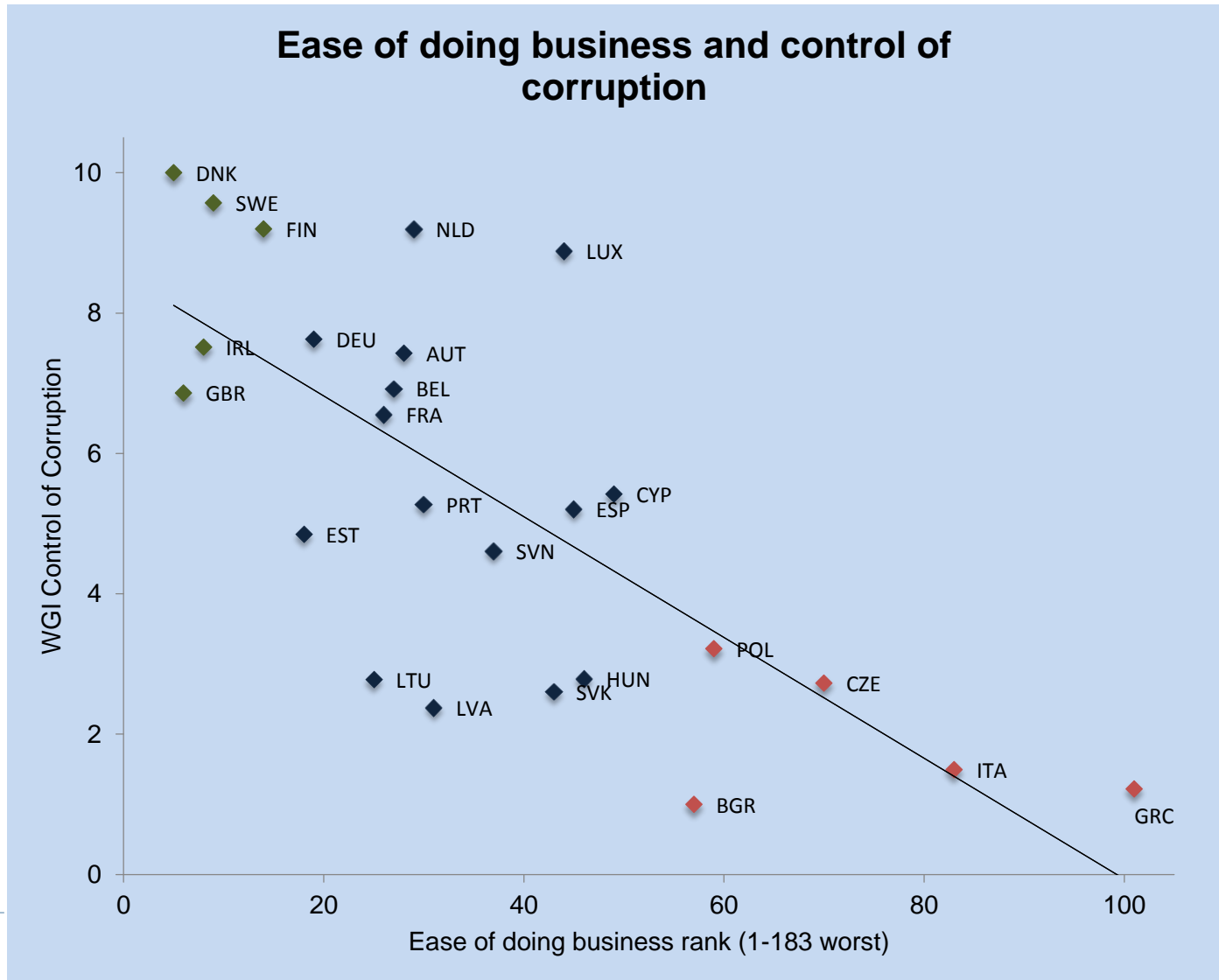


Corruption

Control of  
Corruption

# Opportunities- Red tape

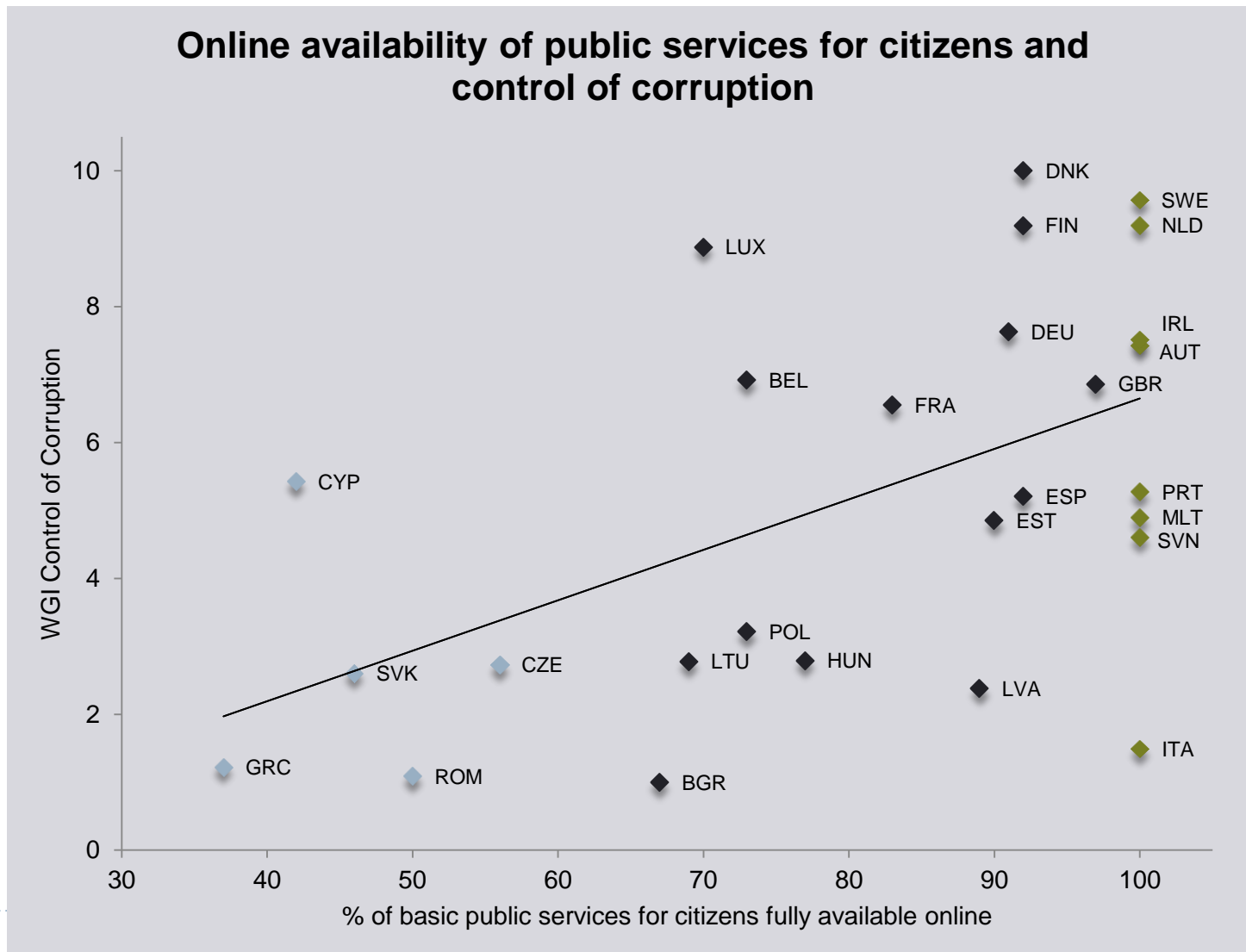
## Ease of doing business



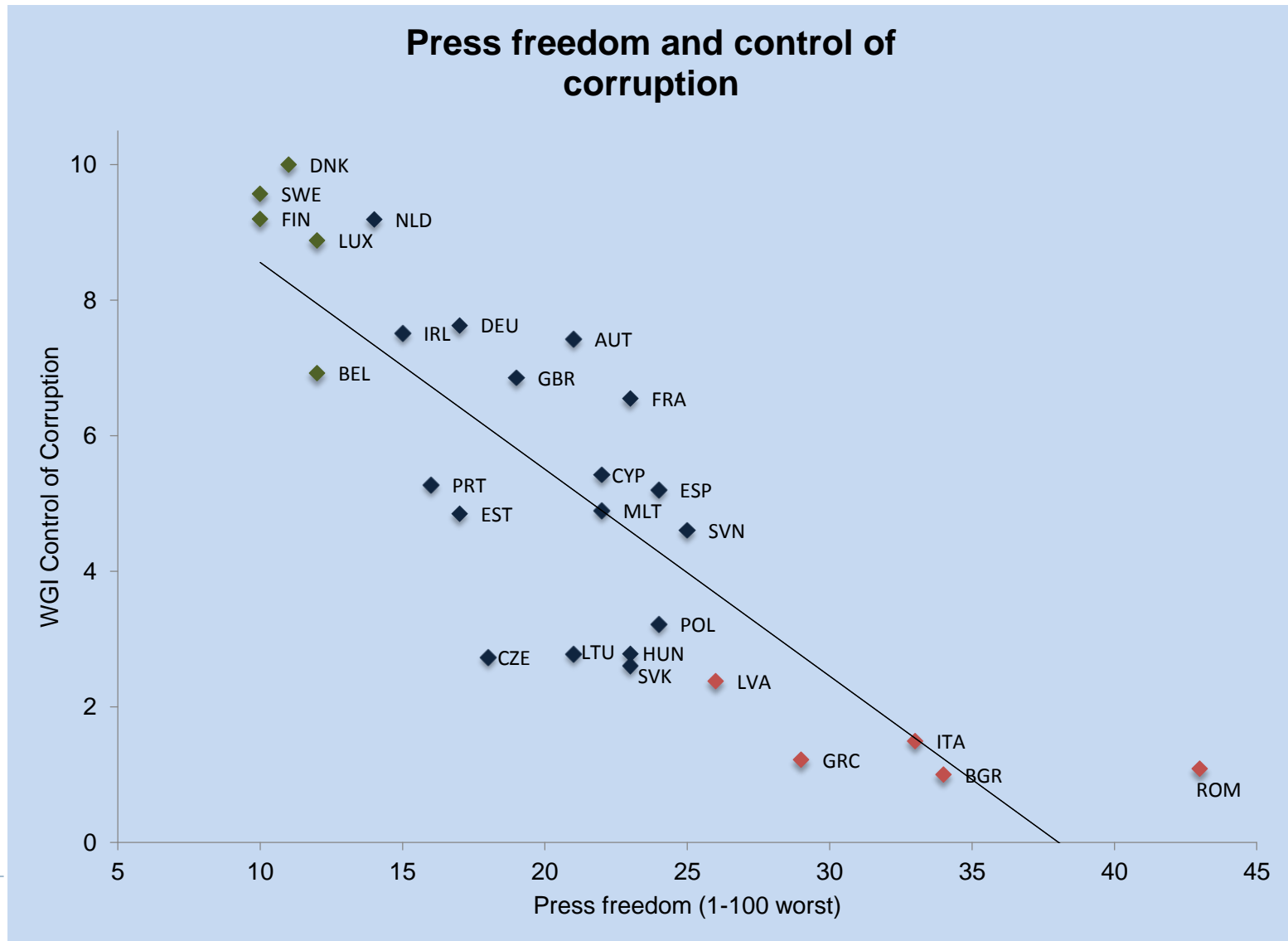


# Opportunities- transparency:

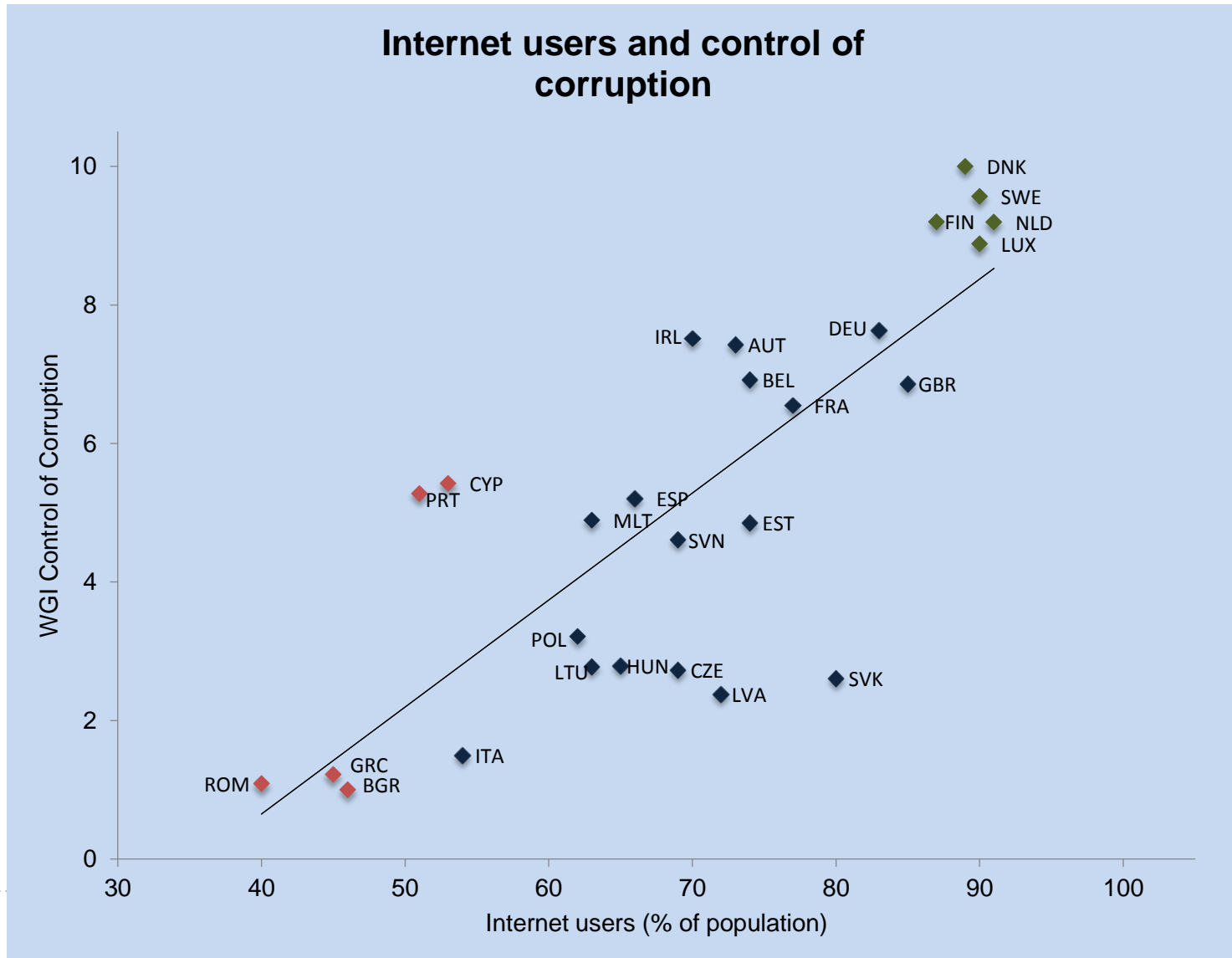
## Online availability of 20 basic public services



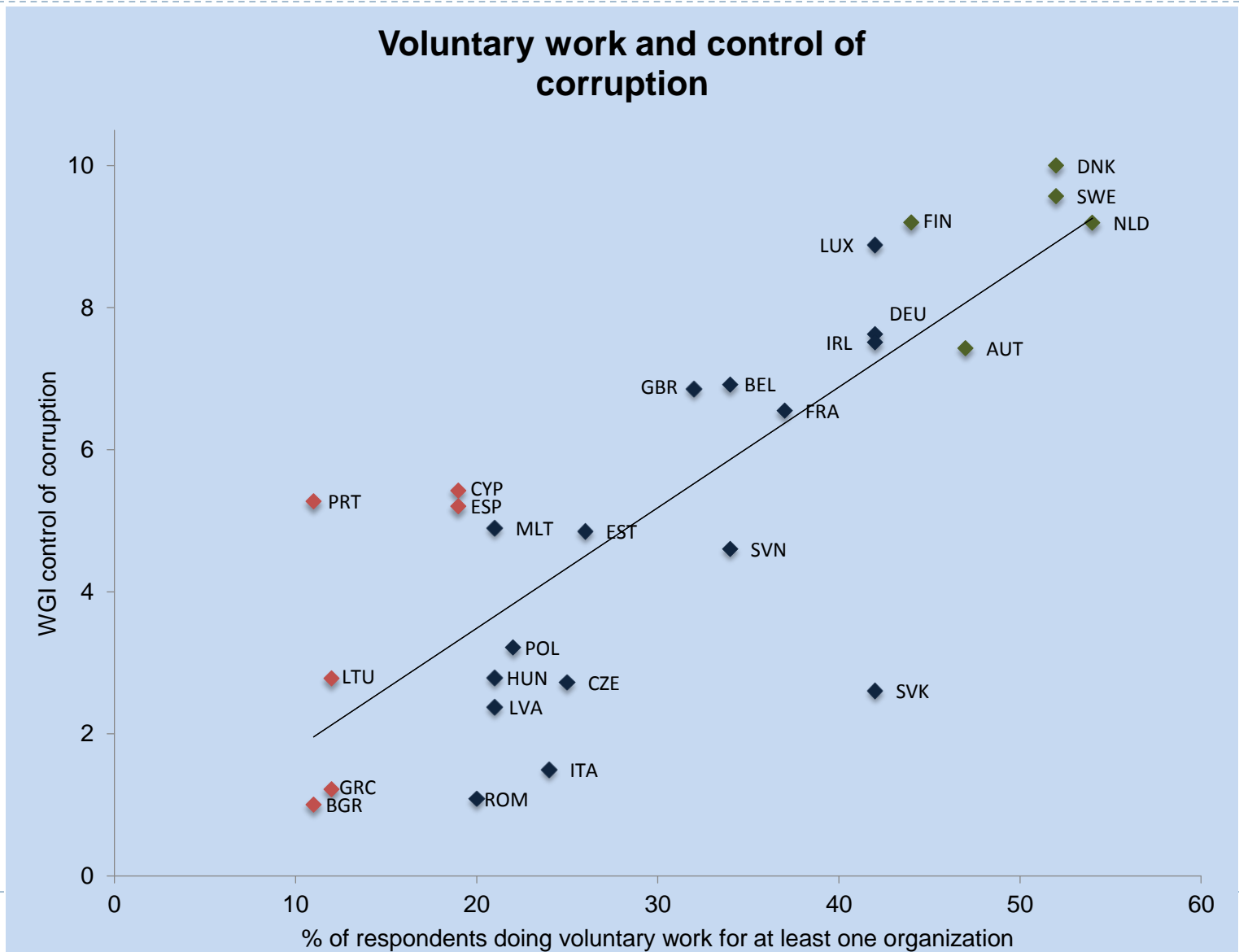
# Constraints: Freedom of the press



# Constraints: critical citizens



# Constraints: Civil society



# Corruption risk in the EU

Constraints	Opportunities			
		Low		High
	High	Austria	Ireland	Cyprus
	Belgium	Luxembourg	Estonia	
	Denmark	Malta	Hungary	
	Finland	Netherlands	Lithuania	
	France	Sweden		
	Germany	UK		
Low		Italy	Bulgaria	
		Portugal	Czech R	
		Slovakia	Greece	
		Slovenia	Latvia	
		Spain	Poland	
			Romania	

# EU- 28 by strength of public integrity framework

Country	Public Integrity	Admin Burden	Trade Openness	Audit Standard	Judicial Independence	Online Service	Facebook
Sweden	10.00	8	10	9	9	8	9
Netherlands	9.85	7	7	10	10	10	8
United Kingdom	9.78	7	9	9	8	10	9
Denmark	9.69	10	9	6	8	9	10
Finland	9.63	9	6	10	10	9	7
Estonia	8.76	10	9	7	7	8	6
France	8.55	9	10	6	6	9	6
Belgium	8.51	10	8	8	7	5	8
Luxembourg	8.04	6	7	9	8	6	7
Ireland	7.57	9	10	3	9	2	8
Germany	7.00	4	8	7	9	7	2
Austria	6.58	3	8	8	7	7	2
Cyprus	6.33	5	5	7	6	3	9
Malta	6.16	2	4	8	6	4	10
Portugal	5.85	8	5	4	4	5	7
Spain	5.26	2	7	3	5	8	4
Hungary	4.84	7	1	5	3	6	6
Lithuania	4.57	5	6	5	2	6	2
Slovenia	4.46	8	2	3	3	6	4
Latvia	4.01	6	4	4	4	4	1
Italy	3.93	5	5	1	4	3	5
Poland	3.53	2	4	6	5	2	1
Slovak Republic	2.46	4	3	2	1	1	5
Czech Republic	2.42	1	2	4	3	2	3
Greece	2.34	3	2	2	2	3	3
Bulgaria	2.33	3	3	2	2	1	4
Croatia	2.08	4	1	1	1	4	3

# Reduce Opportunity

Natural Resources	Private management with public share of proceeds established by broad consultation; transparent spending	Public report on spending revenues from natural resources	Botswana (EITI)
Ethnic Fractionalization	Cross-ethnic national public institutions based on proportionality	Equal access indicators for schooling and other cultural activities in different languages	Switzerland
Administrative Discretion	· Reduce red tape and enforce equal treatment	· Ease of doing business; indicators of equal treatment	Georgia
	· Ombudsman also auditor and controller	· Cases solved administratively/cases solved through prosecution	Chile
	· Make resources transparent through e-government	· E-services as percentage of total public services	Estonia
Public Spending	Public spending concentrated on areas such as health, education, research, and innovation, with infrastructure funded mostly through private-public partnerships (FDI)	Existence of e-portal for tracking expenses from national and local government procurement	Uruguay
Formalization	Tax simplification; tax collection also by private agents; e-payments facilitation	Time spent filing taxes; percentage increase in annual collection rate	Uruguay



# Increase Constraints

Judicial Ind.	Tenure, appointment, and sanctioning of magistrates entrusted to magistrates' bodies only with validation by 2/3rds of upper chamber	<ul style="list-style-type: none"> <li>· World Economic Forum judiciary independence measurement (perception of businessmen)</li> <li>· Successful litigations against government</li> </ul>	Chile, Botswana, & Taiwan
Civil Society	Ease of registering; “sunshine” laws for public consultations; civil society component in every donor program; conditions on participatory budgeting; auditing or evaluations	Number of NGOs; percentage of public consultations on total new legal drafts or policies; existence of and traffic on watchdog websites; number of Facebook users	Estonia
Media Freedom	media antitrust or cartel legislation; international conditionality related to media freedom	Media sustainability indicators; news readership/audience	Estonia
Empowered Citizens	IT investment in education and training for educators; internet freedom	Internet connections per household; Facebook users per country; percentage of citizens	South Korea & Estonia

# What to do:

## reduce resources and opportunities

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- Cut red tape to reduce administrative discretion (time to import, export, pay taxes and so on)
- Streamline regulation to reduce informality
- Increase electronic access to all public services and foster more Internet access, usage
- Increase transparency, especially fiscal transparency (online expense tracking systems become fast best practice)
- Far more transparency needed for EU funds
- Publish all affiliations, relations (lobby registers) accounts of officials to prevent conflict of interest, fiscal evasion and corruption

Cyprus

Estonia

Hungary

Lithuania

Bulgaria

Czech

Republic

Greece

Latvia

Poland

Italy

Romania



# What to do:

Increase constraints, but not just legal constraints

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Italy
Portugal
Slovakia
Slovenia
Spain
Bulgaria
Czech Republic
Greece
Latvia
Poland
Romania

- Protect media from capture (transparency of ownership, govt advertising)
  - Protect and encourage civil society and Internet media watchdogs
  - Adopt social accountability designs to protect EU funds (involve local stakeholders and consumers in the planning and monitoring of EU funds)
  - Develop judicial capacity
  - Develop further audit and monitoring capacity
-

# What does not work and should not be expected to in the medium term

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- ▶ **Uniformity:** Control of corruption in Europe is achieved in a variety of ways and we should not aim for institutional uniformity
- ▶ **Silver bullets:** Countries which have adopted Judicial Councils, anticorruption agencies, restrictive party financing have not progressed more as yet
- ▶ **Judicial anticorruption** where rule of law is weak
- ▶ **Unenforced legislation;** current huge implementation Gap (between legislation and practice) has gone thru the roof in Bulgaria, Romania, Macedonia, Serbia and Kosovo – Global Integrity Report (30-60%) – enforcement rather than new legislation is needed, monitoring, etc



# Political economy approach

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- ▶ Situation A. You have losers from corruption, of which some are autonomous enough to take some action / they are the principals and any strategy should be grounded their level
- ▶ Situation B. You have losers, but not autonomous enough for action; you do no AC, but develop them into a group capable of inflicting some normative constraints in the future (civil society development)
- ▶ Situation C. No significant domestic losers exist. Forget about AC except as an approach to aid distribution

- When to do something?  
- And who should do something? In search of a principal...  
- The 'who' before the 'what'

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# If we still have time

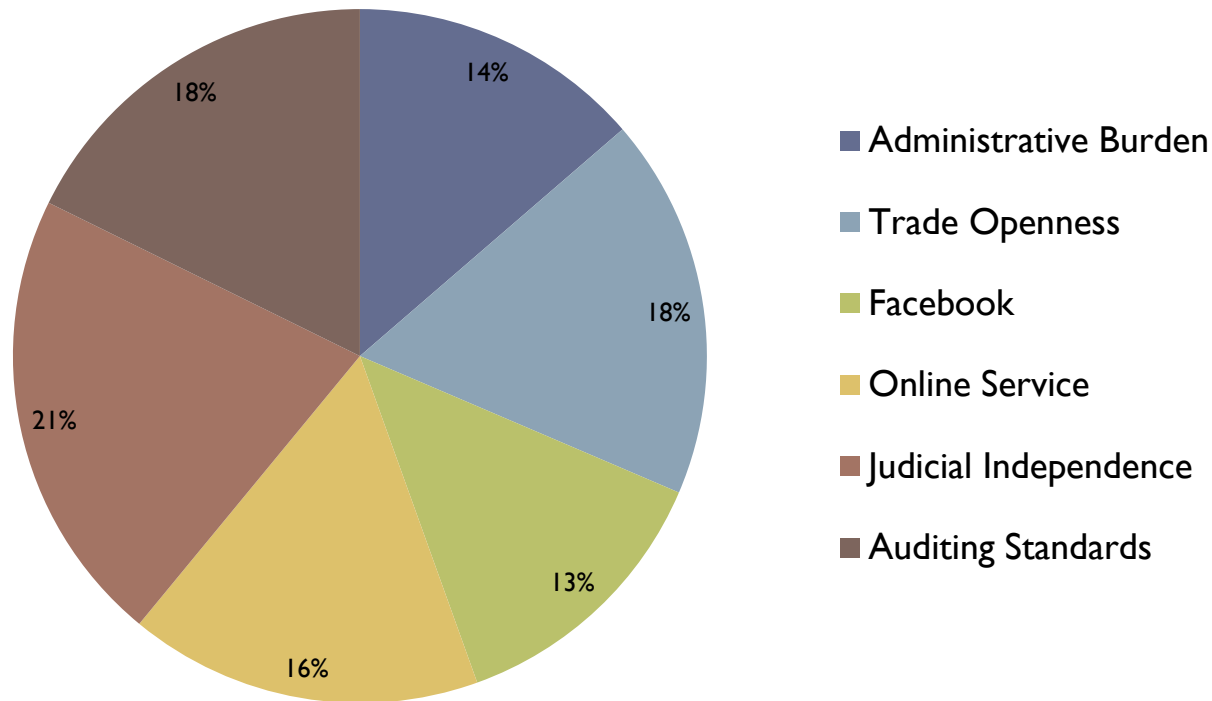
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- ▶ Some consequences of corruption



# Public integrity index – composition

Method- Principal component, forthcoming





# Public integrity index - Method-

- Each indicator is tested for validity in a simple OLS regression with WGI Control of Corruption (and other measures of corruption) as dependent variable and HDI as a control (all data for 2012), over 40 indicators tested to arrive at final 6
- A standardized (equal means and standard deviations) index is built out of each indicator and then rescaled into a categorical variable to be ranged between 1 and 10
- Principal component analysis is run on these final indices to retrieve the common factor(s)
- The first principal component is our corruption risk measure It explains around 60 % of the variation in the data
- This measure is again normalized to be ranged between 1 and 10