

## 16 Global Index of Bribery for News Coverage

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At a time when the accuracy and reliability of the media have come under intense scrutiny around the world, the International Public Relations Association and the Institute for Public Relations in the United States has developed a comprehensive index that ranks 66 nations according to the likelihood that print journalists will seek or accept cash for news coverage from government officials, businesses or other news sources.

While bribery is also known to occur with broadcast and other types of media, the researchers confined their focus to print media to ensure a common frame of reference. The researchers suspect that each country's numerical score and ranking for daily consumer newspapers is very similar for other news media, but this was not measured because of the range of possible media programming formats, for example, print magazines, free-circulation 'shopper' newspapers, websites, radio and television.

The index provides a numeric-value score and ranking of 66 countries. The countries were selected primarily for their global economic and political importance and – to some extent – the availability of reliable data for variables in the index.

Because of the virtual impossibility of measuring the phenomenon of cash being paid for news coverage through direct observation, the researchers employed a composite index methodology. They sought a surrogate set of measures that would be predictive and correlated, but not necessarily causative. A critical challenge was how to select these factors.

To solve this problem, an email survey instrument was used to seek the collective expertise of two worldwide groups affected by bribery for news coverage. These were the International Public Relations Association's board and council; and the International Press Institute's board, national committee members and fellows. Representing public relations practitioners and journalists respectively, the worldwide leadership of these two institutions were asked for their expert views on the relevance of potential index factors; they were asked what are the leading factors that they – through their observation and years of experience – believe correlate with the phenomenon of 'cash for news coverage'. This approach is somewhat analogous to a physician who is unable to examine a patient directly, and who instead asks questions about factors that point to the probability of a specific disease by isolating and identifying those variables that are believed to be correlated with the presence of the illness.

The researchers thereby selected eight variables for which objective data were available. The data on each factor was numerically scored on a scale from 0 (linked to a high likelihood of bribery) to 5 (low likelihood), and the eight scores were then

averaged in order to generate a rank order of the 66 countries. The variables, and the data source for each, were:

- length of tradition of self-determination by citizens (derived from the *CIA World Factbook 2001*, with scoring according to the number of years)
- perception of comprehensive corruption laws with effective enforcement (as measured by TI's 2001 Corruption Perceptions Index)
- accountability of government to citizens at all levels (involving evaluation of government type, legal system, suffrage and elections, as reported by the *CIA World Factbook 2001*)
- adult literacy (as reported by UNESCO's Institute for Statistics database)
- liberal and professional education of practising journalists (scored according to the reports in the *World Press Encyclopedia: A Survey of Press Systems Worldwide*, 2003)
- the existence of well-established, publicised and enforceable codes of professional ethics for journalists (derived from the International Journalism Network)
- free press, free speech and free flow of information (taken from Freedom House's 'Press Freedom Survey 2002')
- media competition (gathered from *World of Information Business Intelligence Reports 2001* or Walden country reports, and from *Editor & Publisher International Yearbook: The Encyclopedia of the Newspaper Industry 2002*).

The study did not attempt to justify or explain the specific impact of any single variable. It is possible, for instance, that a low score on 'free press, free speech and free flow of information' might in some instances indicate the extent to which journalists are intimidated by governments, rather than the extent to which journalists are bribed. The study simply measured those variables that experts believe to be positively correlated with 'cash for news coverage'.

As shown in Table 16.1, of the 66 countries in the study, bribery of the media is most likely to occur in China, Saudi Arabia, Vietnam, Bangladesh and Pakistan. By contrast, those countries with the best ratings for avoiding such practices are Finland (first place); and Denmark, New Zealand and Switzerland (tied for second place).

The complete study and a detailed description of the methodology is available at [www.instituteforpr.com/international.phtml?article\\_id=bribery\\_index](http://www.instituteforpr.com/international.phtml?article_id=bribery_index)

## Note

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Table 16.1: Global Index of Bribery for News Coverage<sup>a</sup>

	Self-determination	Perception laws	Accountability	Literacy	Professional education	Ethics codes	Free press	Competition	Mean score
Finland	5	5	5	5	5	5	5	4	4.88
Denmark	5	5	5	5	4	5	5	4	4.75
New Zealand	5	5	5	5	4	4	5	5	4.75
Switzerland	5	4	5	5	4	5	5	5	4.75
Germany	5	3	5	5	5	5	5	4	4.63
Iceland	5	5	5	5	3	4	5	5	4.63
UK	5	4	5	5	5	4	4	5	4.63
Norway	5	4	5	Miss. data	4	4	5	5	4.57
Austria	5	3	5	5	5	4	4	5	4.5
Canada	5	4	5	5	5	5	4	3	4.5
Netherlands	5	4	5	5	5	5	5	2	4.5
Sweden	5	4	5	5	5	3	5	4	4.5
Belgium	5	2	5	5	5	5	5	4	4.5
USA	5	3	5	5	5	5	4	4	4.5
Australia	5	4	5	5	3	5	5	3	4.38
Ireland	5	3	5	5	5	3	4	2	4
Israel	5	3	4	5	3	4	4	4	4
Italy	5	1	5	5	5	5	4	2	4
Spain	4	2	4	5	4	5	4	3	3.88
Cyprus	4	Miss. data	3	5	3	3	4	5	3.86
France	5	2	5	5	4	4	4	1	3.75
Portugal	4	2	4	5	3	4	3	5	3.75
Chile	3	3	3	5	3	4	4	4	3.63
Greece	4	0	4	5	4	3	4	5	3.63
Estonia	3	1	3	5	3	4	4	5	3.5
Japan	4	3	4	5	3	4	4	1	3.5
Bosnia & Herz	3	Miss. data	3	5	2	5	2	Miss. data	3.33
Brazil	4	0	4	4	4	5	3	2	3.25
Hungary	3	1	3	5	3	4	4	3	3.25
Puerto Rico	4	Miss. data	4	4	3	Miss. data	3	1	3.17
Korea, S.	4	0	4	5	4	3	4	1	3.13
Latvia	3	0	3	5	3	4	4	3	3.13

Russia	3	0	3	5	3	4	2	5	3.13
Slovakia	3	0	3	5	3	4	4	3	3.13
Bulgaria	3	0	3	5	4	4	4	1	3
Czech Rep	3	0	3	5	4	3	4	2	3
Hong Kong	1	3	1	5	3	3	Miss. data	5	3
Lithuania	3	0	3	5	3	4	5	1	3
Singapore	4	5	2	5	3	2	1	2	3
Mauritius	3	0	3	4	3	Miss. data	4	4	3
Slovenia	3	1	3	5	3	3	4	2	3
Poland	3	0	3	5	3	3	4	2	2.88
Argentina	4	0	3	5	4	0	3	3	2.75
Mexico	5	0	4	4	1	5	3	0	2.75
Taiwan	4	1	4	4	3	0	4	2	2.75
Ukraine	3	0	3	5	3	3	2	3	2.75
Croatia	3	0	3	5	3	4	Miss. data	1	2.71
Turkey	4	0	4	4	3	3	2	1	2.63
Venezuela	4	0	2	5	4	0	3	3	2.63
South Africa	4	0	3	2	3	4	4	0	2.5
Thailand	2	0	3	5	4	2	4	0	2.5
UAE	3	Miss. data	1	3	2	3	1	4	2.43
Malaysia	4	0	2	4	3	3	1	2	2.38
India	4	0	3	1	2	5	3	0	2.25
Kenya	3	0	3	3	3	5	1	0	2.25
Kuwait	2	Miss. data	1	3	2	Miss. data	2	3	2.17
Indonesia	4	0	2	4	2	3	2	0	2.13
Nigeria	3	0	3	1	3	5	2	0	2.13
Bahrain	1	Miss. data	1	4	1	Miss. data	1	4	2
Jordan	2	0	2	4	2	3	2	1	2
Egypt	4	0	3	1	1	4	0	0	1.63
Pakistan	2	0	2	0	2	3	2	1	1.5
Bangladesh	3	0	2	1	1	3	1	0	1.38
Vietnam	1	0	1	5	1	1	0	2	1.38
Saudi Arabia	2	Miss. data	1	3	2	0	0	1	1.29
China	1	0	1	2	2	0	0	0	0.75

a. Some data are missing ('Miss. data') because they were not available from the standardised sources. The researchers eliminated the categories for these variables in determining the mean scores for those countries for which such data were not available.

## 17 Trust and corruption

*Eric M. Uslaner*<sup>1</sup>

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Does corruption stem from institutional structures or from a society's culture? To examine this question, this study looked at generalised trust, a moral value predicated on the notion of a common bond between classes and races and on egalitarian values. Generalised trust reflects a belief that you should treat strangers as if they were trustworthy. In the World Values Surveys (WVS) it is measured by the question, 'Generally speaking, do you believe most people can be trusted or can't you be too careful in dealing with people?' Trust (as measured by the WVS) and (lack of) corruption (as measured by Transparency International's Corruption Perceptions Index) are strongly correlated: the simple correlation across 47 countries is .724.

Does corruption lead to less trust, or does trust lead to less corruption? Simultaneous equation (two-stage least squares) models were estimated to sort out the causal order.<sup>2</sup> These models showed that:

1. trust and corruption have a strong reciprocal relationship. Countries with high levels of trust have low levels of corruption and vice versa
2. trust is far more important than structural indicators such as the level of democracy, property rights, decentralisation or political stability, in explaining corruption. Each of these measures became insignificant in models including trust
3. while there is a strong reciprocal relationship between trust and corruption, changes in corruption do not lead to changes in trust, while increases in trust do lead to lower levels of corruption. Thus trust is the key to corruption more than corruption is the key to trust.

What are the consequences of trust and corruption? Simultaneous equation estimation leads to the tentative results in Table 17.1. Corruption seems to matter more than trust for adherence to the law and for red tape in the bureaucracy. But most of the time it is trust that matters more. Governments in societies with large shares of trusting people – more than honest governments – spend a greater share of their gross domestic product on government, spend more on education and on the public sector generally, and have better functioning judiciaries and greater political stability. Because trust and corruption are highly correlated, however, it is difficult to make firm conclusions about which is more important in shaping each outcome variable, so these conclusions are tentative.

Table 17.1: Effects of trust and corruption on political and economic performance<sup>a</sup>

Indicator	Corruption	Trust	Corruption vs trust	Freedom	Significant variables	N
Theft rate	**				1990 per capita income	14
Tax evasion	***	*	Corrupt**		1990 per cap. income, Knowledge diversity	22
Business regulations	**		Corrupt**		Knowledge diversity	23
Top marginal tax rate				**		23
GDP growth rate			Trust**	**		22
Mean yearly GDP growth 1980–90	**			****	Knowledge diversity	23
Government share of GDP			Trust**	**		
Public sector expenditure	**	***	Trust**			22
Education expenditure	**	**	Trust*			21
Transfer expenditure					1990 per capita income	23
Political stability	*	**				
Judicial efficiency	***	****	Trust**			22
Red tape in bureaucracy	****	**	Corrupt***		Knowledge diversity	22
Govt responds to will of people	*				Knowledge diversity	21

\*\*\*\* p < .0001; \*\*\* p < .001; \*\* p < .05; \* p < .01

a. Each indicator represents the key dependent variable (outcome) in simultaneous equation estimations, with other significant predictors listed in the penultimate column. The asterisks represent significance levels (one-tailed tests) for trust and corruption. The ‘corruption vs trust’ column indicates which variable has a higher level of significance. The column for freedom indicates the significance level of democratisation.

In work with Gabriel Badescu of Babes-Bolyai University, Romania, the linkage between trust and corruption was also examined at the individual level.<sup>3</sup> Using data from the Gallup Millennium Survey as well as from our own study of Romania in 2001 as part of the Citizenship, Involvement, Democracy survey throughout Europe, we estimated simultaneous equation models for trust and perceptions of corruption and whether the government is run for the good of the people. We found that perceptions of corruption had a strong effect on perceptions of representativeness in the ‘well-ordered’ society of Sweden, but no effect on trust in Romania, where people seem to have become inured to corruption.

We found this result puzzling, so we investigated it in greater depth in a 2003 survey of Romanians, in which we distinguished low-level and high-level corruption.<sup>4</sup> Low-level corruption focuses on the extra ‘gift’ payments people make to doctors, banks, the police and teachers. High-level corruption involves bribery and corruption by politicians, business executives and the courts. We found that low-level corruption did not lead to lower levels of trust. Most people do not see these payments as making others ‘rich’, and often see such ‘gifts’ as making a bureaucratic system more efficient. In contrast, we found that high-level corruption affected perceptions of growing inequality, the evaluations of the performance of the government improving the quality of life,

and trust both in other people and in government. Having to pay off city officials, and especially officers of the court, together with the beliefs that most politicians and business people were corrupt, led people to believe that the system was stacked against them, that government could not be trusted, and that even ordinary people were not trustworthy. There are different types of corruption, and citizens in post-communist countries clearly distinguish between them.

## Notes

1. Eric Uslaner (contact: [euslaner@gvpt.umd.edu](mailto:euslaner@gvpt.umd.edu)) is professor of government and politics at the University of Maryland. For the full article, see Eric M. Uslaner, 'Trust and Corruption', in Johann Graf Lambsdorff, Markus Taube and Matthias Schramm, eds, *Corruption and the New Institutional Economics* (London: Routledge, 2004).
2. The corruption measures were taken from TI's 1998 Corruption Perceptions Index and (for changes) the 1980–83 Business International Corruption Index. While these indices are not directly comparable over time because they are based upon different sources, they are highly correlated ( $r = .87$ ,  $N = 37$ ) and thus indicate much stability. The estimated  $R^2$ s are .762 for trust and .863 for corruption ( $N = 23$ ), with economic inequality and percentage Catholic also included in the trust equation. In the corruption equation were measures of democracy (Freedom House scores), property rights, openness of the economy, and religiosity (from the World Values Survey). The change equations had  $R^2$  values of about .490 for each equation, with predictors mostly based upon change in economic and trading situations for both equations and change in democratisation in the corruption equation.
3. Eric M. Uslaner and Gabriel Badescu, 'Honesty, Trust, and Legal Norms in the Transition to Democracy: Why Bo Rothstein is Better Able to Explain Sweden than Romania', in Janos Kornai, Susan Rose-Ackerman and Bo Rothstein, eds, *Creating Social Trust: Problems of Post-Socialist Transition* (New York: Palgrave, 2004).
4. Eric M. Uslaner and Gabriel Badescu, 'Making the Grade in Transition: Equality, Transparency, Trust, and Fairness', available at [www.bsos.umd.edu/gvpt/uslaner/working.htm](http://www.bsos.umd.edu/gvpt/uslaner/working.htm)

## 18 Experimental economics and corruption: a survey of budding research

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Empirical research on corruption has mostly relied on indirect and ‘noisy’ observations of corrupt transactions. Noise has been reduced through more detailed and direct questioning and through case studies, but few corrupt actions can be observed in a systematic way. The difficulty of observation makes corruption a natural candidate for experiments, though so far only a few have been carried out. This article summarises the findings of four examples of this new field of research.

### Corruption as a game of trust

Abbink et al. start their corruption experiments from established research on so-called sequential trust games, in which one person repeatedly has a chance to influence a second person (for example, through a bribe) to change his behaviour, but, each time he does so, must ultimately trust the second person to act accordingly.<sup>2</sup> In the Abbink et al. experiment, the first person was interpreted as a businessman and the second as a public official, and each pair performed 30 transactions with each other.

Abbink et al. found that the ‘businessmen’ on average gave bribes worth more than 10 per cent of the gains they stood to make, and the ‘public officials’ changed their behaviour in favour of the ‘businessmen’ 65 per cent of the time.

Abbink et al. then amended the game in a number of ways. In one extension, a given pair would be severely punished when a bribe in one of the 30 rounds was ‘discovered’, though the rate of discovery was set low. The negative effect on the rate of bribing was found to be considerable – the ‘public officials’ only changed their behaviour 43 per cent of the time. When, in addition, partners were reshuffled at each of the 30 rounds – intended to simulate a rotation of officials – there was a strong preventive effect, with the frequency of behaviour change falling to 14 per cent. When the ‘salaries’ of the public officials were increased, however, the effects were negligible.

The experiment suggests that harsh, low-probability punishment of corruption may be more preventive than most economists believe. Furthermore, rotation of officials may also be effective and should be introduced in high-risk areas. However, the question of the validity of such results for real economies remains.



## Corruption – a monitoring paradox

In the experiments reported by Frank and Schulze, punishment had no clear preventive effects and even increased the frequency of corrupt transactions.<sup>3</sup> Members of a student film club were asked to act on behalf of their club in awarding a contract that would result in funds being raised for the club. Acting as the procurement agent for their club, each student had to choose from 10 competing bids from different companies. The bids varied in how much the film club would have to pay the company for its service, and also in the size of bribe offered to the student by the company. The more the bidding company was paid, and the greater the bribe, the smaller the amount of funds raised for the club. To add realism, some of the students were then randomly selected to receive both a fixed amount and the bribe they accepted.

In one part of the experiment no punishments were meted out. In the second, the probability of being caught increased with the size of the bribe accepted. Strikingly, Frank and Schulze found that 9.4 per cent refused a bribe in the absence of punishment, whereas when they risked punishment only 0.9 per cent refused a bribe and the average bribe was also higher. How could an anti-corruption measure increase corruption in this way? Frank and Schulze argue that in their experiment an extrinsic incentive not to be corrupt (punishment) reduced an intrinsic motivation not to be corrupt (the students' loyalty to their club), and that the net effect was an increase in corruption.

The result should interest policy-makers. If an organisation starts to monitor its members in an effort to fight corruption, it may signal distrust and thereby cause corruption to increase. Again, however, the results may be tied to the specifics of the experiment; in this case to the positive attributes of the organisation in question: the film club was considered poor and was highly regarded by its student members.

## An experiment highlighting political corruption

The most ambitious experiment on corruption was reported by Azfar and Nelson in the *Global Corruption Report 2004*.<sup>4</sup> In their experiment there were decision-makers – 'politicians' – who could embezzle, 'attorney generals' who controlled them and voters who elected the politicians. In some cases the attorney generals were elected by the voters and in some cases they were appointed by the politicians. The probability of being caught for embezzlement varied systematically.

Azfar and Nelson found that an increased probability of being caught reduced the frequency of embezzlement. When caught, politicians were unlikely to be re-elected, so higher wages for the politicians also reduced embezzlement. Interestingly, elected attorney generals were more vigilant than appointed ones and made the politicians less corrupt. The experiment has been replicated with a few modifications among nursing students in Ethiopia, with roughly the same results.<sup>5</sup> The finding that elected attorney generals reduce corruption may well contrast with real-world observations. The explanation may lie in the design of the experiment, which prevented the attorney generals and politicians from colluding.

## Corruption and bureaucratic speed

González et al. conducted an experiment to study the effects of corruption on bureaucratic speed.<sup>6</sup> In the experiment a 'businessman' proposes a project that needs to be accepted by two different officials in order to go through. The officials have fixed salaries, but if the project is accepted, it generates a pie to be shared by all concerned. Both officials have veto power, but only one has delaying power. The size of the pie shrinks as time goes by. As expected, González et al. found that the larger the bribe to the official with delaying power, the faster the project was accepted.

While the experiment may not be the best one for the study of either bureaucratic delays or corruption, it does indicate that corruption in relation to queues and other forms of time-consuming bureaucratic behaviour is well suited to laboratory studies. Further experiments in this field may be particularly important given the extensive use of queues in public administration.

## Conclusion

The study of corruption by experimental methods is still in its infancy and has clear limitations. The results are not immediately valid for real-world situations. Nevertheless, by allowing systematic variation of potential explanatory variables, such as the probability of being discovered or the control of collusion, the laboratory may generate more precise and better grounded hypotheses about the causes and effects of corruption than we would otherwise be able to formulate. Moreover, the many ways the institutional setup can be controlled in the laboratory may give rise to new ideas about anti-corruption policy. Anti-corruption practitioners may in future have to watch the results from the laboratory.

## Notes

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2. K. Abbink, B. Ihrenbusch and E. Renner, 'An Experimental Bribery Game', *Journal of Law, Economics and Organization* (2002).
3. B. Frank and G. Schulze, 'Deterrence versus Intrinsic Motivation: Experimental Evidence on the Determinants of Corruptibility', *Economics of Governance* 2 (2003).
4. O. Azfar and W. R. Nelson, 'Transparency, Wages and the Separation of Powers: An Experimental Analysis of the Causes of Corruption', in Transparency International, *Global Corruption Report 2004* (London: Pluto Press, 2004).
5. A. Barr, M. Lindelöw and P. Serneels, *To Serve the Community or Oneself – The Public Servant's Dilemma*, World Bank Policy Research Working Paper No. 3187 (Washington, DC, 2004).
6. L. González, W. Güth and M.V. Levati, *Speeding Up Bureaucrats by Greasing Them – An Experimental Study*, Max Planck Institute for Research into Economic Systems, Papers on Strategic Interaction No. 5 (Jena, 2002).

## 19 International determinants of national corruption levels

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Anti-corruption norms and ideas have gained increasing international prominence over the past decade. The efforts of transnational networks (such as Transparency International) and international organisations (such as the IMF, OECD, UN and World Bank) have substantially strengthened and diffused international anti-corruption values and norms. Do these developments on the international plane have measurable effects on the level of corruption within countries?

We suggest that international factors affect a country's level of corruption through two principal channels. One channel is economic incentives, altering for various actors the costs and benefits of engaging in corrupt acts. The second is social integration and the transmission of values and norms; norms in international society delegitimise and stigmatise corruption.

On the economic side, cross-national trade and investment ties can constrain corruption by increasing its costs. Numerous previous studies have found that the more open a country is to international trade, the lower its corruption level tends to be. Corrupt practices can perpetuate themselves more easily in closed economies, cut off from competitive pressures. Our empirical analysis included a set of variables measuring economic integration: trade openness (total trade/GDP), gross foreign direct investment per capita, international air freight and air passengers per capita, and international telecommunications traffic per capita.

In addition, the interactions associated with trade and cross-border investment may also be mechanisms for the communication of ideas, values, and norms. Other loci for the transmission of international norms and values are international organisations (IOs). To measure a country's degree of international social integration, we focused on memberships in international organisations. This set of indicators included: the total number of memberships in international organisations; years of membership in the IMF; years of membership in the UN; and years of membership in the General Agreement on Tariffs and Trade and the WTO.

Our first step was to conduct a factor analysis of the independent variables. The factor analysis produced two important results. First, the variables clustered into three independent factors, which we labelled 'international economic integration', 'IO memberships', and 'development'.<sup>2</sup> This clustering strongly confirmed our expectation that the three sets of variables captured distinct and independent phenomena. Second,

we could use the factor scores as independent variables in the multiple regression, thus avoiding the problem that the variables in each cluster correlated strongly with each other.

In order to demonstrate the robustness of our results, we used two measures of the dependent variable (level of perceived corruption): the Transparency International Corruption Perceptions Index (CPI) and the Graft-CPIA data produced by researchers at the World Bank Institute.<sup>3</sup> For the CPI model, we averaged the independent variables for the period 1995–98 and the dependent variables for 1999–2002. The Graft-CPIA was only available for 1997–98, so we used data for the independent variables from 1996, again avoiding temporal overlap.<sup>4</sup>

The results of the regression analysis strongly supported our initial hypothesis.<sup>5</sup> Table 19.1 presents the principal findings.

Table 19.1: Regression analysis of corruption scores<sup>a</sup>

	CPI scores, 1999–2002		Graft-CPIA scores, 1997–98	
	B (S.E.)	Beta	B (S.E.)	Beta
Development (factor)	-.730*** (.188)	-.310	-.590*** (.120)	-.325
International economic integration (factor)	-.848*** (.134)	-.360	-.398*** (.106)	-.218
IO memberships (factor)	-.407** (.165)	-.173	-.411*** (.118)	-.219
Democracy score (Freedom House)	-.305*** (.108)	-.220	-.155*** (.032)	-.336
<i>Adjusted R<sup>2</sup></i>		.847		.796
<i>Number of cases</i>		97		153

\*\*p < .05, \*\*\*p < .01.

a. Dependent variable is the corruption score, inverted so that higher scores represent higher levels of perceived corruption. The Graft-CPIA scores have been converted to a 1–10 range. Ordinary least squares regression with pairwise deletion. *B* reports unstandardised coefficients, with standard errors below, in parentheses. *Beta* reports standardised coefficients.

Our most notable finding is that both of our international level variables – international economic integration and IO memberships – show a strongly significant negative relationship with corruption. In other words, countries that are more open to the international economy and participate more broadly in international organisations tend to have lower levels of perceived corruption. In order to make sure that our results were not being driven by the wealthy democracies, we ran the models again, omitting the OECD countries. The results did not change, increasing our confidence in the findings.

The policy implications of our study are clear. Support for democratisation, including competitive elections and a free press, may produce the ancillary benefit of constraining corruption.<sup>6</sup> Countries where corruption problems are intense would probably also

benefit from increasing international integration, in both the economic and the socio-political dimensions. International trade and investment tend to increase the costs of corruption. Encouraging greater participation in international organisations and in private sector networks might help speed the transmission of anti-corruption norms and ideas. Though our results must be taken with some caution, it does appear that the ongoing efforts of both official institutions and non-governmental networks do play a useful role in reducing corruption.

## Notes

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2. We included two measures of development: gross domestic product per capita, and literacy.
3. Using the CPI allows for comparisons with previous research that employed that index; utilising the Graft-CPIA data permits a much larger set of countries (153 rather than 97), thus avoiding errors due to sample bias (as small, less-developed countries are underrepresented in the CPI).
4. It is possible that in the expert surveys underlying both the CPI and the CPIA scores, experts rate more severely those countries that do not participate widely in international organisations. But because low corruption has never been a condition of membership in any international organisation (including the EU), we are confident that any effects of this potential bias are minimal.
5. Our independent variables were the three factor scores (international economic integration, IO memberships and development) plus a number of variables to control for other factors that have a possible relationship with corruption levels, including: British heritage; religious affiliation (percentage Protestant, Catholic, Muslim); democracy (Freedom House scores); and government economic intervention (Heritage Foundation scores).
6. The possibility of reverse causation (from higher levels of corruption to lower income levels, lower levels of participation in international economic exchange and lower levels of participation in international organisations) warrants some caution. However, previous research provides evidence that causation does run from low GDP per capita to corruption and from trade openness to corruption. With respect to memberships in IOs, none of those used in our measure has used low corruption as a condition of membership.

## 20 Corruption in transition economies

Cheryl Gray and James Anderson<sup>1</sup>

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*Anticorruption in Transition – A Contribution to the Policy Debate*, prepared in advance of the World Bank-IMF Annual Meetings in Prague in 2000, broke new ground in the quest to understand corruption and why it is so persistent in transition countries. A new report by Cheryl Gray, Joel Hellman and Randi Ryterman, *Anticorruption in Transition 2 (ACT-2)*, continues the tradition of bringing empirical evidence to bear on this question.<sup>2</sup>

Based on two rounds of the EBRD-World Bank *Business Environment and Enterprise Performance Survey (BEEPS)*, the report delves into the complexities of corruption in relations between business enterprises and the state. The two rounds of the BEEPS, covering altogether more than 10,000 firms in 27 countries,<sup>3</sup> provide an opportunity to examine not only the current state of corruption, but changes over time, the factors that influence levels and patterns of corruption, the areas of corruption on the wane and those posing new challenges. These surveys have provided information on how much and how often firms pay bribes and broader views of managers on how much of an obstacle corruption creates for business.

ACT-2 provides rigorous evidence that the prevalence and costs of some types of corruption are becoming more moderate in many countries in the region (see Figure 20.1). Managers' responses in almost half of the transition countries suggest a decline between 1999 and 2002 in the overall frequency of bribery and the impact of corruption on their business, a finding that is particularly important for this region. Nowhere has corruption been a bigger social and political issue than in the transition economies of Central and Eastern Europe and the former Soviet Union, where essential steps to privatise the economy and rewrite the rules of commerce after the demise of socialism were often accompanied by widespread corruption.

The report underscores, however, that there is no cause for complacency. Levels of corruption are still high in many countries and in many sectors of the economy. While bribes appear less prevalent for public services, for example, they appear more common than in 1999 for taxes and procurement. Nor is the news universally positive at the country level, as some indicators suggest a worsening of corruption in some countries, for example in South Eastern Europe. What is more, firms in most transition countries still view corruption as a formidable obstacle, among the most severe they face.

Encouragingly, the report finds that better policies and institutions can help to reduce corruption over the medium term. Many transition countries have undertaken policy and institutional reforms in recent years that have led to significant changes in the

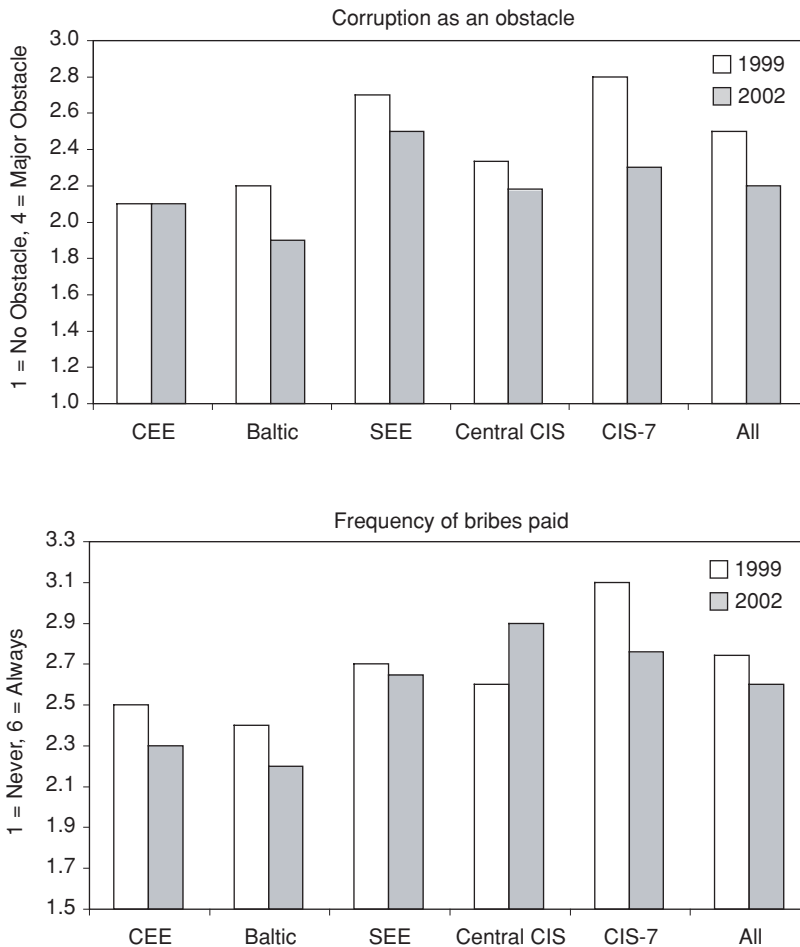


Figure 20.1: Ratings by sample firms of corruption as an obstacle and frequency of bribes paid, by sub-regional groupings 1999–2002

Sources: ACT-2 and BEEPS 1999 and 2002.

‘rules of the game’, helping to fill voids left with the abandonment of communism. These changes and the resulting declines in certain forms of corruption should in many cases prove sustainable, underscoring the critical importance of an active, credible and well-implemented reform process.

Alas, better policies cannot take all of the credit for the observed improvements. The report finds that firm-specific factors play a significant role, with smaller private firms typically paying more bribes and foreign firms fewer bribes than average. In addition, managerial ‘optimism’ plays an important role in influencing managers’ views on corruption, as much of the perceived reduction in corruption can be explained by more general perceptions of improvements in the business environment. However,

while managerial attitudes should be taken into account in analysing survey data, their influence on perceptions of corruption does not undermine the usefulness of corruption surveys. After all, attitudes and perceptions do affect important business decisions. Furthermore, the evidence described in ACT-2 shows real changes in levels of corruption even after controlling for managerial attitudes in the analysis.

ACT-1 argued that one of the most pernicious forms of corruption is ‘state capture’ – corruption influencing the formation of laws, rules and regulations. While relatively fewer firms complained of being affected by state capture in 2002 than three years earlier, relatively more firms said that they were engaged in such activities (see Figure 20.2). It appears that state capture is changing in some settings from a strategy of political influence practised by a small share of firms to a more widespread practice.

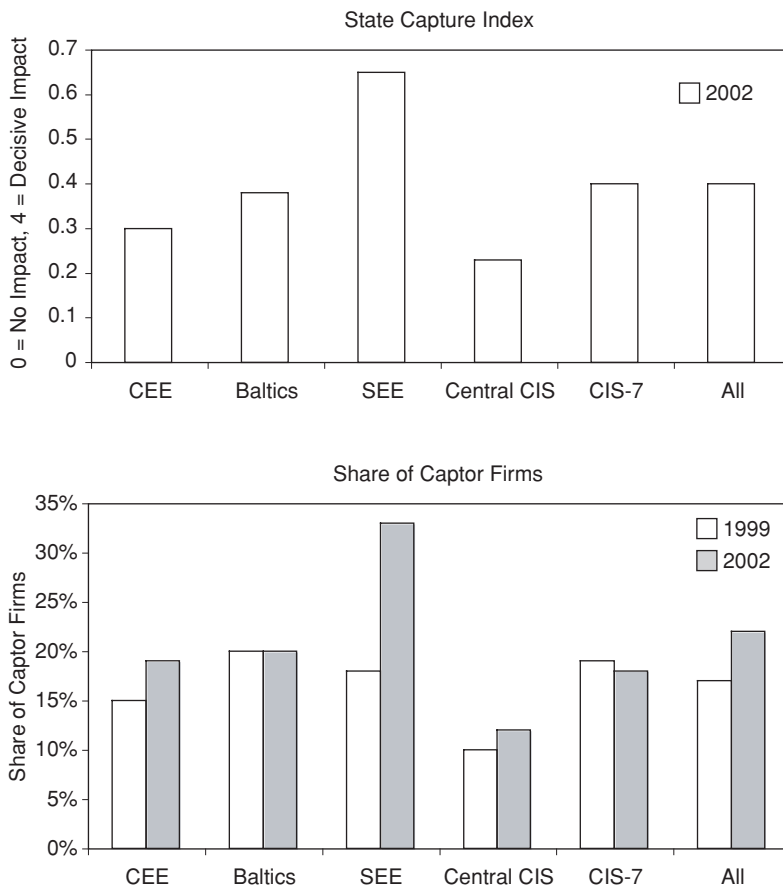


Figure 20.2: State Capture Index and share of captor firms for sample firms, by sub-regional groupings 2002

Sources: ACT-2 and BEEPS 1999 and 2002.



The best news from ACT-2 is that progress is possible. Countries can effectively fight corruption through reforms in public institutions and aggressive pursuit of anti-corruption policies, and detailed survey data can help to pinpoint priorities for action in individual countries. Most promising of all, there is now solid evidence that the reforms in the past few years in many transition countries have begun to show results. A third round of the BEEPS, tentatively planned for 2005, will help to verify if progress is continuing.

## Notes

1. Cheryl Gray is Sector Director, and James Anderson is Senior Economist, in the World Bank's Europe and Central Asia region, Poverty Reduction and Economic Management department.
2. Cheryl Gray, Joel Hellman and Randi Ryterman, *Anticorruption in Transition 2 – Corruption in Enterprise–State Interactions in Europe and Central Asia 1999–2002* (Washington, DC: World Bank, 2004). This and related publications are available at [www.worldbank.org/eca/governance](http://www.worldbank.org/eca/governance). An earlier version of this summary appeared in *World Finance Review*, Spring 2004.
3. The countries and their regional groupings are as follows: Central and Eastern Europe (CEE) includes the Czech Republic, Hungary, Poland, Slovenia and the Slovak Republic; the Baltic states include Estonia, Latvia and Lithuania; South Eastern Europe (SEE) includes Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the former Yugoslav Republic of Macedonia, Romania, and Serbia and Montenegro; Central Commonwealth of Independent States (CIS) includes Belarus, Kazakhstan, Russia and Ukraine; and the CIS-7 countries include Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan.

## 21 Transparency and accountability in the public sector in the Arab region

*UN Department of Economic and Social Affairs*<sup>1</sup>

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In 2002–03, the UN Department of Economic and Social Affairs (DESA) conducted a comparative study on public sector transparency and accountability in the Arab region. The study covered six countries: Jordan, Lebanon, Morocco, Sudan, Tunisia and Yemen.

The project aimed to assist participating countries to improve transparency and accountability in the public sector through comparing existing practices in financial, human resources and information management. The project was intended to identify good practices and gaps in them, as well as to assist in policy and programme choices and funding decisions. The participating countries were chosen to represent the diversity of the Arab region, based on consultations between the UN and governments, so that other countries in the region could also benefit from the study.

The analytical framework was a checklist of institutions, rules and practices, which were assessed through a combination of document analysis and expert interviews. Knowledgeable national consultants prepared country case studies, analysed documents and carried out over 400 expert interviews,<sup>2</sup> using DESA questionnaires requesting statistical data, administrative information and expert perceptions of daily practices. DESA then constructed a database and wrote the final report.

In order to ensure reliability, as well as the participation of regional and national stakeholders in the research process, the project was assisted by a Project Advisory Group. This group was composed of representatives of the Arab Organization of Supreme Audit Institutions, the Arab Administrative Development Organization, the Arab Council for Economic Unity, the Federation of Arab Journalists, the Arab Social Science Research Network, the League of Arab States and the Union of Arab Banks.

Selected findings are presented in Table 21.1. The main findings were:

- Access to data on the structure and employment of the public sector is highly limited in many countries.
- Among the public sector areas examined, financial management is the most developed. Good practices in human resources management and the relatively newly-introduced information management (both in and outside the public sector) are less well implemented.

- Although all three areas examined (financial management, human resources management and information management) are interrelated and important to transparency and accountability, to make quick gains the countries should target information management reforms and encourage freer information flows within and outside the public sector.

Table 21.1: Breakdown of main findings

Financial management:	Human resources management:	Information management:
<ul style="list-style-type: none"> <li>• Although the legislative and administrative framework for financial transactions is in place, general financial controls are not highly visible.</li> <li>• Many improvements have been made in revenue collection practices, but the recourse to effective appeals procedures is less satisfactory.</li> <li>• Independent verifications of public payroll amounts and reconciliations take place consistently, but not the physical identification of personnel.</li> <li>• Public competitive bidding for large contracts consistently does not lead to the best bids winning the contracts. Making the evaluation of bids more transparent by consistently stating criteria and keeping <i>all</i> records may help.</li> <li>• Regarding payments, verifications of goods and services and computations are made, but payments can be delayed and overspending occurs frequently, without being adequately addressed.</li> <li>• The role of internal and external audit needs to be reinforced through greater independence of operations and better-trained staff.</li> </ul>	<ul style="list-style-type: none"> <li>• Officially stated core values (most frequently defined as neutrality, legality, fairness or equality) are enshrined in pertinent laws, but are not well communicated or demonstrated by the leadership.</li> <li>• Standards of conduct are not systematically enforced.</li> <li>• Recruitment and promotions are not based primarily on merit or sufficiently protected from political interference.</li> <li>• Only three countries reported conflict-of-interest disclosure requirements, and no country reported mandatory reporting of wrongdoing or protection for whistleblowers.</li> <li>• Investigations, apart from criminal investigations carried out by the police, are not seen to be independent.</li> <li>• Disciplinary procedures are clearly set out, but are not consistently applied.</li> </ul>	<ul style="list-style-type: none"> <li>• The legislative and administrative framework for managing information is in its early stages, despite the recent introduction or updating of laws.</li> <li>• There are few independent and alternative sources of reporting on public information, apart from government-sponsored sources.</li> <li>• Public consultations have been limited and confined to traditional forms (for example, advisory council).</li> <li>• Record keeping in the public sector is not of high quality.</li> <li>• Investigative journalism is underdeveloped.</li> <li>• Although civil society organisations generally have freedom of association in the participating countries in the study, they have only a limited role in civic education and in monitoring public sector performance.</li> </ul>

These findings are consistent with other recent research carried out in the Arab region. In its *Arab Human Development Reports 2003–04* the UNDP identifies a knowledge deficit among the development challenges, and advocates building a knowledge society. In its regional report, the World Bank notes striking weaknesses in external accountability, leading to a governance gap between this and other regions.<sup>3</sup>

Project documents (including a comprehensive regional overview and individual country case studies) and a database of survey data are available at: [www.unpan.org/technical\\_highlights-Transparency-Arabstates.asp](http://www.unpan.org/technical_highlights-Transparency-Arabstates.asp)

## Notes

1. Contact Guido Bertucci, Director ([bertucci@un.org](mailto:bertucci@un.org)) or Elia Yi Armstrong, Public Administration Officer ([armstronge@un.org](mailto:armstronge@un.org)) in the Division for Public Administration and Development Management, Department of Economic and Social Affairs, UN.
2. The figure includes some multiple interviews with individual experts.
3. World Bank, 'Better Governance for Development in the Middle East and North Africa: Enhancing Inclusiveness and Accountability', *MENA Development Report* (Washington, DC: World Bank, 2003).

## 22 Latin American Index of Budget Transparency

*Helena Hofbauer*<sup>1</sup>

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Several indexes have recently emerged which attempt to measure government transparency. Transparency requires the reasons for all governmental and administrative decisions, as well as the costs and resources committed in applying these decisions, to be accessible, clear and communicated to the public. Transparency in public spending is particularly important given the centrality of the budget in government policy. Budget analysis allows evaluation of who truly wins and loses in the distribution of public resources. In addition, it reveals the degree of efficiency and effectiveness of public spending, by revealing potential cases of corruption. Analysis of the degree of transparency of the budget process contributes to strengthening democratic institutions and consolidating the rule of law.

In 2001 eight organisations from five Latin American countries developed the first edition of the Latin American Index of Budget Transparency. This measurement and evaluation tool was replicated in 2003 in 10 countries: Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Mexico, Nicaragua and Peru. The study was composed of an analysis of the legal framework regulating the budget process, a fact-based questionnaire, and a perception survey answered by experts. Experts were selected using comparable criteria in all countries and included: members of the legislature's budget committee, academics who have published on budgetary issues, NGOs working on the topic, and journalists covering the issue. A total of 996 people were identified (nearly 100 per country), of whom 63 per cent answered the survey.<sup>2</sup>

Experts were asked to rate the degree of budget transparency both at the beginning of the survey and at the end. In each case their perceptions were averaged on a scale from 1 to 100, with 100 being highly transparent. As Figure 22.1 illustrates, most of the countries received overall ratings of between 40 and 50 points. Chile had the highest rating, 61.7 points, while Ecuador had the lowest, 30.6 points.

Respondents were also asked to evaluate a series of particular aspects of the budget process in their countries, and their responses were combined into 14 categories. Each of these categories offers a perspective on access to budget information, the willingness of officials to seek input from citizens on budgeting decisions, and the credibility of institutions such as internal and external auditors, among others. The figures below record the proportion of respondents who gave a positive response ('agree' or 'totally agree') to a number of statements for which agreement implies high transparency.

As reported in Table 22.1, citizen participation in the budget process received extremely low ratings across the region. Brazil, the highest-rated country in this category, was

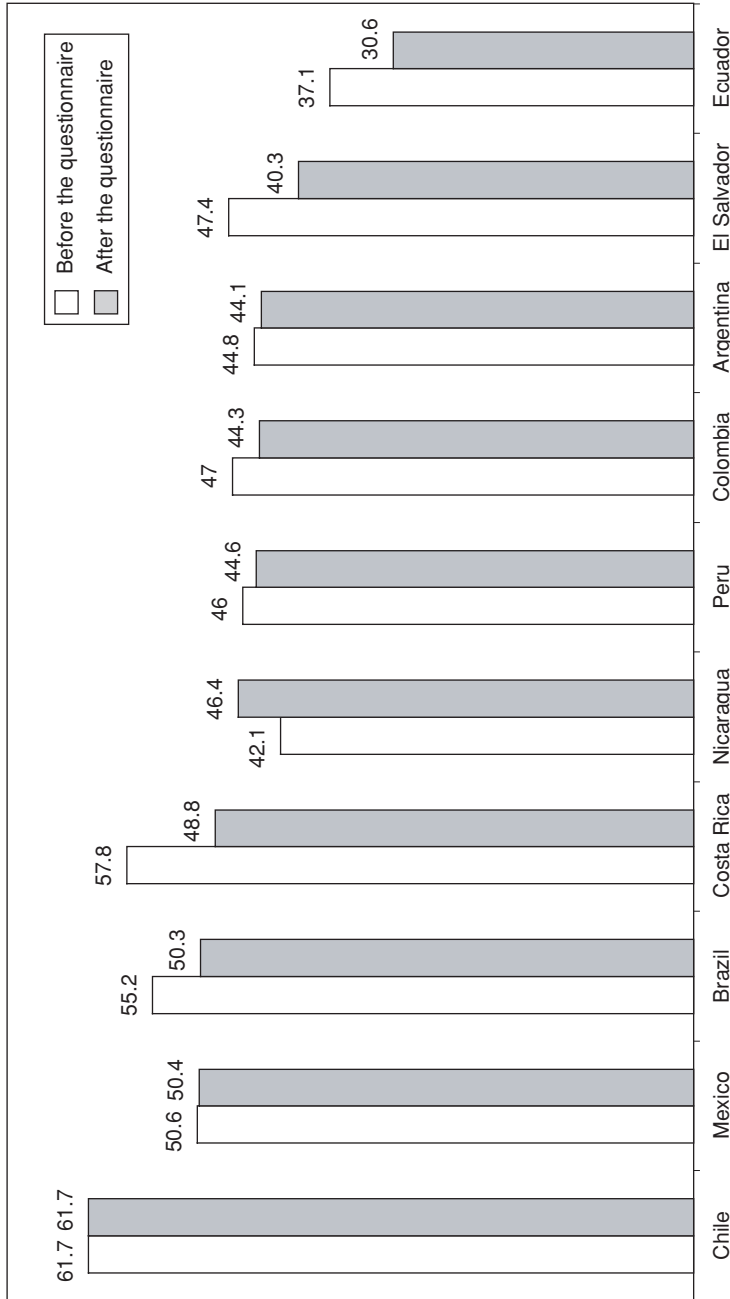


Figure 22.1: General Index of Budget Transparency

rated positively by only 20 per cent of respondents. Ecuador, El Salvador, Peru, and Costa Rica received positive ratings below 10 per cent.

Table 22.1: Evaluation of selected aspects of budget transparency (percentage of positive responses)

	Citizen participation in the budget	Evaluation of internal comptroller	Information on macroeconomic budget criteria
Argentina	11	27	49
Brazil	20	33	53
Chile	14	33	76
Colombia	15	4	43
Costa Rica	8	46	47
Ecuador	3	0	36
El Salvador	5	n/a	33
Mexico	16	18	64
Nicaragua	12	11	24
Peru	7	6	58

The credibility of internal auditors also received markedly few positive ratings. Not a single respondent in Ecuador believed internal auditing to be credible, while positive ratings for Colombia and Peru were only 4 and 6 per cent, respectively. Even Costa Rica's 46 per cent rating, the region's highest, does not suggest an overwhelming level of confidence in internal auditors.

The category with the most positive responses was the availability and quality of macroeconomic information. Leaders in this category were Chile (76 per cent), Mexico (64 per cent) and Peru (58 per cent).

On the basis of the categories identified in the perception survey, general recommendations for each country were drawn from the study of the legal framework and the fact-based questionnaire. Enhancing budget transparency in the ten countries will involve such steps as:

- creating opportunities for public input during the legislature's consideration of the budget
- enhancing the authority and capacity of the internal auditor
- disseminating budgetary information more quickly, more frequently and in greater detail.

Reactions to the study in each of the participating countries varied: in Argentina, Congress revised the study and included it in its formal agenda; in Chile, President Ricardo Lagos reacted to the positive ranking of the country; several official institutions commented and enquired about the study in Costa Rica, while the internal comptroller analysed its results in Mexico. In all the countries, the index has helped to shed light on

a hidden topic, to evaluate the extent to which access to information laws are working, and to strengthen the arguments of independent groups assessing the budget.

## Notes

1. Helena Hofbauer is the executive director of Fundar, Mexico.
2. The study is available in English and Spanish at [www.internationalbudget.org/themes/BudTrans/LA03.htm](http://www.internationalbudget.org/themes/BudTrans/LA03.htm). It was coordinated by Fundar, a Mexican think tank, which is also responsible for integrating the third edition of the study, to be carried out in 2005. For more information, contact Helena Hofbauer or Briseida Lavielle at [fundar@fundar.org.mx](mailto:fundar@fundar.org.mx)



## 23 The Latin American Public Opinion Project: corruption victimisation, 2004

Mitchell A. Seligson<sup>1</sup>

The *Global Corruption Report 2004* contained a chapter reporting on surveys measuring corruption victimisation in several Latin American countries. In 2004 those surveys were repeated in nine countries in the region and were carried out by the Latin American Public Opinion Project, formerly of the University of Pittsburgh and now of Vanderbilt University, with funding from the United States Agency for International Development. In this report on the surveys, the focus is on corruption victimisation in the workplace and among users of four popular services: health, the courts, schools and local government. The studies were all conducted using face-to-face interviews, with nationally representative samples of about 1,500 respondents in each country except Ecuador, where 3,000 people were interviewed.<sup>2</sup>

For this group of 15,000 Latin Americans, it was disappointing to see that corruption victimisation was greatest in the school system, among respondents who had children in school during the year covered by the survey (see Figure 23.1).<sup>3</sup> One likes to think of school systems as largely immune from the more sordid aspects of life that adults

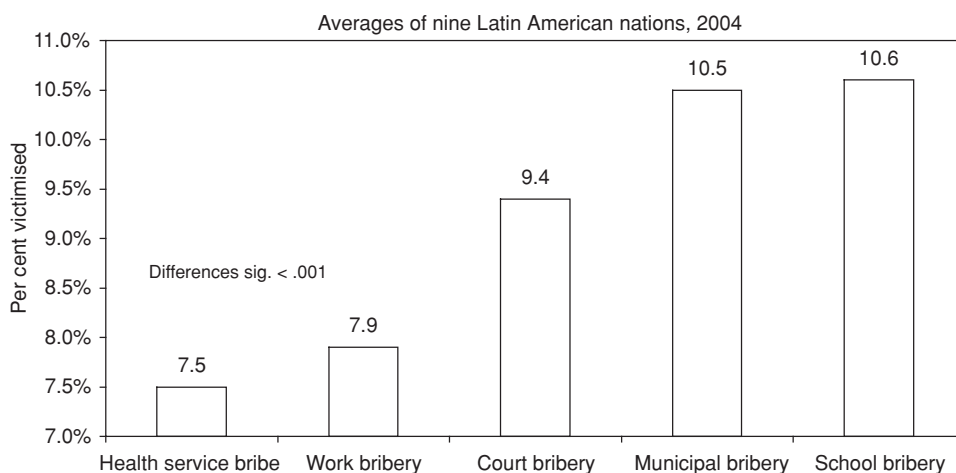


Figure 23.1: Reported bribery victimisation at work and among service users

Source: Latin American Public Opinion Project, Vanderbilt University.

must face, but in Latin America this is clearly not the case. In fact, since schools are a major transmission mechanism of cultural values, the youth of these countries are being socialised into systems in which corruption is endemic.

These overall results hide sharp differences among the countries in the sample. Table 23.1 shows that whereas in Colombia ‘only’ one in 20 parents who had children in school reported paying bribes in the year prior to the study, nearly one in four parents in Ecuador faced this problem in their schools. School-related corruption is also a serious problem for parents in other countries in the region, especially Mexico and Honduras.

Table 23.1: Percentage of corruption victims among users of services, by country<sup>a</sup>

	School system	Local government	Courts
Colombia	5.5	5.3	5.1
Costa Rica	8.6	5.6	2.7
Ecuador	23.8	15.0	20.5
El Salvador	7.3	5.3	4.0
Guatemala	8.7	8.2	5.0
Honduras	11.3	10.2	6.6
Mexico	12.8	20.8	13.5
Nicaragua	9.5	12.9	15.5
Panama	6.7	9.3	6.5

a. Differences sig. < .001.

Corruption victimisation among those who carried out some transaction with local municipal governments (for example, asking for a permit) was commonplace, as shown in Table 23.1. In Mexico, 20.8 per cent of users of local government services reported having to pay a bribe, compared to Colombia, Guatemala and Costa Rica where the victimisation rate was only one-quarter as high.

Although the court system is frequently discussed as an important venue of corrupt practices, our data show that, on average, corruption is less frequent there than among other public services. In Costa Rica, for example, such corruption is rather uncommon (only 2.7 per cent of court users). In contrast, in its neighbour to the north, Nicaragua, court-based corruption is over five times more common.

What stands out in this analysis is not only the frequency of corruption victimisation among users of public services, but the wide variation among the countries studied and the variation among distinct venues for corrupt practices. Mexico and Ecuador stand apart from the other countries as being far more subject to corruption than the others, while overall the school system and local government are especially vulnerable to the penetration of corrupt practices. These results should help target public policy anti-corruption efforts in these countries, demonstrating where the problems are more serious and where the problem is more under control.

## Notes

1. Mitchell A. Seligson is the centennial professor of political science, Vanderbilt University, United States. Contact: m.seligson@vanderbilt.edu
2. Since the Ecuador sample is twice as large as the others, the responses for this country are weighted by .5 in order not to distort the overall means for the nine-country sample.
3. While the overall results are statistically significant for the combined sample, the differences among the forms of corruption measured are between health service bribes and work bribery on the one hand, and the remaining three categories on the other. Approximately half of the respondents in each of the countries had experience with corruption in the health services, work and schools, whereas about one-third had such experiences with municipal governments and an average of about 15 per cent in the courts. The lower frequency of corruption victimisation in these last two categories widens the confidence interval of the estimates compared to the other categories.