

3 Country Level Scan for Corruption Risk

In assessing corruption risk in the electricity sector, it is useful to start by looking at the country as a whole. A picture of the quality of governance and corruption at a national level can indicate whether corruption is likely to be a serious problem in the electricity sector. In other words, perceptions of corruption at the country level will often set initial assumptions—or “priors”—for sector level corruption risks.

Various development banks and non-governmental organizations (NGOs) have developed tools to assess corruption risks and how to tackle corruption (Box 3.1).

Box 3.1: Country Assistance Strategies and Corruption Risks

World Bank CASs increasingly include information on corruption risks at a country level. For instance, the latest CAS for Indonesia includes sections dedicated to “The Special Problem of Corruption” and “Managing Risks”. Because of Indonesia’s high country-wide corruption risk, the CAS translates these risks into a requirement for specific anti-corruption strategies for each project.

CASs can draw attention to high levels of corruption risk in a given country, and even to specific risk areas. If the relevant CAS indicates high country-level corruption risks, it would be sensible to assume that the electricity sector is also at risk of corruption.

World Bank CASs are available from the World Bank web site (go to <http://worldbank.org/>, select the “Countries” section, and click on the particular country of interest).

Other agencies—such as the Asian Development Bank (ADB) or Inter-American Development Bank (IDB)—also have “country strategy” documents that cover these issues.

Development institutions and NGOs have developed country-level governance and corruption indicators that are easily accessible (see Source List 3.1 beginning on 26). As Box 3.2 explains, there is some evidence suggesting that national level indicators of corruption are correlated with indicators of electricity utility inefficiency.

Box 3.2: Correlation of Country Corruption and Electricity Utility Inefficiency

A study of 80 electricity distribution firms from 13 Latin American countries for the years 1994 to 2001 found that more perceived corruption in the country is strongly associated with more inefficient firms, in the sense that they employ more (labor) inputs to produce a given level of output. The study also applies a model where efficiency is measured in terms of operation and maintenance expenditures, rather than in terms of labor. The significant negative association between perceived corruption and efficiency persists.

The economic magnitude of the effect is large. For example, if the median country in the sample (Brazil) had the corruption level of the country perceived to be least corrupt in the sample (Costa Rica), the firms in the former country would use 18 percent fewer workers.

Source: Dal Bó, R. and Rossi, M. (2006) “*Corruption and Inefficiency: Theory and Evidence from Electric Utilities*”, University of California at Berkeley

That said, the interpretation of national indicators needs to be treated with care. Many country-level indicators and surveys are not based on objective measures. Transparency International's Corruption Perception Index—the best known of the country level surveys—is often criticized because it is perception based, and is not based on objective or observable data.

Box 3.3: Changing Political Economy and Changing Perceptions in Indonesia

Corruption perceptions (as recorded by the Political Risk Services Corruption Assessment) rose in Indonesia with the advent of democratic elections on June 7, 1999 and the demise of the Suharto government. The paradox here is acute: the Suharto regime was widely regarded as among the most corrupt in the world, and no observer doubts that the absolute value of bribes going to the government has fallen precipitously, despite worsening corruption perceptions.

One explanation for this paradox is that corrupt transactions became less credible after Suharto's departure, suggesting that voice and accountability (at least as generated by new and imperfect democracies) may also diverge from government credibility. Under Suharto, businesses believed that if they paid a \$1,000,000 bribe they would get a high return on their investment because the underlying agreement was credible (in another governance indicator term, political stability was high). They could be confident that they would, in fact, receive the rents conferred by the monopoly or regulatory privilege provided in exchange for the bribe. The political uncertainty of the post-Suharto era lowered the credibility of these transactions. Consequently, even if the bribe-price of entry or regulatory privileges fell since the end of the Suharto regime, the effective value of the privileges may have fallen by even more. Although total corrupt payments may have fallen, the perceived damage of corruption might have risen.

Source: Keefer, P. (2004). "A review of the political economy of governance: From property rights to voice," World Bank Policy Research Working Paper 3315, May 2004

The link between national corruption perceptions, sector-specific corruption perceptions, and sector-specific corruption realities is also somewhat obscure. The evidence we have suggests a weak relationship between national level perception measures and survey evidence recording either petty corruption in utility provision or grand corruption in construction. In turn, evidence on petty corruption appears to be weakly related to sector structure and other elements we would expect to influence the extent of corruption.⁷

Measures of accountability and the quality of governance are often subjective, and there is always a risk that the formal structures that can be observed by outsiders do not reflect real practice.

Source List 3.1 summarizes some of the useful country indicators, as well as articles that discuss their limitations.

⁷ Kenny, Charles (forthcoming) "Is There an Anticorruption Agenda in Utilities?", *Utilities Policy*, available now from: <http://charleskenny.blogs.com/weblog/files/up.pdf>

Source List 3.1: Country Level Governance Indicators and their Limitations

Source	Description
<i>Useful country-level indicators</i>	
<p>Cavill, S. and Sohail, M (not dated) “A note on Research Methodology for Combating Corruption”</p>	<p>This document describes a research methodology that can be used for custom surveys of corruption in infrastructure. It outlines the research process, and describes research techniques for detecting and assessing corruption including interviews, informal discussion, and focus groups. The note provides examples of the following research instruments: corruption diary; observation checklist, guide for focus group discussions, semi-structured interviews for service providers, and a household questionnaire.</p>
<p>Kalnins, V. (2005) “Assessing Trends in Corruption and Impact of Anti-Corruption Measures”, the Anti-Corruption Network for Transition Economies, OECD</p>	<p>This paper discusses various methods for detecting and measuring corruption, and both a national and provider level. These include “direct” measures of corruption (for instance, perception, experience, beliefs and values, service and sector assessments, and governance indicators) as well as “indirect” measures of corruption (such as risk assessment, checklists, statistics and formal reporting, analysis of governments’ implementation of anticorruption measures). The document includes a number of useful real world examples.</p>
<p>Political Risk Services Group, International Country Risk Guide</p>	<p>The Guide includes a corruption index that focuses on political-level corruption, for over 100 countries, with a long time series.⁷</p>
<p>Transparency International, Corruption Perception Index</p>	<p>The most well-known of the various corruption surveys and indicators is Transparency International’s Corruption Perception Index (CPI). The CPI ranks 180 countries by their perceived levels of corruption, as determined by opinion surveys. The CPI combines multiple surveys from different institutional sources, allowing it to draw on a larger pool of respondents. Like other perception surveys, the CPI cannot precisely identify corruption with any degree of precision, but rather serves as a useful “red flag” that corruption may be occurring.⁸</p>
<p>World Bank, Country Policy and Institutional Assessment indicators</p>	<p>Country Policy and Institutional Assessment (CPIA) rates countries that are eligible for IDA-funds against 16 criteria under four headings. The fourth heading, “public sector management and institutions”, includes the criterion of “transparency, accountability, and corruption in the public sector”. This assesses “the extent to which the executive can be held accountable for its use of funds and the results of its actions by the electorate and by legislature and judiciary, and the extent to which public employees within the executive are required to account for the use of resources, administrative decisions, and results obtained. Both levels of accountability are enhanced by transparency in decision-making, public audit institutions, access to relevant and timely information, and public and media scrutiny”. A low accountability score might indicate a higher susceptibility to corruption, and certainly suggests poor governance generally.⁹</p>

Source	Description
United Nations Development Programme (not dated) “Sources for Democratic Governance Indicators”	This document was prepared for governance practitioners in the United Nations Development Program’s Country offices, and can be used by anyone working on governance and development issues. It provides a user-friendly overview of internet-accessible governance indicators and what each of these means. ¹⁰
World Bank and International Finance Corporation, “Doing Business” & “Enterprise Surveys”	The “Doing Business” surveys provide objective measures of business regulations and their enforcement across 178 countries and selected cities at the sub-national level. The economies are then ranked on the ease of doing business (from 1 to 178, with 1 being the best). In 2009, both “infrastructure” and “transparency” are expected to be added as topics. The “Doing Business” results are useful for thinking about corruption risks, since the red-tape and bureaucratic discretion that make doing business difficult are often breeding grounds for corruption. ¹¹ The World Bank’s “Enterprise Survey” is a cross-country business survey that analyzes key investment climate data in emerging markets and provides indicators on the quality of the business environment. This includes a number of specific indicators of corruption, such as the percentage of firms expected to offer a payment to get things done, or to secure a government contract; and percentage of firms who see corruption as a major obstacle for their business. Fifty-five country profiles are available on the “Enterprise Surveys” website. ¹²
World Bank Institute, Worldwide Governance Indicators	The WBI’s Worldwide Governance Indicators report aggregate and individual governance indicators for 112 countries, based on six dimensions of governance: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption. These are based on the perceptions or views of enterprises and citizen and expert survey respondents in both developed and developing countries, and can be useful red flags that corruption may be occurring. ¹³
World Bank and EBRD, Business Environment and Enterprise Performance Survey	The Business Environment and Enterprise Performance Survey (BEEPS), developed jointly by the World Bank and the European Bank for Reconstruction and Development, is a survey of over 4000 firms in 22 transition countries conducted since 1999-2000 that examines a wide range of interactions between firms and the state. Based on face-to-face interviews with firm managers and owners, BEEPS is designed to generate comparative measurements in such areas as corruption, state capture, lobbying, and the quality of the business environment, which can then be related to specific firm characteristics and firm performance. ¹⁴

Source	Description
<i>Limitations of country-level indicators</i>	
<p>Arndt, C. and Oman, C. (2006) <i>“Uses and Abuses of Governance Indicators”</i>, OECD Development Centre</p>	<p>Chapter 4 analyses the World Bank Institute’s World Governance Indicators. It outlines four core problems with these indicators:</p> <ol style="list-style-type: none"> 1. Likelihood of correlation of errors among the 37 sources from which the WGI is constructed limits its statistical legitimacy 2. Unable to compare over time 3. Biased sample 4. Insufficient transparency.¹⁵
<p>Galtung, Fredrik (2005) <i>“Measuring the Immeasurable: Boundaries and Function of (Macro) Corruption Indices”</i></p>	<p>Galtung reviews and critiques Transparency International’s Corruption Perception Index. He argues that the failings of the Corruption Perception Index can be grouped under six general headings:</p> <ul style="list-style-type: none"> ▪ Only punishing the takers, not the givers or abettors ▪ Irregular and uncontrolled country coverage ▪ Biased sample: more than 90 percent of the world is missing ▪ Imprecise and sometimes ignorant sources ▪ Too narrow and imprecise a definition of corruption ▪ Does not measure trends and so cannot reward genuine reformers.
<p>Kenny, C. (2007) <i>“Construction, Corruption, and Developing Countries”</i> World Bank Policy Research Working Paper 4271</p>	<p>Kenny uses country-level indicators (like Transparency International’s CPI and the Business Environment and Enterprise Performance Survey) to examine corruption in the construction industry. He describes variations in measures of corruption at the country and sector level, concluding that “general country level corruption indicators may be poor tools to uncover particularly corrupt construction industries, but also that corruption within the industry may differ markedly by sub-sector or location within a country”.</p>
<p>Kenny, C. (2006) <i>“Measuring and reducing the Impact of Corruption in Infrastructure”</i>, World Bank Policy Research Working Paper 4099</p>	<p>This paper investigates the different tools or approaches that are used to identify and measure corruption. Kenny argues that perception measures are not good indicators of corruption in the infrastructure sector, mainly because these perception surveys mostly measure petty, not grand, corruption. Kenny argues that survey evidence is more reliable than perception measures, but still not reliable enough to guide policy recommendations. The paper then recommends some priorities for infrastructure corruption research, in particular regarding disaggregated and actionable indicators of weak governance and corruption.¹⁶</p>
<p>Soreide, T. (2006) <i>“Is it wrong to rank? A critical assessment of corruption indices”</i>, CMI Working Paper</p>	<p>Provides a useful discussion of information about corruption, and of the limitations of measures such as the Corruption Perception Index (for instance, the expectation that perceptions are reliable).</p>

Source	Description
<p>UNDP (2007) <i><u>"Governance Indicators: A User's Guide"</u></i></p>	<p>Guide to understanding assumptions behind indicators, how data is collected, and how to best use data for various purposes. On how to use the data, the guide recommends three "golden rules":</p> <ol style="list-style-type: none"> 1. Use a range of indicators 2. Use an indicator as a first question—not a last 3. Understand the indicator before you use it.¹⁷