

**Governance and Corruption:
*New empirical tools & Power of Data
challenging conventional wisdom?***

**A contribution to debate and to strategy development
on good Governance and Anti-Corruption**

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*Note: the work presented here reflects collaborative efforts among many at the World Bank (incl. WBI), and with outside partners and supported by donor agencies. The work on State Capture is a joint project with Joel Hellman. 1

Governance: Five Issues + one Challenge

- 1. Corruption = Poor Governance**
- 2. Corruption and Governance: Unmeasurable**
- 3. Strategy: Focus on the Executive, Bureaucratic Bribery; PSM ‘menu’; high civil service pay**
- 4. Implementation: -- Anti-Corruption Agency;
-- adoption of international and domestic Laws;
-- internal rules in gov’t; --ethic codes of conduct;
-- rely on Foreign Direct Investment (FDI)**
- 5. Role of Donors: raise awareness; support above**

Challenge: The 5 Issues are myths?

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Broadening Analytical Framework: Governance: A working definition

- *Governance is the process and institutions by which authority in a country is exercised:*
 - (1) the process by which governments are selected, held accountable, monitored, and replaced;
 - (2) the capacity of governments to manage resources efficiently, and to formulate, implement, and enforce sound policies and regulations; and,
 - (3) the respect for the institutions that govern economic and social interactions among them

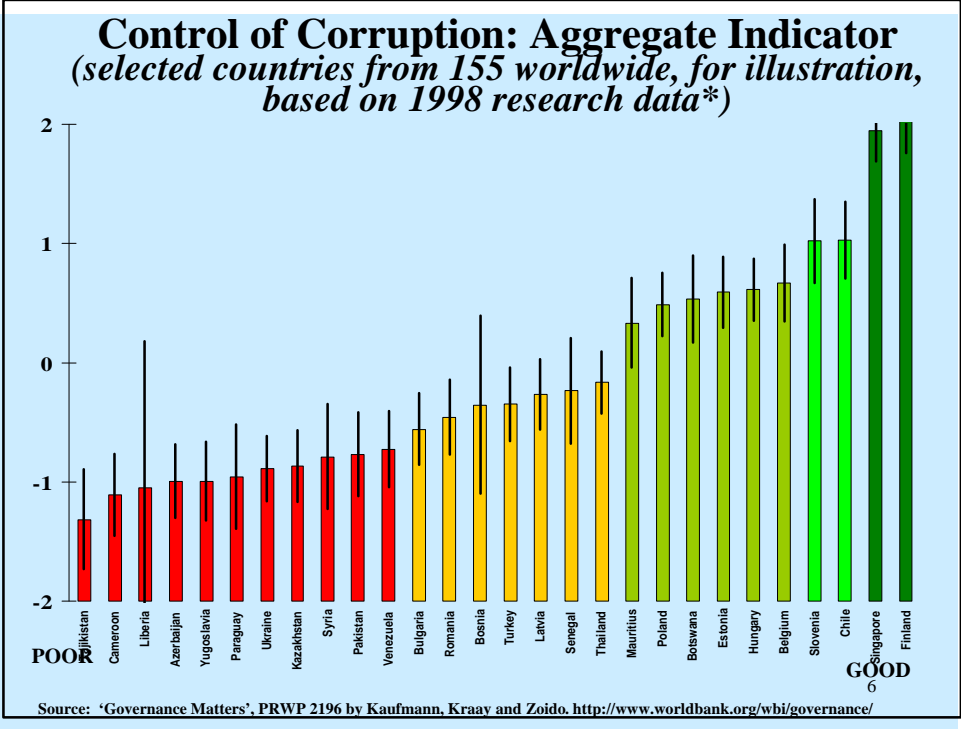
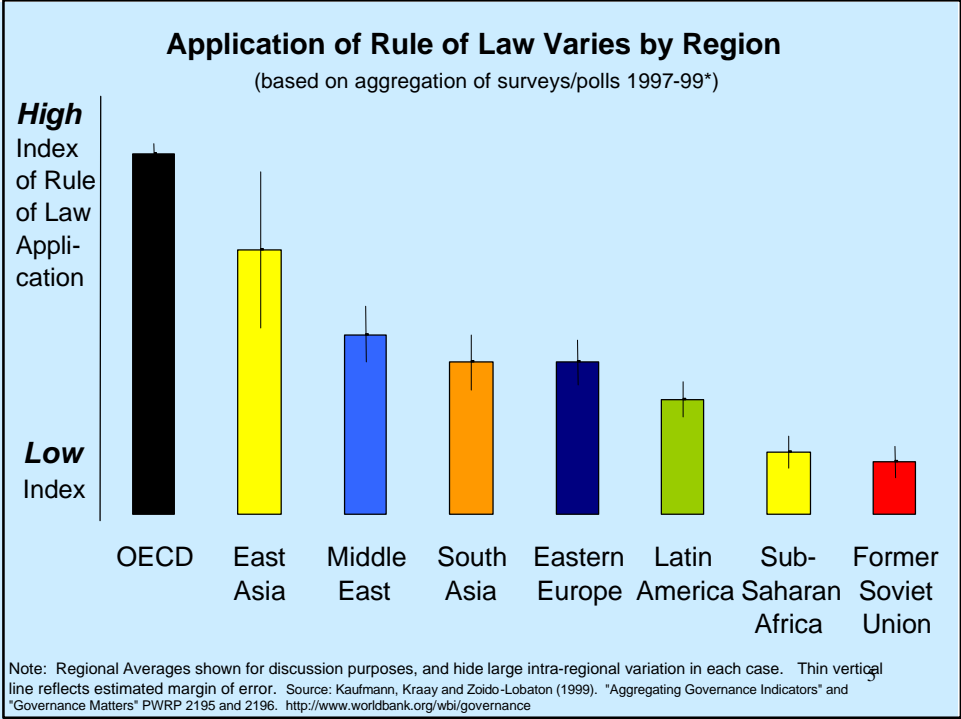
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Operationalizing Governance: Unbundling its Definition into Components that can be measured, analyzed, and worked on

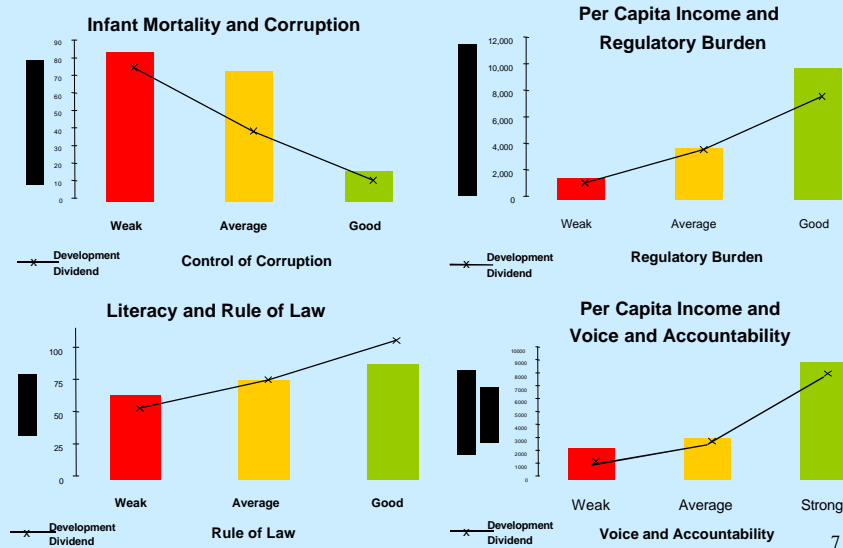
*Each of the 3 main components of Governance
Definition is unbundled into 2 subcomponents:*

- **Voice and Accountability**
- **Political Stability and lack of Violence**
- **Quality Regulatory Framework**
- **Government Effectiveness**
- **Control of Corruption**
- **Rule of Law**

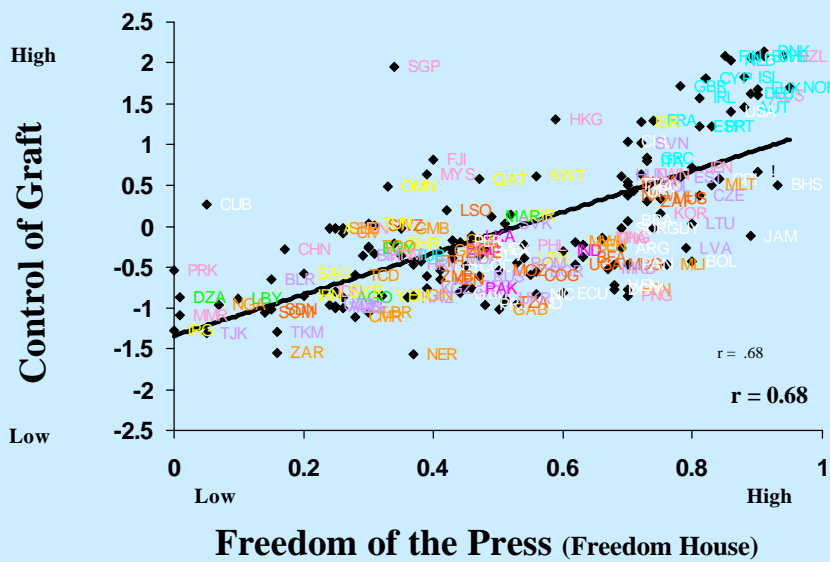
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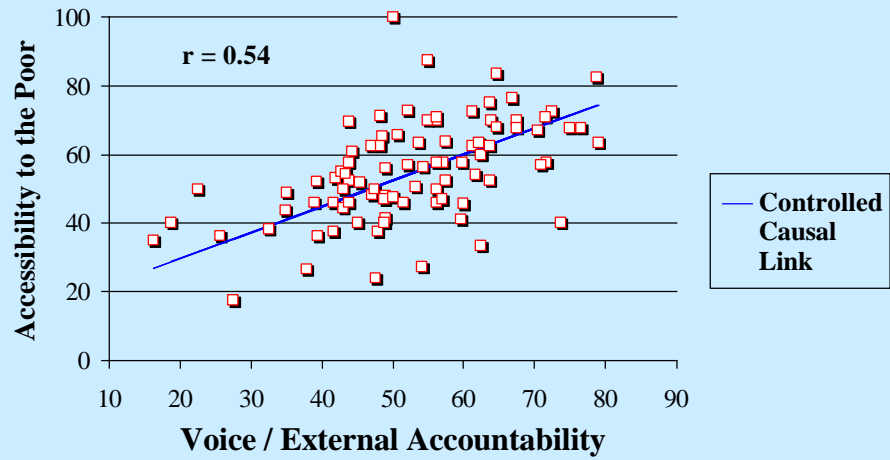
The 'Dividend' of Good Governance



Control of Graft and Freedom of the Press



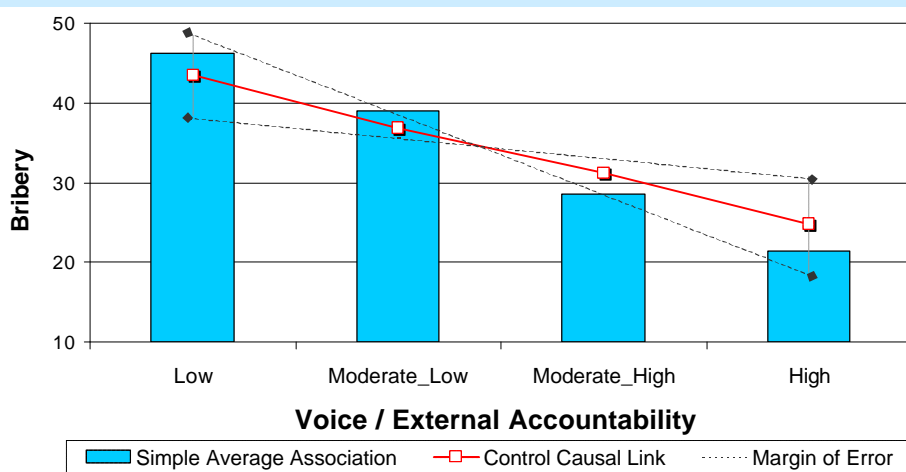
Citizen Voice Improves Accessibility of Public Services to the Poor



Based on Public Officials Survey. The sample of institutions includes 44 national, departmental, and municipal agencies which are a priori anticipated to be accessible to the poor

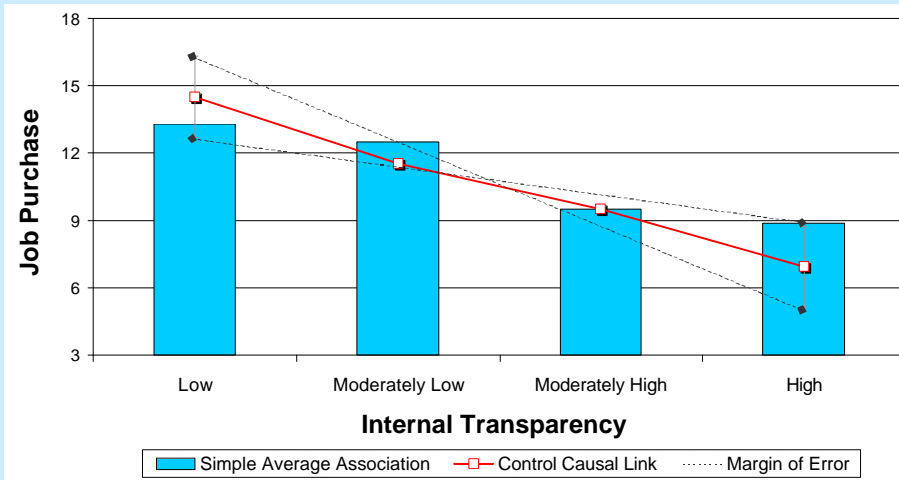
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Citizen Voice Helps Control Bribery in LAC country



Based on 90 national, departmental, and municipal agencies covered in the Bolivia Public Officials Survey.¹⁰

Transparency within Government Agencies Prevents Purchase of Public Positions



Based on 90 national, departmental, and municipal agencies covered in the Public Officials Survey.

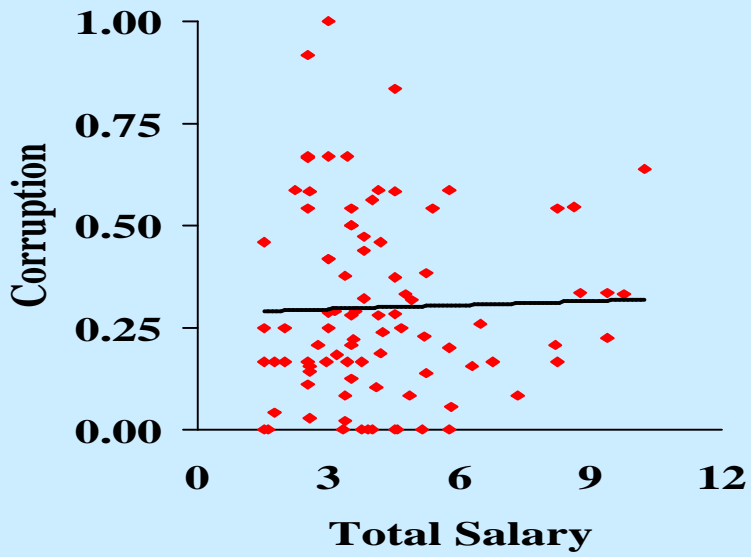
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Which Governance Characteristics Matter for Agency Performance? Results from Bolivia Public Officials

Governance Determinant of Performance	Simple Unconditional Relationship	Conditional/Causal Relationship
'Ethical Values'	0	0
Agency Autonomy	**	0
Enforcement of Rules	**	0
Quality of Rules	*	0
Wage Satisfaction	**	0
Politicization	**	**
Internal Transparency	**	**
External Voice	**	**
Corruption	**	**

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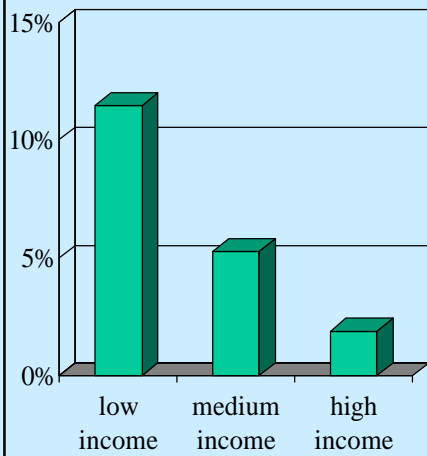
Romania: Do Low Public Salaries lead to Corruption?



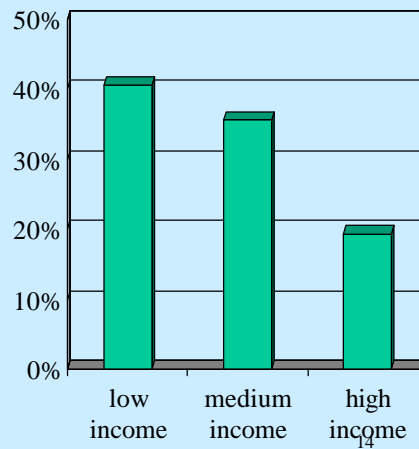
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Romania: Disproportionally Negative Impact on the Poor

% of Hh.Income in bribes



% Disuaded from Medical Services



The "Bribe Fee List":

Unofficial Payments by Firms for Services, Ukraine and Russia, 1996

<i>Type of license/service:</i>	Average "unofficial" fee	
	Russia	Ukraine
Enterprise registration	\$ 288	\$ 176
Each visit by fire/health inspector	\$ 67	\$ 42
Tax inspector (each regular visit)	\$ 250	\$ 87
Each phone line installation	\$ 1,071	\$ 894
Lease in state space (sq. meter per month)	\$ 26	\$ 7
Each export registration/consignment	\$ 643	\$ 123
Each import registration/consignment	\$ 133	\$ 278
Domestic currency loan from bank (preferential terms)	8%	4%
Hard currency loan (preferential terms)	23%	4%

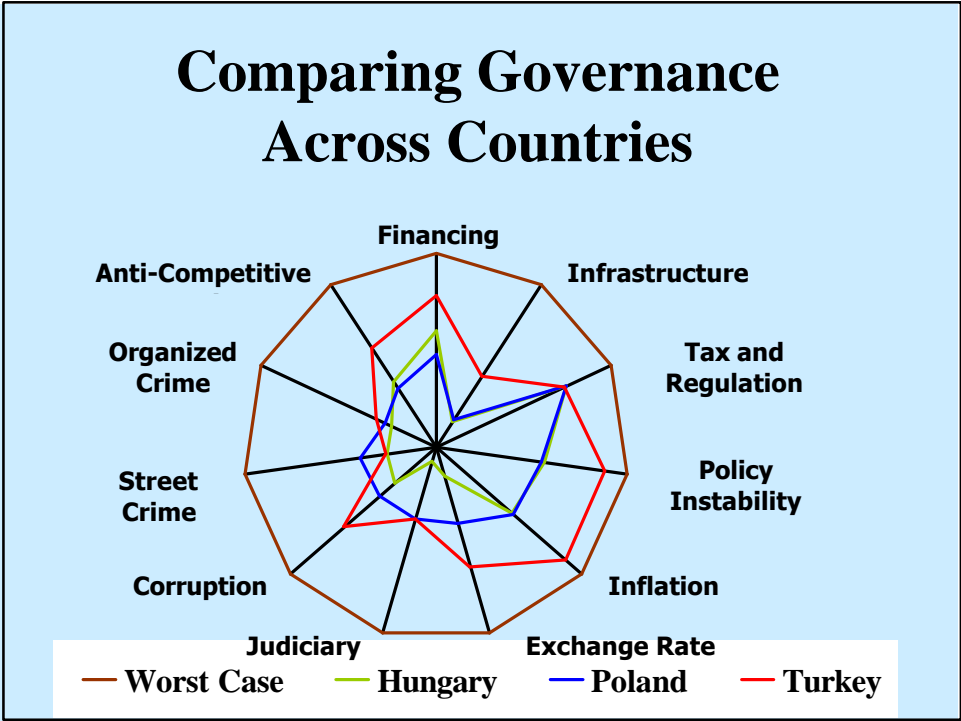
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Illustrating the Power of Data: Measuring Governance and Corruption: *BEEPS*

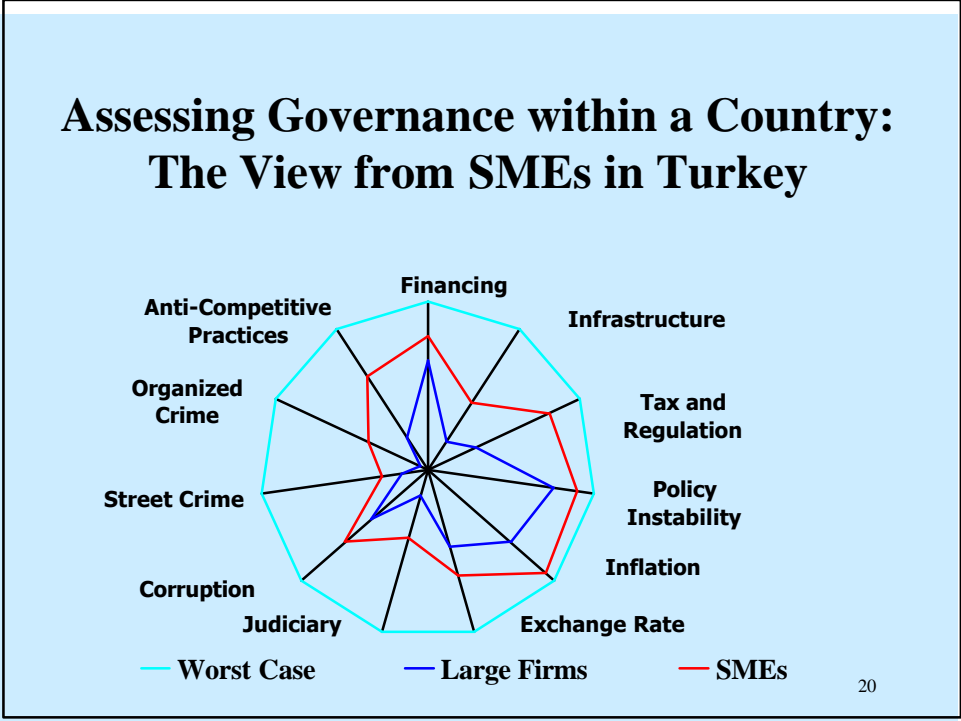
- Face-to-face survey of over 3,600 firms in 22 transition countries by World Bank/EBRD
- Questions that unbundle and measure different forms of corruption & misgovernance
- First direct questions on state capture
- Measurements based on direct experience of domestic firms, not external assessments
- Enables link between forms of corruption and enterprise performance

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Comparing Governance Across Countries

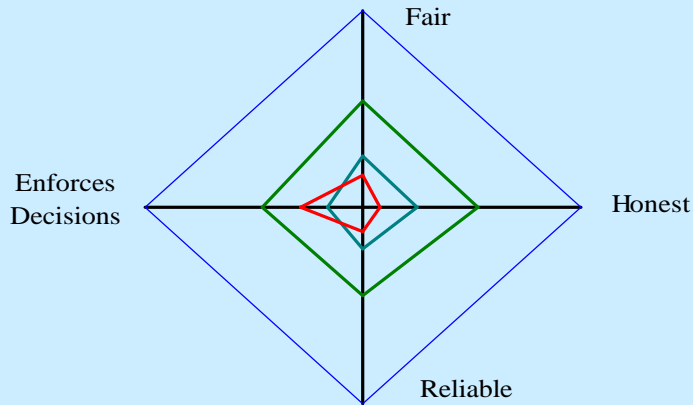


Assessing Governance within a Country: The View from SMEs in Turkey



Assessing the Quality of an Institution: Courts

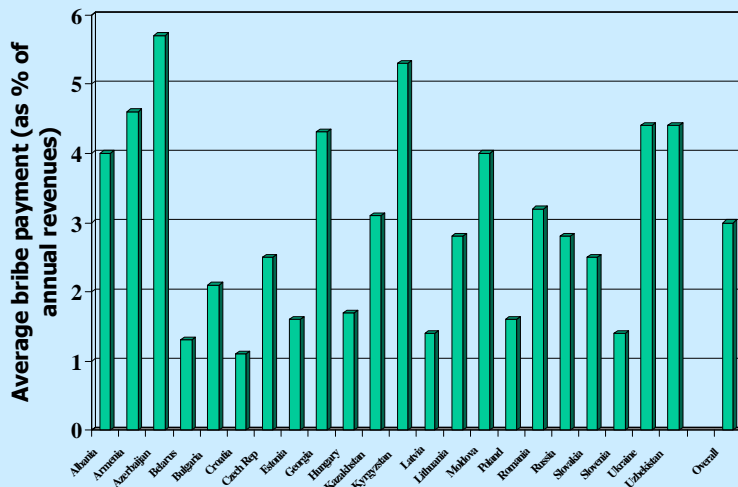
Would you describe the courts as...



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"Nirvana" Estonia Latvia Lithuania

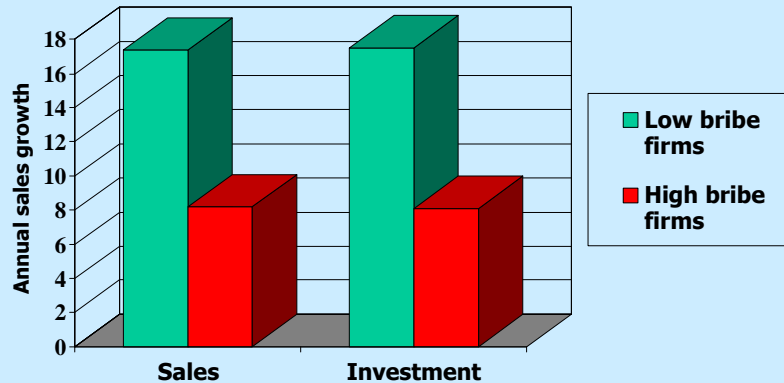
Measuring Bribery



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The Myth that Bribery Pays

Impact of Bribery on Firm Performance



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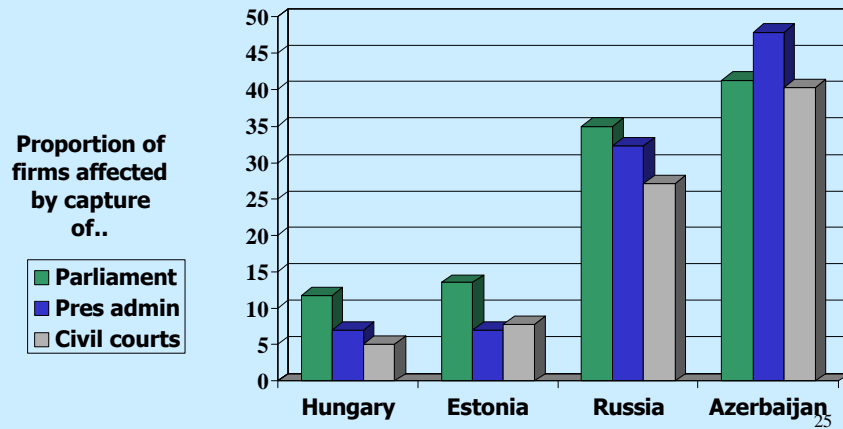
Focusing on State Capture

Efforts of firms to shape the rules of the game to their advantage through *illicit, non-transparent* provision of private gains to public officials

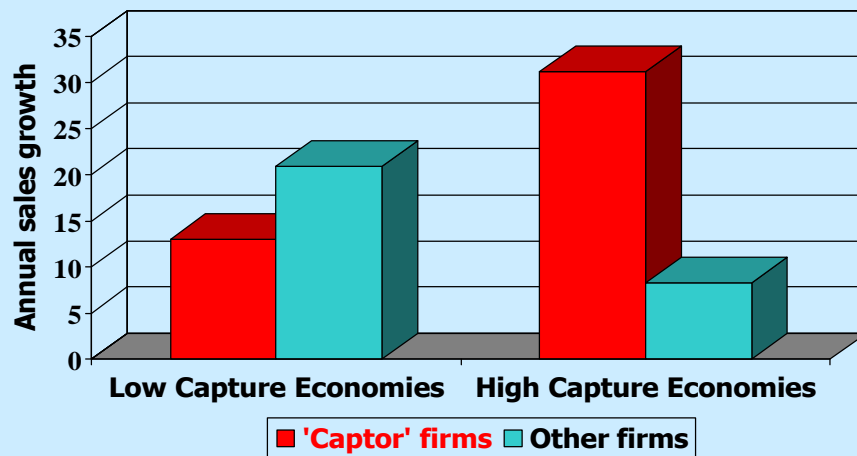
- Examples include:
 - *private purchase of legislative votes*
 - *private purchase of executive decrees*
 - *private purchase of court decisions*
 - *illicit political party financing*

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Measuring State Capture

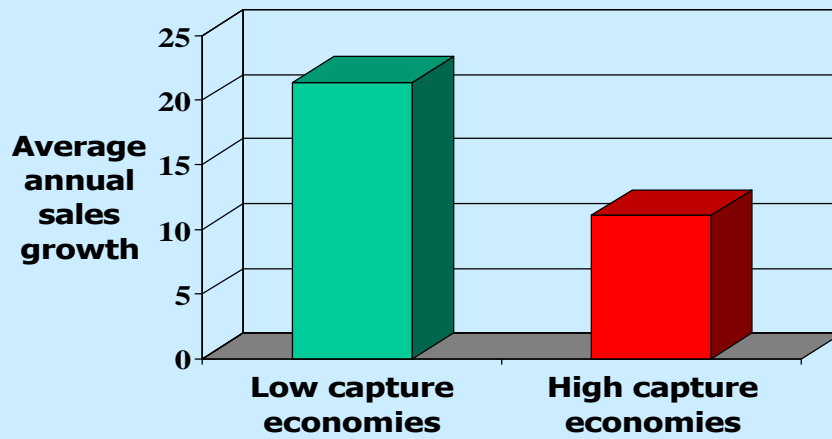


'Captor' Firms Get Big Gains



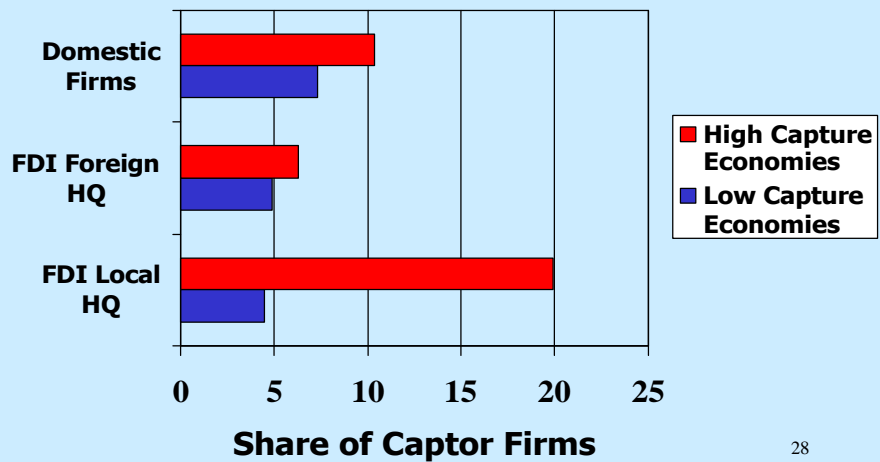
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At A High Social Cost



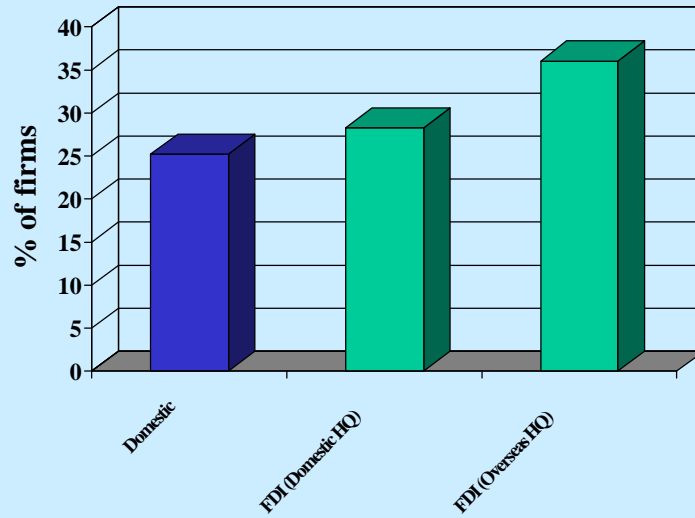
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Do Foreign Firms Import Higher Standards?



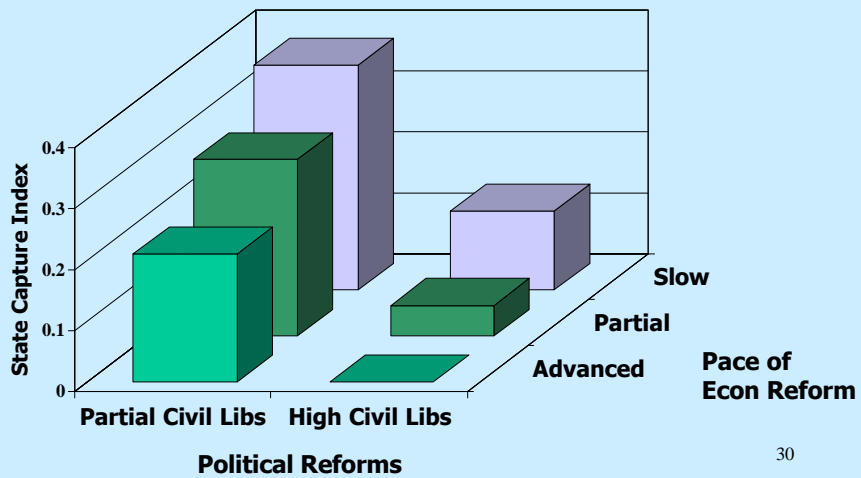
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% Firms that pay public procurement kickbacks (of those that trade with the state)



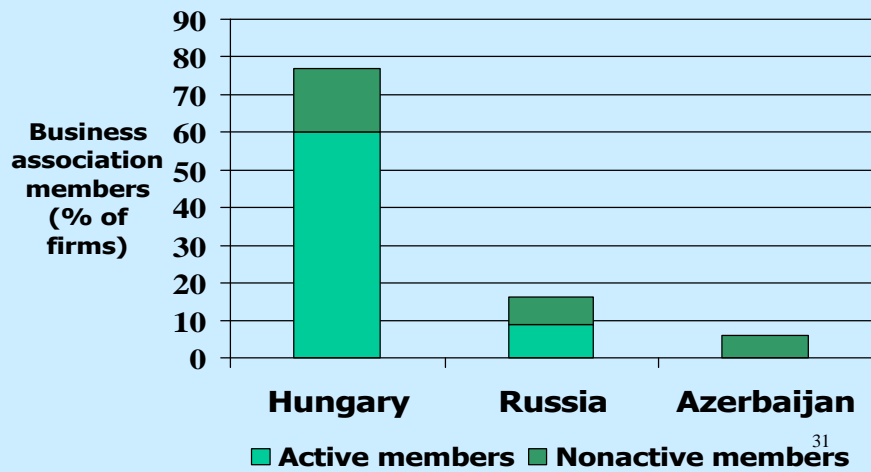
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Towards a Solution: More Political Competition



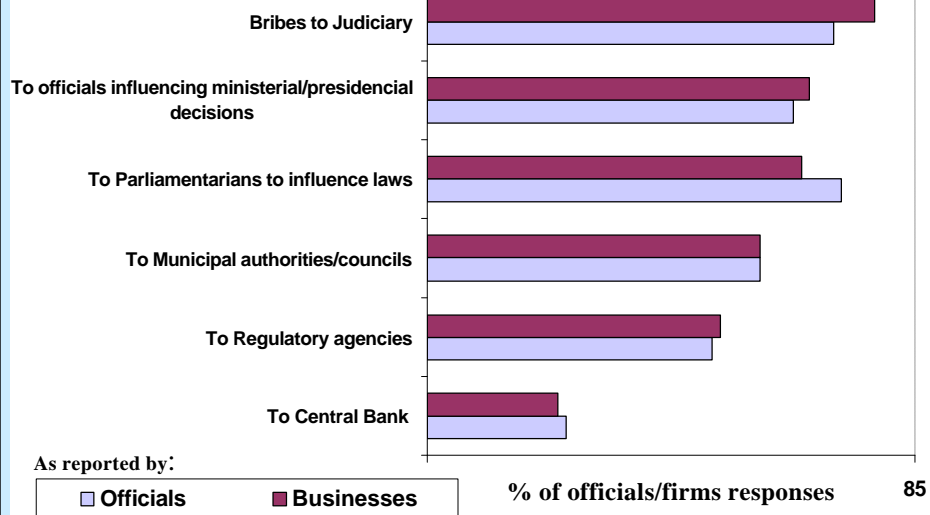
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Towards a Solution: Collective Action by Firms

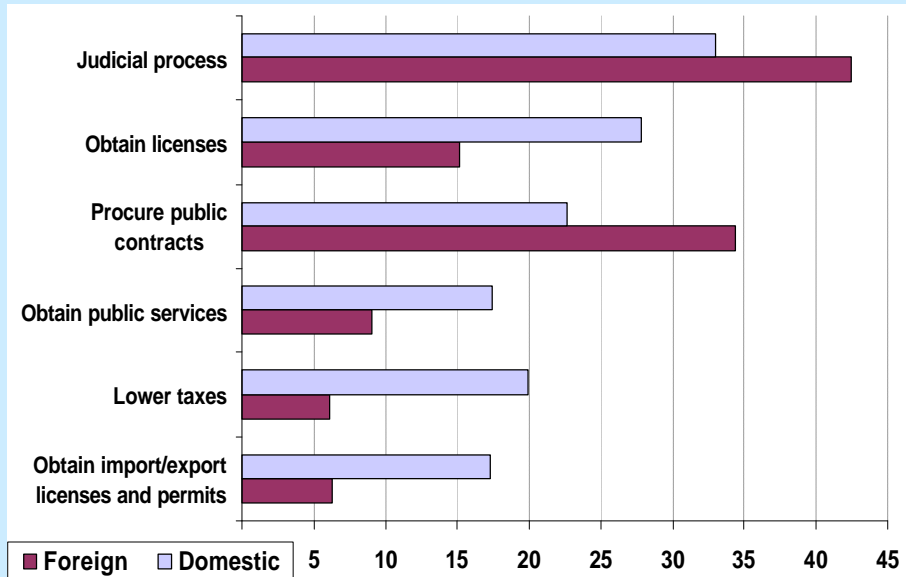


Peru Governance Diagnostic: Extent of 'State Capture'/Undue Influence by Elite in Bribing to Shape Laws and Regulations (as reported by public officials and by enterprises, 2001)

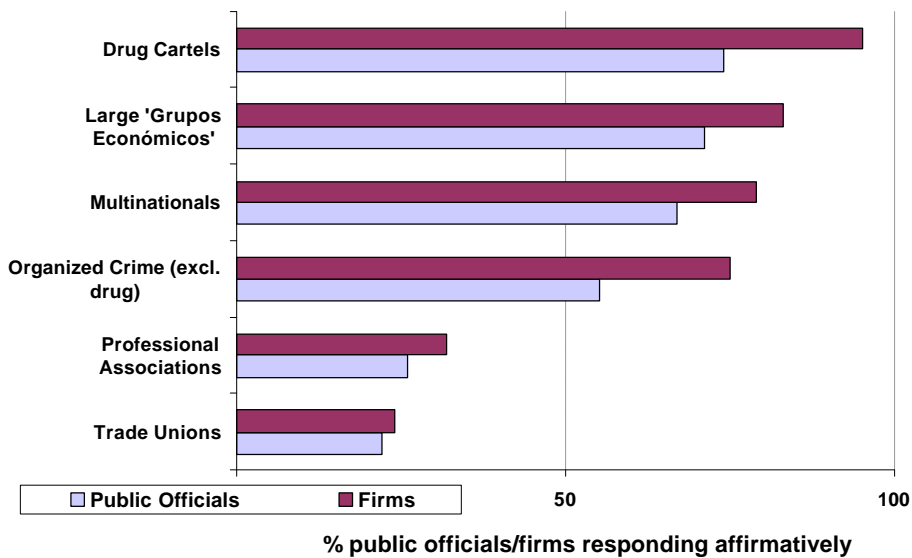
Frequency of bribes to promote private interests:



Peru Governance Diagnostics (2001): Frequency of bribes to Public Officials from Enterprises for Various Services

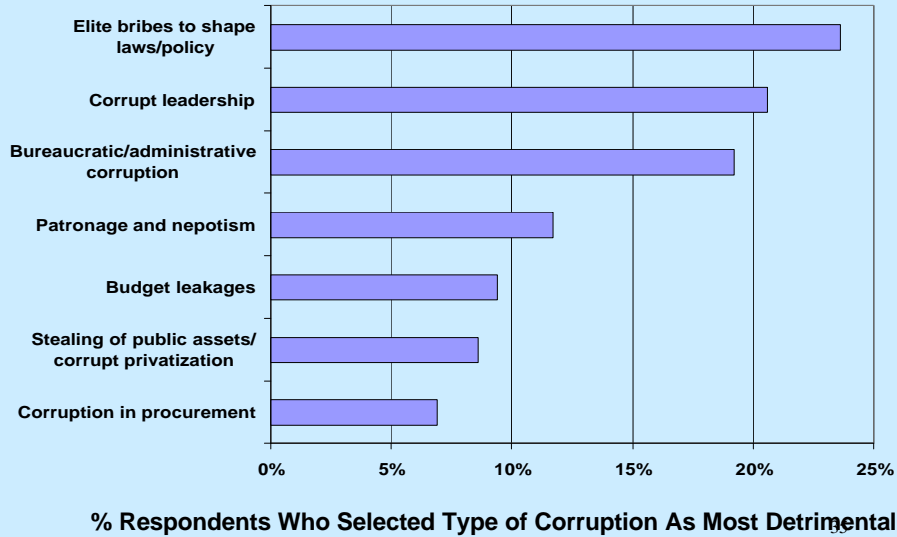


Main Sources of Undue Influence- Elite Capture/Grand Corruption? (responses from public officials and enterprise sector)



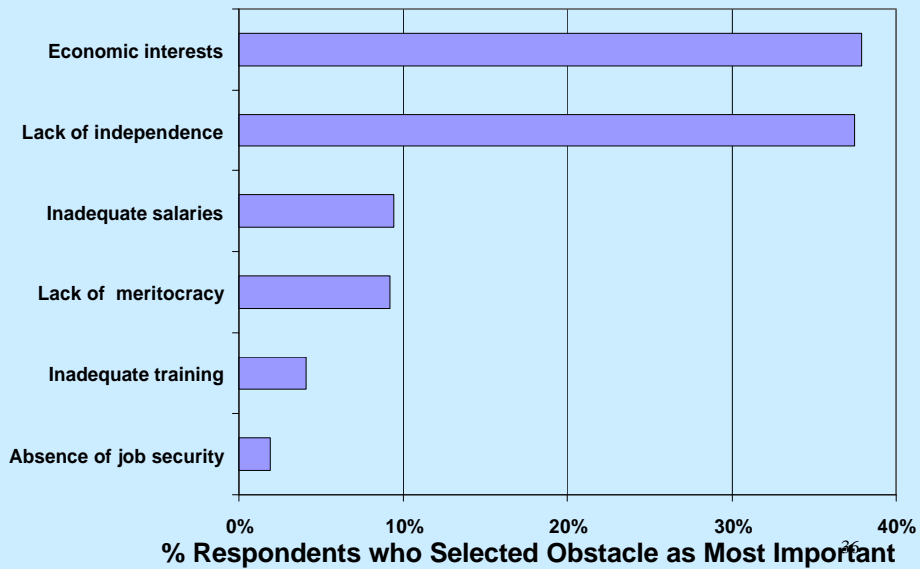
Most Detrimental Type of Corruption?

[Worldwide Internet Results, 1100 respondents]

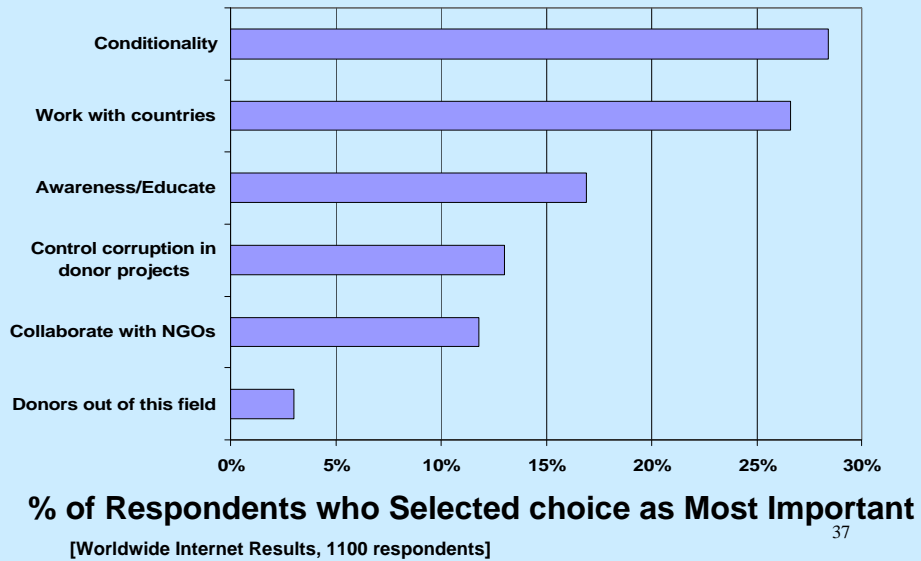


Top Obstacle to a Transparent Judiciary?

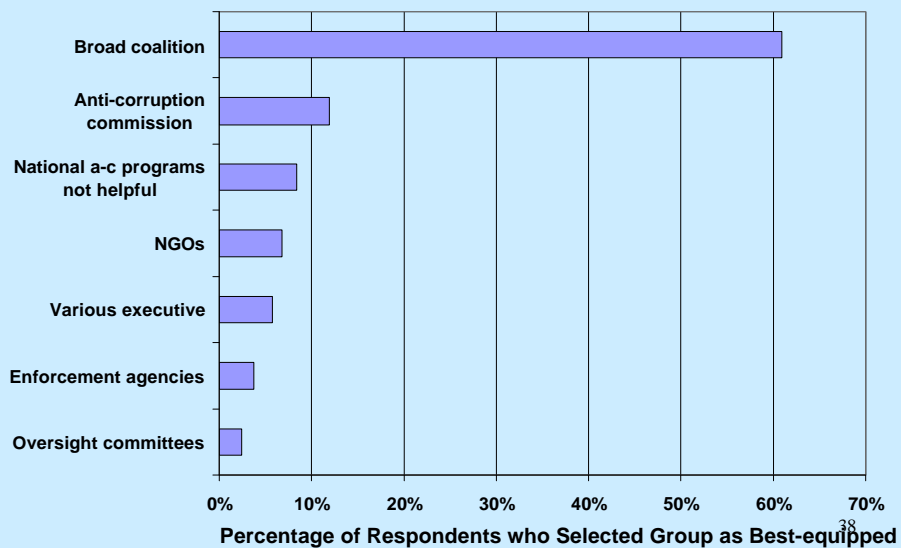
[Worldwide Internet Results, 1100 respondents]

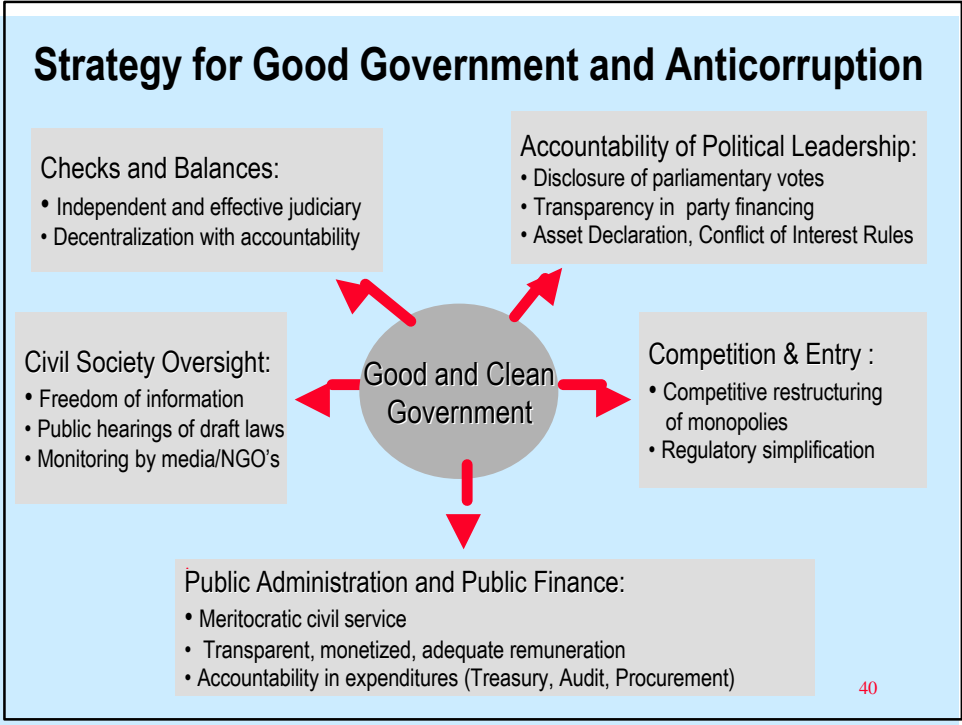
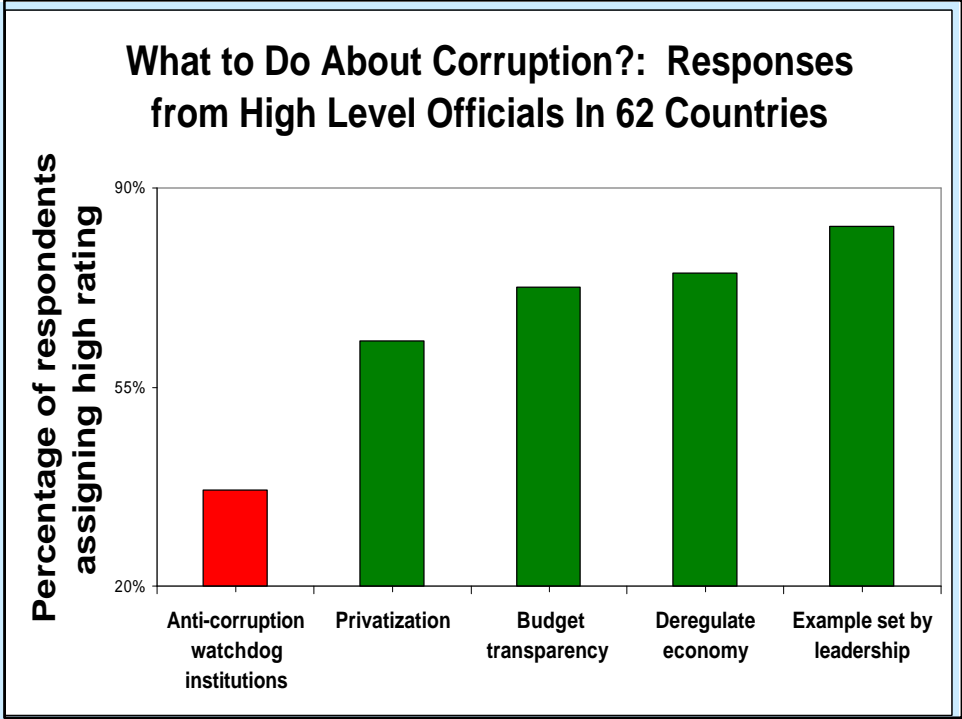


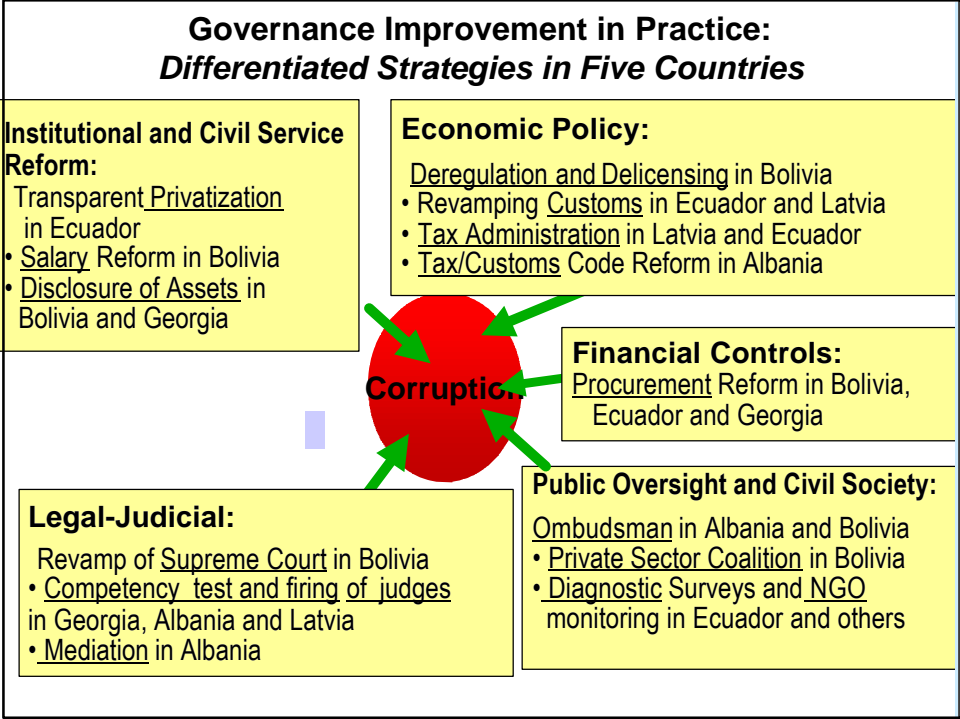
Most Important Role for Donors in Helping Countries Fight Corruption?



Best-equipped group to Formulate a National Action Program to Control Corruption







National Governance: Challenges in Integrating Anti-Corruption Into a Strategy of Institutional Change

A simple Formula synthesizing Governance/Anticorruption:

IG and AC = KI + LE + CA

Improving Governance and Anti-Corruption =

= Knowledge/Info.Data + ...

...+ Leadership (incl. Political) + ...

... + Collective Action (change)

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Concluding: Harnessing Data to Improve Governance

Power of Data and Rigorous Diagnostics to:

- **Diagnose governance strengths & weaknesses across countries, within countries & within institutions**
- **Unbundle concepts of Governance and of Corruption**
- **Add rigor to a phenomenon rarely analyzed systematically -- state capture**
- **Question conventional assumptions – on laws, FDI, wages, A-C commissions, role of donors, etc.**
- **To suggest solutions – Collective action, Voice and Transparency, Political and Economic contestability**
- **Integration with e*governance, e*tools**

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For More Information

- Visit our website:
www.worldbank.org/wbi/governance
- Some papers, reports
 - *Seize the State, Seize the Day; Measuring State Capture; Far From Home & Anti-Corruption in Transition*
(with ECA region/ J. Hellman/DK)
 - *Governance Matters*
 - *Misrule of Law*
- **Access to the Interactive Databank:**
<http://www.worldbank.org/wbi/governance/datasets.htm>

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Data Presented for Analysis and informing Policy Advise, not for Precise Rankings

The data contained in this presentation originates from various enterprise surveys (as well as outside expert rating agencies) and are subject to a margin of error. The purpose is therefore not to present precise comparative rankings across countries, but instead to illustrate characteristics of governmental and corporate performance in order to assist in drawing implications for action. No ranking of countries is intended in presenting results from these external sources by either the presenter of this work, the World Bank or its Board of Directors.

Further details and data, visit: <http://www.worldbank.org/wbi/governance>⁵