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ASSESSING
TRENDS IN CORRUPTION AND
IMPACT OF ANTI-CORRUPTION MEASURES

DISCUSSION PAPER

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Action required: delegates are invited to discuss this paper and to provide suggestions for its further development.

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EXECUTIVE SUMMARY

Throughout the 1990s and until present time the world has seen a proliferation of research on corruption, recommendations and policies designed to deal with this problem. A variety of actors have been involved in these activities. Both governmental and non-governmental actors as well as national and international ones have undertaken numerous initiatives.

Nevertheless a few fundamental questions remain without a definite solution. Among them are questions, which ask: How to know how much corruption there is? How to know whether corruption increases or decreases? How to know whether our policies do make desired impacts and how to know the extent of these impacts? These questions present a real challenge because corruption is a crime where all directly involved parties are usually interested in hiding the deeds.

This paper aims to grasp the state of the art in measuring corruption and assessing government performance against corruption. This document is not an in-depth study and it does not provide any definite answers about which approach is best. Instead it intends to spark discussions on this complex subject. It is also the intention to facilitate discussion on the role of various actors (governmental and non-governmental, national and international) in measuring corruption and assessing anticorruption activities.

A major observation is that no ideal method for measuring corruption exists. Each approach has its limitations.¹ However, this observation gives no grounds for giving up efforts to measure corruption as well as to assess anticorruption activities. Various remedies exist to overcome the limitations.

The most obvious remedy is the use of a combination of methods rather than any single one. Whenever possible, measurements should focus on multiple aspects of corruption rather than on any single indicator. No corruption measurement is capable of proving a particular level of corruption in a particular agency, sector or government on the whole to the extent that no alternative interpretation of findings is at least hypothetically feasible. In most cases one can speak with confidence about likelihood or probability rather than about established facts. But for a government willing to come to grips with this problem such information is of great value.

In addition to the combination of methods, generally there is a need to answer the question: who should do measurement and assessment? Various actors have their comparative advantages. International organizations often possess rich expertise and are capable of raising awareness in the broad public. National governments are better prepared to develop assessments, which can later be used for further development of their own policies. However, national governments that are perceived as widely corrupt have credibility limitations. And here comes the role of non-governmental actors.

¹ On this issue see, for example: Sik, E. *The Bad, the Worse and the Worst: Guesstimating the Level of Corruption*. // Kotkin S., Sajo A. (Eds.) *Political Corruption in Transition. A Sceptic's Handbook*. CEU Press. (2002) p.91.

1. CORRUPTION AS AN OBJECT OF ASSESSMENT

Corruption is a complex object of measurement and this renders the task of assessing, or measuring corruption particularly challenging. It is almost an axiomatic statement that, due to the usually hidden character of corruption, the accuracy of its measurements cannot achieve perfection. Additional difficulties are due to at least two reasons. The meaning of the term *corruption* is highly contested. A minimum international consensus may be said to exist about a number of core forms of corruption. However, a variety of other types of behaviour is considered corrupt by some definitions but not by others. The diversity of interpretations is even greater if one considers popular perceptions in various countries (see Box 1 on popular perceptions of corruption in Latvia). Notwithstanding this diversity, measurements of corruption usually need some established understanding of the term.

Without going into the details of various definitions, one recommendation is clear. Whenever someone tries to measure corruption, one should first define what exact types of behaviour one wants to gauge.

Box 1. Popular understanding of corruption Latvia

Since Latvia is among countries with a considerable level of perceived corruption, experts have been puzzled with what it is that common people call corruption. Surveys in Latvia have included a number of questions to find out what types of situations people tend to perceive as corruption. In a survey carried out in January 2005, respondents were offered a list of various situations and asked to indicate whether they can be judged as corruption.

Among statements that most respondent regarded as corruption were:

- Request of unofficial payment for the settling of a particular issue;
- A situation where a public official accepts or demands an unofficial payment to allow one to commit an illegal activity;
- A situation where a public official accepts or demands an unofficial payment to waiver a penalty for a violation.

The three statements that least respondents regarded as corruption were:

- Gifts (flowers, sweets, alcohol) to employees of educational institutions;
- Gifts to avoid long queues for visitors to access a public official;
- Dishonesty of an employee against a firm where he or she works in the private business.²

After one has established the meaning of corruption, a usual further inquiry is how much corruption there is. How corrupt is, for example, the police force or political parties are among most commonly asked questions. Before answering such questions, one need to establish what will be the criterion for the statement of 'how much' corruption there is. Again there is a variety of options – frequency of corrupt

² Attieksme pret korupciju Latvijā. Latvijas iedzīvotāju aptauja. (*Attitude toward Corruption in Latvia. A survey of Latvia's population*). Market and public opinion research centre SKDS (January 2005). P.47. http://www.politika.lv/polit_real/files/lv/ataskaite_korupcija_Delna012005.pdf Last accessed on May 3, 2005.

transactions, turnover of money involved in such transactions, share of revenue/income paid by businesses and households in corrupt payments (corruption as a tax), impact of corruption (corruption as an obstacle to business), etc. Since each of these criteria separately highlights only specific aspects of corruption, comprehensive understanding of the corruption phenomenon usually requires a combination thereof (see Box 2 and 3).

Box 2. Different indicators of corruption: BEEPS survey

EBRD/World Bank carried out two rounds of face-to-face surveys of owners and senior managers in firms in transition countries (plus Turkey). The surveys were called Business Environment and Enterprise Performance Survey (BEEPS). Their first round in mid-1999 covered 24 countries, the second one in mid-2002 – 26 countries. The BEEPS survey used a number of variables related to corruption.

- **Corruption as an obstacle** - how problematic is corruption for the operation and growth of a firm.
- **Bribe tax** - on average, what percent of total annual sales do firms typically pay in unofficial payments/gifts to public officials.
- **Bribe frequency** – how often is it common for firms to have to pay some irregular “additional payments/ gifts” to get things done with regard to customs, taxes, licenses, regulations, services.
- **State capture** - to what extent have payments or gifts to Parliamentarians, government officials, in criminal and commercial cases, central bank officials, and political parties had a direct impact on business.
- **Bribery** - how often would firms make unofficial payments/gifts for specific purposes such as utilities, licenses & permits, public procurement, etc.³

For more information: <http://info.worldbank.org/governance/beeps/>

Box 3. Different indicators of corruption: Kenya Bribery Index 2004

The national survey of TI Kenya, which formed the basis of the Kenya Bribery Index 2004, measured six different indicators, which captured different dimensions of the magnitude and impact of corruption:

- **Incidence** - measures the likelihood that a person visiting an organization will be asked to, or feels it is necessary to, offer a bribe.
- **Prevalence** - indicates the percentage of the population affected by bribery in the organization.
- **Severity** – captures the level of impunity – whether service is denied for declining to bribe.
- **Frequency** – measures the average number of bribes paid per year per person having contact with the organization.
- **Cost** – indicates the estimated proceeds from bribes, and can be interpreted as the ‘bribery tax’ per adult citizen (for those having contact with the organization).
- **Size** – refers to the average size of bribes paid by those having contact with the organization.⁴

³ Gray, C., Hellman, J., Ryterman, R. *Anticorruption in Transition 2: Corruption in Enterprise-State Interactions in Europe and Central Asia 1999-2002*. The International Bank for Reconstruction and Development/ The World Bank. (2004). P.60.
[http://Inweb18.worldbank.org/eca/ecspeExt.nsf/Attached/Poverty%20Reduction%20and%20Economic%20Management2/\\$FILE/wb%20Anticorrupt2%20pub.pdf](http://Inweb18.worldbank.org/eca/ecspeExt.nsf/Attached/Poverty%20Reduction%20and%20Economic%20Management2/$FILE/wb%20Anticorrupt2%20pub.pdf) Last accessed on May 3, 2005.

An excellent summary of the difficulties connected to the measurement of corruption is found in one of the World Bank publications:

“Although much progress has been made over the last few years in measuring corruption, analysts increasingly recognize how difficult it is to measure the phenomenon adequately, especially over time. In one country, the amount of bribes paid may be declining while other less explicit forms of corruption become more prominent—like compulsory use of consultants with ties to politicians or demands for jobs for a bureaucrat’s relatives. In another country, demands for bribes may be the same, but increased economic growth and greater predictability have led firms to perceive this as less of an obstacle to their business. In still another country, the frequency of demands for bribe payments might go down as corruption becomes more predictable and “efficient,” though the amount of bribes collected might stay the same or even increase. These are difficult issues, both conceptually and empirically, that do not have simple answers. Corruption is a dynamic phenomenon; it develops and mutates, reacts and transforms to changing circumstances. We need to be aware of the limits of measurement. Measurements that focus in on one dimension might miss relevant and even contradictory changes in other dimensions. The more effective that existing measurement efforts are at shedding light on corrupt practices in a society, the more efforts will be made by corrupt members of that society to transform those practices into less visible and measurable forms.”⁵

⁴ Mati, M., Con Omoro, O. *Kenya Bribery Index 2004*. In: *Global Corruption Report 2005*. Transparency International (2005). P.p. 245-247.

⁵ Gray, C., Hellman, J., Ryterman, R. *Anticorruption in Transition 2: Corruption in Enterprise-State Interactions in Europe and Central Asia 1999-2002*. The International Bank for Reconstruction and Development/ The World Bank. (2004). P.6.
[http://lnweb18.worldbank.org/eca/ecspeExt.nsf/Attached/Poverty%20Reduction%20and%20Economic%20Management2/\\$FILE/wb%20Anticorrupt2%20pub.pdf](http://lnweb18.worldbank.org/eca/ecspeExt.nsf/Attached/Poverty%20Reduction%20and%20Economic%20Management2/$FILE/wb%20Anticorrupt2%20pub.pdf) Last accessed on May 3, 2005.

2. DIRECT MEASURING OF CORRUPTION

2.1. Perception

This approach is based on an assumption that the perceptions of population or specific groups about corruption are associated with the actual level or pattern of corruption with sufficient accuracy. The assumption runs that general population or certain groups such as business people have sufficiently accurate knowledge about corruption in their societies or specific areas of expertise.

Strengths: The key benefit of this approach is the ease of measurement. It is possible to formulate straightforward questions without fearing – at least in most cases – that respondents would not be willing to give sincere answers.

Weaknesses: The basic assumption on the association between the perception and actual corruption must be qualified by a number of factors. Moreover the extent to which these qualifications apply cannot be easily established with accuracy. A major qualification is that factors such as media coverage of specific corruption scandals may excessively amplify popular perceptions about the overall level of corruption, i.e. create the so-called noise. This factor may inflate the perception relative to the actual occurrence of corruption. Another qualification may lead to opposite distortions and has to do with the highly secretive nature of corrupt transactions, which may contribute to the underestimation of corruption in people's perception. This may be particularly relevant for types of corruption remote from the common population (e.g. political corruption rather than everyday administrative corruption) in countries with restricted media freedom.

Box 4. Corruption Perceptions Index of Transparency International⁶

Corruption Perceptions Index (CPI) is probably the most well known and quoted corruption measurement in the world, which has been published annually since 1995. CPI is not an empirical study of its own but rather a compilation of data from a number of primary sources, which include assessment by experts and business leaders.

In short CPI aggregates the perceptions of well-informed people with regard to the extent of corruption, defined as the misuse of public power for private benefit. CPI 2004 covered 146 countries and it relied on data gathered during three years. Each country is assigned a score from 0 to 10 where the former indicates the highest possible perceived level of corruption and the latter indicates the lowest possible perceived level of corruption. In CPI 2004 Finland ranked highest with 9.7 and Bangladesh and Haiti lowest with 1.5. Due to a number of reasons, one cannot, however, state that Bangladesh and Haiti are the most corrupt countries in among those included.

⁶ This box is partly based on the following publication: Lambsdorff, J.G. *Corruption Perceptions Index 2004*. In: *Global Corruption Report 2005*. Transparency International (2005). P.p. 233-238.

The sources used for the index all provide a ranking of countries and they all measure the overall extent of corruption, i.e. frequency and/or amount of corruption in the public sector. Altogether 18 data sources were used in CPI 2004, from 12 different institutions:

- the World Economic Forum;
- the Institute of Management Development (in Lausanne);
- the Economist Intelligence Unit;
- Information International from Beirut (Lebanon);
- the World Markets Research Centre (in London);
- Gallup International, on behalf of Transparency International;
- Freedom House's *Nations in Transit*;
- the Merchant International Group Limited (in London);
- the Political and Economic Risk Consultancy (in Hong Kong);
- Columbia University;
- a multilateral development bank;
- the Business Environment and Enterprise Performance Survey of the EBRD and the World Bank.

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

Meantime it is crucial to realize some limitations of CPI:

- Year-on-year comparisons of particular countries should be viewed with caution because such comparisons of a country's score result not only from a changing perception of a country's performance, but also from a changing sample and methodology – each year different viewpoints are collected and somewhat different questions asked.
- The above caution partly applies also to country-to-country comparisons.
- CPI is only a measure of perception and the correspondence of perception to actual corruption cannot be taken for granted even though in many cases a strong correlation between the two is likely. Anyway the country with the worst score is not necessarily the country with the highest actual level of corruption.
- CPI is a very general measure; governments, especially in transition economies, rarely agree with the results; while it is useful for awareness raising, its usefulness for the designing of targeted anticorruption policies is strictly limited.

2.2. Experience

Asking people about their actual experiences of corruption is a major alternative to measuring perceptions. The approach is more straightforward, i.e. if one is interested in corruption, this is what he or she asks for.

Strengths: On the face of it, this approach appears to be a more valid measurement of corruption. The responses that one receives cover indeed corruption itself. By and large one would not expect such results to inflate the actual level of corruption because a respondent is unlikely to admit, for example, giving a bribe within a certain period of time if, in reality, he or she has not done so.

Weaknesses: The major limitations of this approach are the likelihood of deflated findings and receiving a skewed picture of corruption patterns. The possible deflation is due to the usually illegal and morally objectionable character of corruption; hence

respondents may report more limited experience than actual. A common remedy for this limitation is posing questions, which do not require outright admission of own wrongdoings. Thus the researcher would receive some kind of mixed measurement of quazi-experience / quazi-perception. Overall this approach allows one to achieve findings, which allow for the conclusion that the actual level of corruption is equal or higher than the results of measurement.

The skewed patterns of corruption are due to the fact that for some forms of corruption it is easier and for some more difficult to select experienced and sincere respondents (those who experience regular extortion by fire safety inspectors or police officers are more likely to reveal their experience than those who have secured for themselves a few major corrupt deals with high government officials). Also those who experience corruption as mutually profitable, finely calculated transactions are unlikely to reveal their experience (directly or even indirectly) to researchers. Such type of corruption is, for example, corrupt collusion between lawyers and judges in some countries or bribery of tax officials for reasons of tax evasion.

Box 5. Combined perception and experience measurements: BEEPS7

The BEEPS combined both questions, which lay primary emphasis on corruption-related experience, and questions, which lay primary emphasis on perception. Examples of the former are “On average, what percent of total annual sales do firms like yours typically pay in unofficial payments/gifts to public officials?” and “How often would firms like yours make unofficial payments/gifts for the following purposes [e.g. to obtain business licenses and permits]?” An example of the latter is: “To what extent have the following practices (payments or gifts to parliamentarians, government officials, in criminal and commercial cases, central bank officials, and political parties) had a direct impact business?”⁸

None of the above questions is oriented exclusively on either experience or perception but it is more likely that respondents mean their own experience when answering about the percent of sales paid in unofficial payments and more likely to report perception when speaking, for example, of the impact from payments to parliamentarians on business.

2.3. Beliefs and values

Another approach found in corruption studies is the measurement of certain beliefs or values, which are thought to be associated with corruption or lack thereof. In a sense this is the loosest of the three approaches discussed so far because what one measures is not corruption or any of its attributes (such as perception) at all. Examples of such beliefs or values are trust in public institutions and social relationships at large, sense of solidarity, respect for the rule of law, etc.

Strengths: Under a certain set of circumstances, such measurements may allow one to make some specific judgements about corruption situation. One of the most commonly

⁷ For more detail see Box 2 or the web site <http://info.worldbank.org/governance/beeps/> Last accessed on May 3, 2005.

⁸ Gray, C., Hellman, J., Ryterman, R. *Anticorruption in Transition 2: Corruption in Enterprise-State Interactions in Europe and Central Asia 1999-2002*. The International Bank for Reconstruction and Development/ The World Bank. (2004). P.60.
[http://Inweb18.worldbank.org/eca/ecspeExt.nsf/Attached/Poverty%20Reduction%20and%20Economic%20Management2/\\$FILE/wb%20Anticorrupt2%20pub.pdf](http://Inweb18.worldbank.org/eca/ecspeExt.nsf/Attached/Poverty%20Reduction%20and%20Economic%20Management2/$FILE/wb%20Anticorrupt2%20pub.pdf) Last accessed on May 3, 2005.

measured attitudes is trust in public institutions. The assumption runs that people would not trust a corrupt public institution. So if an agency enjoys a high degree of trust, it is reasonable to assume that it is at least relatively free of corruption.

Weaknesses: This approach is probably less accurate than the previous ones due to at least two reasons. It is probably true that more often trust in public institutions is associated with certain cleanness thereof but no evidence suggests that this association holds universally. The world has seen examples where corrupt rulers have managed to maintain a considerable degree of public trust and legitimacy for extended periods of time (although usually not indefinite). Moreover people may trust in certain agencies purely out of ignorance, particularly in circumstances of limited media freedom. In other words trust may prove to be nothing more than a perpetual positive stereotype.

Even when there are grounds to claim that high trust is associated with cleanness, it is virtually impossible to conclude (without additional evidence anyway) that low trust is associated with high corruption. Public agencies may lack trust not only because of corruption but also because of lack of expertise or technical capacity within these agencies, i.e. distrust is likely to stem from the inability of an agency to ensure satisfactory performance and the poor performance may in turn be explained by a lot more factors than just corruption.

Box 6. Generalized trust and perceived corruption

Analysis by professor Eric M. Uslaner shows that world wide there is a strong correlation between generalized trust (as distinct from specific trust in some institution of office) and perceived levels of corruption. The measure of trust was borrowed from the World Values Survey where 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?’ The measure of corruption is taken from Transparency International’s Corruption Perceptions Index.

Analysis showed that:

- Trust and corruption have a strong reciprocal relationship. Countries with high levels of trust have low levels of corruption and vice versa;
- Trust is far more important than structural indicators such as the level of democracy, property rights, decentralization or political stability, in explaining corruption. Each of these measures became insignificant in models including trust;
- 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.⁹

2.4. Service and sector assessments

This approach is partly analogous to customer satisfaction surveys and service quality assessments by clients commonly applied in private business.

Strengths: It is a suitable approach in situations when one wants to measure corruption in a specific agency or specific area of government activity, which involves extensive contacts with citizens (or clients in business language). The approach is based on an

⁹ Uslaner, E.M. *Trust and corruption*. In: *Global Corruption Report 2005*. Transparency International (2005). P.p. 262-264.

assumption that the more satisfied the clients, the less corrupt is the service provider. As in the case of trust measurement, it is easier to conclude that an agency is relatively clean of corruption. In the opposite case (corrupt agency) one is likely to obtain rather opaque evidence of something being wrong with the agency (unless the study is supplemented with inquiry into experiences of corruption directly). Overall this method is more suitable for measuring corruption within specific agencies or specific areas of government activity rather than within the country overall.

Weaknesses: Importantly, the accuracy of this approach strongly depends on the predominant form of corruption. Assessments of the service quality or client satisfaction may serve as indicators of corruption when the respondents are likely to perceive themselves as victims of corruption, e.g. when corruption represents primarily an extra cost. Where corruption is viewed as a benefit more than a cost, these assessments will not measure corruption because (1) more corruption will not lead to less satisfaction and (2) less corruption will not necessarily lead to more satisfaction with the service. This would be the case where, for example, bribery provides an escape from a legally deserved penalty.

Box 7. Court visitors' survey in Latvia

The Ministry of Justice of Latvia commissioned a court visitors' survey in 2002. The survey was carried out by a private public opinion research company. Apart from a question directly asking about unofficial payments, other types of questions were asked such as the following:

- Given your experience in the court, do you feel that the court personnel was honest?
- Do you feel that the court has acted justly toward you?
- How do you evaluate the service rendered by the court in your case compared to other public institutions (better, about the same or worse)?

It may be assumed that at least those respondents who gave positive answers to the above questions have not encountered corruption in the court. For example, since 62% of the respondents felt that the court had acted justly toward them, at least such proportion of court visitors assumingly have not experienced corruption. This assumption would not be fully valid, however, if some respondents had actually paid bribes and viewed bribery as a beneficial way to achieve something desirable. They might not be willing to say, for example, that the court did not act justly even if the court is indeed unjust.¹⁰

2.5. Governance indicators

This approach focuses on the outputs of government activities and assumes that government performance in some significant ways is associated with the level of corruption. Particularly, the World Bank has focused on governance indicators¹¹. As a tool to measure corruption, this method does not appear universally developed and widespread so far. However, it could serve as a significant validator of other measurements of corruption.

¹⁰ Tiesu apmeklētāju aptauja. Aptaujas rezultātu analīze. (Court Visitors's Survey. The analysis of survey results). Latvijas Fakti (September 2002). http://www.tm.gov.lv/lv/documents/petijumi/430_Tiesu_apmekletaju_aptauja.doc Last accessed on May 3, 2005.

¹¹ Kaufmann, D. Kraay, A. Mastruzzi, M. Governance Matters IV: Governance Indicators for 1996–2004. The World Bank (2005) <http://www.worldbank.org/wbi/governance/pubs/govmatters4.html>

One way to use this approach is to focus at services provided by the government and associated cost. The price that the government pays for certain goods and services may be compared to a corresponding price in the private market or in other countries. An inflated price may serve as an indicator of corrupt or inefficient procurement while efficient delivery (value-for money purchases) will in most cases imply relatively clean procurement.

Box 8. Prices and Purchases in Public Institutions: Colombia

In 1998 the District Inspector's Office of Bogotá (Colombia) commenced a program for the collection, systematization and publication of information that allows purchase price comparisons of different consumer goods and services of District Entities and Local Mayoralties in Bogotá.

The program focused on the acquisition of consumer goods and services. One reason for this was that the frequency and relatively small expenditure of such individual contracts makes adequate supervision problematic. Some of the stages of the implementation of the program were as follows:

- **Request of information** – the program implementers wrote to the public entities requesting invoices, contracts and purchase orders. Where state entities provided ambiguous information, a further request for clarification was sent. Where the state entity failed to respond to this final request, a notice was published in the bulletin detailing the entity's failure to comply.
- **Analysis of the information** - once the information was gathered it was entered into spreadsheets to compare highest purchase prices with lowest purchase prices, the mean and the dispersion of the sample.
- **Quoting prices with the providers** - in order to determine a market mean, the Inspector's Office requested individual quotes for each of the goods from the goods/services providers. The public officials requested this information as private individuals to discern any difference in the prices quoted for public departments and the public: the reason being that state entities are usually quoted higher.
- **Making the information public.**

The findings showed that public purchase prices were consistently higher than the market mean. While the measurement of corruption *per se* was not the aim of this program, the established price gap between the market and public purchases could give an idea about the spread and pattern of corruption. Of course a challenge remains to tell whether price gaps are explained by corruption or other inefficiencies.¹²

Another way is to focus at such governance indicators, which cross-nationally tend to correlate with the levels of corruption. Such indicators may be, for example, public expenditure as percentage of GDP for areas of governance, which are very important for populations (health or education) but which may provide relatively smaller corrupt returns if compared to, for example, large infrastructure and construction projects.

Strengths: This approach provides empirically observable indicators, which can be measured with a high degree of accuracy. It may serve as a method to validate already existing other data on corruption.

¹² *The Corruption Fighters' Tool Kit. Civil society experiences and emerging strategies.* Transparency International (2001). P.p. 118-125. <http://www.transparency.org/toolkits/2001/dnld/toolkit.pdf> Last accessed on May 3, 2005.

Weaknesses: The use of governance indicators have not developed as a well-established method for measuring corruption, yet. Moreover it is often difficult to conclude from such indicators alone that a country has a certain level of corruption. If, for example, a country X has a considerably lower public expenditure as percentage of GDP for education than in comparable other countries, it may mean that a corrupt government is to blame but it could as well be a deliberate political choice based on grounds other than corruption.

2.6. Associated social phenomena

The search for the validations of existing corruption measurement approaches has lead to explorations into what other social phenomena are associated with corruption. The rationale here is that corruption is strongly correlated with other kinds of behaviour that are less hidden and therefore measurable with greater accuracy. One example of this approach is measuring of the rate of underreporting of crime, which appears strongly correlated with the levels of corruption. Other possible phenomena might be tax evasion or smuggling but no well-established statistical correlations between these and corruption are known.

Strengths: The key strength of this approach is similar to that of using governance indicators (see part 2.5.). Namely, it provides empirically observable indicators, which can be measured with a high degree of accuracy (higher than that of measuring corruption anyway). It may serve as a method to validate already existing other data on corruption.

Weaknesses: This approach is hardly suitable as a self-standing indicator of the level of corruption particularly if one aims at measuring corruption within a single country rather than constructing cross-national indices. This is because a certain phenomenon may produce a significant association with corruption cross-nationally but within one country the establishment of, for example, a certain level of crime underreporting or smuggling alone is not sufficient for judgments about the level of corruption of some accuracy.

Box 9. Corruption and underreporting of crime

“The credibility of existing corruption indices would be reinforced if they were strongly correlated with the rate of crime reporting. To test this possibility, the rate of crime reporting was constructed using two international data sources: the International Crime Victimization Surveys (ICVS) and the United Nations Survey of Crime Trends and Operations of Criminal Justice Systems (UNCS). The behaviour of this reporting rate was compared to the International Country Risk Guide (ICRG) corruption index. The data used were averages for the first half of the 1990s. Data for both reporting rates and the corruption index exist for roughly 40 countries, including several Western and Eastern European countries, North America, and some Asian, African and Latin American countries.

The fraction of the total number of crimes reported to the police varies widely across countries and across different types of crimes, from virtually zero (as for thefts in Egypt or India) to almost one (as for burglaries in Austria and Finland).”¹³

¹³ Soares, R.R. *Measuring corruption: validating subjective surveys of corruption*. In: *Global Corruption Report 2005*. Transparency International (2005). P.289.

The study found that in countries, which are classified as having low corruption, on average 37 per cent of the burglaries committed are reported. Meantime in countries, which are classified as having high corruption, only 3 per cent of the burglaries are reported. The same pattern is present when we look at other crimes, such as thefts or violent crimes, though the differences are not so large.

“This correlation does not seem to be spurious, or generated by the indirect relation of some other variable to corruption and reporting rates. Data from several international sources show that crime reporting is strongly related to institutional stability, police presence and perceived corruption. [...] the evidence supports the use of subjective surveys of perceived corruption as a measure of actual corruption.”¹⁴

3. INDIRECT MEASURING OF CORRUPTION AND MONITORING TOOLS

The previous part of the paper dealt with methods for the direct measuring of corruption. Those methods allow to measure phenomena (perceptions, experience, etc.), which are believed to correlate statistically with actual levels and patterns of corruption. Thanks to such assumed correlations (although doubtful in some cases), one may measure, for example, perception and consider this as measuring corruption.

This part of the paper will review some tools, which do not allow for statistically grounded inferences about actual corruption, but do allow to assess (even if not prove) whether and to what extent:

- Some forms of corruption are likely to exist,
- Some government activities are likely to be effective against corruption.

Since these approaches do not measure corruption or statistically correlated phenomena in the strict sense of the word, in this paper they are called indirect. Moreover some of these methods are most suited for the application by governments with regard to their own agencies. The approaches to be reviewed in this part are: risk assessment, checklists, implementation analysis, formal reporting and statistics, internal indicators of corruption, and audit.

3.1. Risk assessment

When governments want to know the state of affairs in terms of corruption, in order to develop new policies, often among the first steps is the identifications of corruption risks and assessment thereof. The latter would produce data, which particularly if combined with evidence of actual corruption, would provide a fairly accurate understanding of corruption situation. Since comprehensive identification and assessment of corruption risks require a certain deal of internal information about the operation of an agency in question, this is an approach most usually used by governments rather than by NGOs or other external parties.

¹⁴ Soares, R.R. *Measuring corruption: validating subjective surveys of corruption*. In: *Global Corruption Report 2005*. Transparency International (2005). P. 290.

The figure 1 is a schematic model suggested by the Corruption Prevention and Combating Bureau of Latvia, which presumes that corruption risks can be identified by outlining zones of heightened general corruption risk (as specific types of official authority and functions) and asking a pre-determined set of questions regarding each of these zones. If there is a general corruption risk zone and at the same time answers to a number of questions are negative from the point of view of anticorruption, the particular agency or its sector is judged as being at particularly high risk.

The identification and assessment of corruption risks does not answer questions: how much corruption there is, what kind of corruption there is, how corruption affects the functioning of the agency in question and what broader consequences corruption has. Instead risk assessment does allow one to obtain answers regarding:

- the likelihood of specific types of corruption;
- the probable consequences of corruption.¹⁵

While the rule “if corruption can happen, it will happen” does not always hold, answers to the above questions, if combined with, for example, survey data, can also provide a fairly accurate picture of the actual extent and pattern of corruption.

Box 10. Corruption risk assessment: Latvia

In August 2004 the government of Latvia approved the State Program for the Prevention and Combating of Corruption for Years 2004-2008. According to the program each government and local government agency had to prepare a plan of its anticorruption activities. The plans were to be completed by September 2004 and submitted to the Corruption Prevention and Combating Bureau (CPCB).

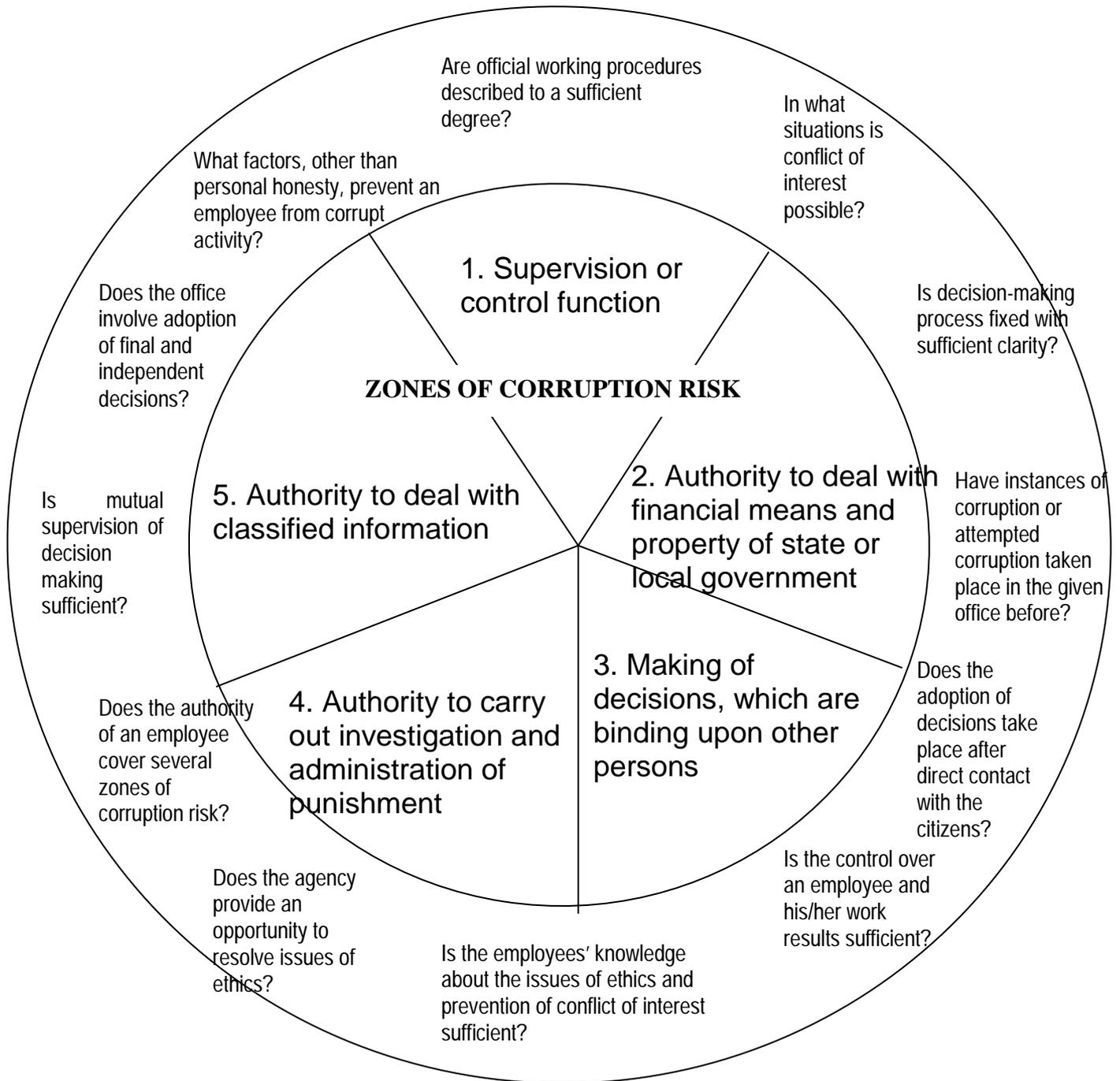
To assist government agencies, the CPCB prepared simple guidelines for how to draft the plans. The identification of corruption risks and assessment thereof were indicated as first steps in the developing of plans of anticorruption activities. The risk identification and assessment were to be done by agencies themselves as they possess the best knowledge about their own operation. Despite the approved deadline, various agencies have been doing their risk assessment and drafting of plans at various speeds. By the time of writing this paper (May 2005), some agencies had completed their plans while other were still behind.

Since this is the first exercise of this kind in Latvia’s public administration, the quality of the plans and underlying risk assessments varies greatly from well-elaborated risk mapping to superficial formalistic notes. It remains to be seen to what extent these risk assessments will actually prompt agencies to develop meaningful anticorruption activities. Anyway as the result of this process, CPCB will eventually possess a rather comprehensive overview of corruption risk assessments in all sectors of public administration.

¹⁵ Vadlīnijas iestādes pretkorupcijas pasākumu plāna izstrādei. (Guidelines for the preparation of an agency’s plan of anticorruption activities). The Corruption Prevention and Combating Bureau. Unpublished document.

Figure 1

Identification of Corruption Risks¹⁶



¹⁶ Source: Corruption Prevention and Combating Bureau, Latvia. Unpublished document.

3.2. Checklists

Several frameworks for the assessment of the state of affairs of governments' anticorruption policies have been developed, some accepted by national governments as guidelines and some constantly monitored. Some of the most well-known are the Twenty Guiding Principles for the Fight against Corruption of the Council of Europe (see Box 11) and the National Integrity Systems developed by Transparency International (see Box 12). EUMAP, a program of the Open Society Institute, developed own comprehensive methodology in the form of a checklist for the review of corruption and anticorruption policies in ten accession countries to the European Union (assessments published in 2002).¹⁷

Principles or questions included in such assessment frameworks are not usually focused exclusively on the formal existence of certain rules or agencies but overall one can say that they tend to be better suited for the mapping of the formal institutional framework rather than its actual working (Kazakhstan's example given in Box 12 actually stands out as one where a lot of attention is paid to the actual workings of formal rules).

It is important to note that checklists usually focus on what governments openly do as part of their anticorruption policies rather than on corruption itself. So this method is hardly suitable for measuring the ultimate success or failure of anticorruption efforts in terms of changes in the occurrence of corruption. Also while international best practices do give reasonable grounds for associating certain institutional mechanism with reduction in corruption, it also true that across countries people within similar formal institutional frameworks still behave differently. Some of the cleanest countries in the world have limited formal safeguards against corruption while some highly corrupt governments keep on their corrupt business in the presence of extensive anticorruption laws.

Box 11. Twenty Guiding Principles for the Fight Against Corruption

The Twenty Guiding Principles for the Fight against Corruption¹⁸ were adopted by the Committee of Ministers of the Council of Europe on November 6, 1997. They provide a checklist for the monitoring of implementation of the Criminal Law Convention on corruption, adopted by the Council of Europe on January 27, 1999. The Group of States against Corruption (GRECO) is a mechanism created within the Council of Europe to carry out the monitoring through a process of mutual evaluation and peer pressure by the member-states.

Two evaluation rounds have taken place: the first round took place in 2000-2002, the second one commenced in 2003 and is expected to complete in mid-2005. For each evaluation round a questionnaire is adopted that focused on the implementation of selected guiding principles and selected articles of the Criminal Law Convention on corruption. The second evaluation round focuses on following guiding principles and articles of the Convention:

Guiding Principle 4: "to provide appropriate measures for the seizure and deprivation of the proceeds of corruption offences"

¹⁷ EUMAP reports are available here: <http://www.eumap.org/reports/2002/corruption/> Last accessed on May 13, 2005.

¹⁸ [http://www.greco.coe.int/docs/ResCM\(1997\)24E.htm](http://www.greco.coe.int/docs/ResCM(1997)24E.htm)

Guiding Principle 5: "to provide appropriate measures to prevent legal persons being used to shield corruption offences"

Guiding principle 8: "to ensure that the fiscal legislation and the authorities in charge of implementing it contribute to combating corruption in an effective and co-ordinated manner, in particular by denying tax deductibility, under the law or in practice, for bribes or other expenses linked to corruption offences"

Guiding principle 9: "to ensure that the organization, functioning and decision-making processes of public administrations take into account the need to combat corruption, in particular by ensuring as much transparency as is consistent with the need to achieve effectiveness"

Guiding principle 10: "to ensure that the rules relating to the rights and duties of public officials take into account the requirements of the fight against corruption and provide for appropriate and effective disciplinary measures; promote further specification of the behavior expected from public officials by appropriate means, such as codes of conduct"

Guiding principle 19: "to ensure that in every aspect of the fight against corruption, the possible connections with organized crime and money laundering are taken into account"

The Articles of the Criminal Law Convention:

Article 13: Money laundering of proceeds from corruption offences

Article 14: Account offences

Article 18: Corporate liability

Article 19: Sanctions and measures

Article 23: Measures to facilitate the gathering of evidence and the confiscation of proceeds

For full information on GRECO see: <http://www.greco.coe.int>

Box 12. National Integrity Systems framework to Kazakhstan, 2001

The National Integrity Systems assessments are published as comprehensive documents, which consist of questions and answers. The questions correspond to the analytical framework of the National Integrity Systems and cover a broad range of indicators about the executive, legislature, political party funding, supreme audit institutions, judiciary, civil service, police and prosecutors, public procurement, ombudsman, investigative/watchdog agencies, media, civil society, local government, and progress with government strategy against corruption. Assessments tend to vary in the degree to which they focus mostly on the existence of formal rules and mechanisms or, as in the Kazakh example, also on their actual implementation. In order to give a flavour of these assessments, below are a few questions and abridged answers from a report on Kazakhstan. Squared parentheses indicate major omissions.

Are there conflict of interest rules?

De jure

The term "conflict of interests" is found only in the Law "On taxes" with respect to the employees of tax bodies. However indications of this concept are fixed in many laws. [..]

De facto

The notion of "kinship" in Kazakhstan is much wider than that of "immediate relationship". Experts note the clannish system of selection of staff, especially in law enforcement bodies. [..]

Are there rules and registers concerning gifts and hospitality?

De jure

Yes. Such norms are stipulated both by the Criminal Code and the Law on Corruption. [..]

De facto

In actual fact, acceptance of gifts and marks of hospitality from the visitors is explained by the traditions and is a widespread phenomenon in the state bodies connected with the conduct of controlling functions, and issuance of documents and certificates. [..]

If so, are these registers kept up to date? By whom?

Have they legal powers to enforce disclosure?

Have they staff to investigate allegations?

What powers of sanction are in place against parliamentarians?

Have they ever been invoked?

According to the Law on Corruption, the gifts of which the person concerned was not aware are to be given in to the special state fund within a seven-day term and the services rendered to that person under the same circumstances are to be paid for by him by transfer of money to the Republic's budget. [..]

Are members of the executive obliged by law to give reasons for their decisions?

De jure

The Law "On administrative procedures" does not mention the necessity to give reasons for an adopted decision, but contains the requirement to provide an exhaustive explication of the subject of regulation and the contents of the planned measures, and exposition of the set of persons coming within the purview of the legal act and bearing responsibility for its effectuation. [..]

De facto

Most often a decision of a state body begins with a reference to the legal act of a higher body or a legislative act with the formula "in accordance with", which is already a motivation. At the same time, there are hundreds of examples when the executive adopted anti-national decisions with ostensibly good intent either to support a national manufacturer or to attract an investor. In particular, such decisions dealt with transferring large industrial objects in trust, selling of state-owned blocks of shares or tax exemption of some subjects of the market. Such decisions are passed in a fast and closed manner. According to one expert, "it is possible to substantiate anything. There is no transparency in adoption of decisions".¹⁹

For full information on the National Integrity Systems and country studies see:

http://www.transparency.org/activities/nat_integ_systems/country_studies.html

The strength of such guidelines or checklists is that each of them combines in a single framework the key principles and measures, which are widely believed to be effective in countering corruption. While these checklists have clearly proved their relevance for getting a general sense of the quality of governments' anticorruption policies, they also have their limitations.

The limitations lie in that they attempt to provide a one-size-fits-all approach to different countries and, since they attempt to capture multiple key sectors and aspects of anticorruption measures, they are necessarily built on a relatively high level of abstraction. The former is a limitation because not all aspects of anticorruption policy are covered by universally agreed international standards and because various factors – economic, political, and cultural – differ from country to country leading to situations where people act differently within similar institutional frameworks. The latter is a limitation because the famous saying *the devil is in the detail* fully applies to anticorruption policies. Thus it is often not enough to know that a country X has an

¹⁹ National Integrity Systems Country Study Report. Kazakhstan 2001. P.p. 9-10.
http://www.transparency.org/activities/nat_integ_systems/dnld/kazakhstan.pdf Last accessed on May 3, 2005.

apparently elaborate conflict of interest law. Instead it is important to know whether the implementation mechanism of the law is logically elaborated to sufficient detail, whether the implementing officials are capable and motivated to apply the law, whether in reality the law captures the types of official behaviour that one wishes to exterminate with the help of such law, etc.

The above signals a possible need to elaborate more focused checklists, which are relevant for specific segments of anticorruption policies (rather than for a grand anticorruption policy as a whole) and which are relevant for particular groups of countries, which share some important commonalities. Thus countries whose governments possess relatively large resources may make use of rather resource intensive measures while more poor countries will need primarily measures that consume lower amount of resources, e.g. sophisticated electronic governance systems may be a good option for more affluent countries while more poor countries might need easier physical access of citizens to public authorities.

What follows are examples of possible (although here simplified) checklists, which could be utilized in specific anticorruption sectors: conflict of interest regulations; disclosure and control of officials' income and assets.

These sectors are selected as examples from those that are typically mentioned as areas of possible action against corruption. The items listed are not meant to provide exhaustive checklists. As said previously, such checklists should be specific for countries with certain important similarities and thus cannot be universal (unless firm international standards exist in a given issue area). Ideally they should be developed with extensive involvement of officials and experts from respective countries (see part 4 of this paper for a discussion on who should carry out assessments).

CONFLICT OF INTEREST REGULATIONS:

- Conflict of interest regulations cover major types of conflict of interest, which have been sources of concern in a given country, and to the extent possible avoid covering situations where no reasons for concern exist;
- Appropriate procedures exist for action when a conflict of interest is likely to occur or is already detected;
- In situations where conflicts of interest cannot be avoided (e.g. in small communities), procedures exist, which protect the public interest without paralyzing the work of the agency in question;
- Public officials who are subject to the regulations are aware of, understand and accept the concept of conflict of interest and of applicable regulations;
- Information and consultations are available for public officials on how to act in case of doubt about their possible conflict of interest;
- A body/bodies exist, which are assigned to investigate and obtain all necessary information regarding possible conflicts of interest;
- Legislation provides appropriate penalties for failure to comply with conflict of interest regulations;
- Information about the conflicts of interest of public officials is available to the public;
- Etc.

DISCLOSURE AND CONTROL OF OFFICIALS' INCOME AND ASSETS:

- Disclosure covers all substantial types of incomes and assets of officials (all or from a certain level or sector and/or their relatives);
- Disclosure forms allow for year-on-year comparisons of officials' wealth;
- Disclosure system precludes possibilities to cover officials' assets under other residents and, to the extent possible, non-residents;
- A reliable system for income and assets control exists for all physical and legal persons – usually within tax administration; this is particularly relevant for persons associated with public officials;
- Officials have a strong duty to substantiate/prove the sources of their income;
- To the extent possible, officials are precluded from declaring non-existent assets, which can later be used as justification for otherwise unexplained wealth;
- Controlling agencies have sufficient manpower, expertise, technical capacity and legal authority for meaningful controls;
- Appropriate deterrent penalties exist for the violations of these requirements;
- Etc.

3.3. Statistics and formal reporting

Governments usually compile some statistical data on the incidence of corruption. Sometimes these data are portrayed as indications of the level and patterns of corruption. Since statistics is often based exclusively on well-established legal facts, this measure may achieve unparalleled validity if one is interested in officially detected corruption.

What is sometimes neglected is the invalidity of official statistics of corruption incidence if the full corruption picture is the object of interest. The revealed cases of corruption are usually just the tip of an iceberg. Moreover it is usually difficult to establish a correlation between the number of revealed corruption cases and the actual corruption situation. Thus we never know whether an increased number of revealed corruption cases means an increase in the actual level of corruption or it means that a higher share of all corruption cases is revealed (unless supplemented by additional evidence). Similarly, if the official number of detected corruption cases is very small, it is impossible to establish from the statistics alone whether this figure reflects the overall low level of corruption or the low rate of detection.

For the purpose of discussion, this paper suggests a few elements that may be considered in order to establish a meaningful (in the sense that it reflects relevant information) and reliable (in the sense that it is trustful) system of reporting and statistical accountability. These elements are:

- Incorporation of reporting mechanisms already at the stage of formulating policies (e.g. if the government is to set up an anti-corruption agency, it should be clear what reporting requirements will apply to this agency);
- Setting reporting requirements, which grasp most essential elements of anti-corruption activities (e.g. it does not tell much if X number of persons have been prosecuted for bribe taking unless the report also tells the sectors and levels of involved public officials, the size of bribes, the types of activities for which bribes were paid, the proportion of cases, which reach courts and the final outcomes, etc.)

- Alternative channels might exist for checking the accuracy of reports and statistical data (as in good research, calculations done by an author should be reflected in a manner that would allow other persons to repeat those calculations). In practice, for example, a specialized anti-corruption agency might be authorized to double check information reported by other agencies if it is relevant for anti-corruption.
- Only parts of reports, which contain state secrets or information, which is classified on legitimate and publicly known grounds, should be withheld from public circulation.
- Agencies should be required to demonstrate such indicators of their activity, which are commonly most vulnerable to corruption – e.g. cost effectiveness should be particularly monitored. Public procurement outcomes should be reported in manner, which shows clearly the cost of purchases, which in turn can be compared to a kind of standard of prices, e.g. a special catalogue (see Box 8 for a related issue).

Box 13. Reporting of Corruption Prevention and Combating Bureau in Latvia

The Corruption Prevention and Combating Bureau (CPCB) of Latvia has a statutory duty to submit its activity report to the Cabinet of Ministers and the parliament at least once in every six months. Since the time when CPCB became fully operation (February 2003), it has submitted five such reports of approximately 25 to 35 pages in length.

The reports contain:

- Summary figures on the number and type of criminal cases as well as a paragraph for each case, which explains the substance of each one. An example of such paragraph is as follows: *In August 2004 a criminal case was initiated according to Part 2 of Article 322 of the Criminal Law (mediation in bribery) for handing over LVL 1500 (approx. USD 2750) by a sworn advocate for a favourable outcome of the pre-trial phase of investigation in a criminal case initiated for a crime in public office. On August 16, 2004 the criminal case was handed over to the public prosecutor's office to commence prosecution.*
- Brief overview of legislative proposals elaborated by CPCP.
- Summary of numbers and types of cases where public officials have acted in situations of conflict of interests, obtained possibly unexplained wealth or committed other violations covered by conflict of interests legislation.
- Brief description of the procedure of controlling political party finances and major findings about possible illegal activity including exact amounts of detected illegal revenue of parties.
- Remaining parts of the reports cover activities for the education of the public, activities under internationally supported projects, etc.

In addition CPCB has assumed an obligation to present an overview of its activities at least once every six months to its Consultative Council (where non-governmental organizations are represented) as well as to give explanations if the Bureau fails to implement the Council's recommendations.

According to the State Program for the Prevention and Combating of Corruption for Years 2004-2008 all agencies, which have been assigned specific tasks under this program, are required to report to CPCB on the progress of implementation biannually.

For further information on CPCB see: <http://www.knab.lv/en/>

3.4. Analysis of implementation of anticorruption measures

Checklists (see part 3.2.) and official reports (see part 3.3.) usually provide a standardized framework for feedback and accountability. Nevertheless such sources are at times incapable of reflecting the full fabric of the state of affairs in a given sector, which is vulnerable to corruption. Therefore it may be necessary to carry out in-depth analysis of policy implementation in specific areas.²⁰ Among criteria, which may be applied, are effectiveness and relevance. Effectiveness here looks at whether a specific measure produces a change/impact while relevance applies to whether the achieved change/impact serves the broader policy aims and stakeholders' expectancies.

Policy implementation analysis is a broad subject, which cannot be entirely dealt with here. However, it is clear that implementation analysis is greatly facilitated if policy makers have built in observable success indicators already when formulating and adopting the policy. For example, when reforming judiciary, it is worthwhile to foresee a procedure whereby judicial practice shall be compiled and analyzed for quality, e.g. by the Supreme Court.

However, even if such built-in indicators are missing, implementation can still be analyzed and evaluated. For example, the effectiveness of a policy may be detected by looking whether the introduction of a new regulation or practice corresponds to any change in measurable outputs of an agency. For example, if you introduce the rotation of officials and if the commencement of such rotation correlates to any changes in outputs of an agency, e.g. if rotation of customs officials is followed by an increase in customs revenues, chances are that previous officials were not up to their duties because of either corruption or other reasons and that your new measure has been effective.

Relevance, in turn, might be assessed through interviewing stakeholders who have an interest in the execution of a respective public policy. For example, business people who are required to obtain licenses and their clients are likely to be a good source of information on whether changes in the licensing system have brought about any good.

One example of extensive peer review of implementation of anti-corruption standards is provided by the OECD Working Group on Bribery (see Box 14).

Box 14. Peer Reviews by the OECD Working Group on Bribery

The OECD Working Group on Bribery is responsible for the monitoring of implementation of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

The OECD monitoring mechanism takes place in two phases: the first phase evaluates the adequacy of countries' legislation to implement the Convention and the second assesses whether a country is applying this legislation effectively. For each phase a questionnaire (similar to a check list) has been developed.

²⁰ For a smaller piece of analysis on the implementation of conflict of interest regulations in Latvia, see chapter II of the following paper: Kalniņš, V. Čigāne, L. *On the Road toward a More Honest Society: The Latest Trends in Anti-Corruption Policy in Latvia*. The Latvian Institute of International Affairs (2003). http://www.lai.lv/9on_the_road_to.doc Last accessed on May 13, 2003.

In general, the monitoring procedure of the OECD Working Group on Bribery (similarly to GRECO) involves the following stages: the examined country is invited to respond to the questionnaire; a team of examiners visits the examined country to interview public authorities and representatives from the private sector and civil society; the examiners prepare an assessment report, which is discussed and adopted at the general meetings; reports contain recommendations.

The key feature of the reviews carried out by the OECD Working Group on Bribery is peer pressure. The reviews are conducted by experts from other countries, with various legal systems and traditions, based on their own experience. The tasks of the examiners are to analyse relevant legal provisions in the country, to assess if the country has introduced sufficient and effective measures to implement the OECD Convention and to prepare a report for to the Working Group. It is up to the Group as a whole to decide whether implementation is adequate; the examined country can comment on the assessment report, but it abstains from decision-making. The assessment does not establish if the country has passed the exam or not, but identifies areas for further improvements. The Group does not make prescriptive recommendations; it is up to the country to design and implement appropriate measures. While the process is not supported by any enforcement mechanisms, Working Group members are committed to implement the recommendations, and oral and written follow-up procedures ensure that this is the case.

For more information on OECD anticorruption monitoring activities see:
<http://www.oecd.org/daf/nocorruption>

3.5. Internal indicators of corruption

Internal indicators of corruption are those, which are typically used for reasons of internal control within agencies. The direct purpose of internal control is to ensure confidence in that an agency's objectives are being attained. Internal control is not only about controlling corruption but the accountability of employees/officials, the effectiveness of their activities and the trustworthiness of financial accounts all are elements, which are both essential for internal control and usually undermined when corruption occurs.

For purposes of government's self assessment (again specific objectives - assessment of corruption patterns and level, assessment of corruption vulnerabilities, assessment of the effectiveness of anticorruption mechanisms) a whole range of internal control indicators may be used. Several examples of internal indicators, which when occurring may signal corruption, follow.

Some of these approaches (see, for example, Box 17) are often presented as methods for the detection and investigation of crimes such as corruption and fraud. Within the context of this paper, these detection methods are viewed as overlapping with the measurement of corruption or likelihood thereof. In many countries with relatively underdeveloped investigatory practice, such indicators are of limited use for investigation but they at least may give a better idea of how much and what kind of corruption is likely to take place in reality.

Box 15. Corruption within the tax system: staff-related indicators

- As is the case in any public sector environment, the evidence of public officials living beyond their means - i.e. living to a higher standard than their income would normally enable them to - is an indicator for the existence of corruption.
- The absence of measures designed to maintain the integrity of staff, such as the promotion and enforcement of ethical standards, merit-based recruitment and promotion procedures and regular staff rotation schemes to prevent the building of networks, increases the likelihood of staff exploiting corrupt opportunities.
- Low ethical standards among professions linked to the tax system, such as accountants, are an indicator for the existence of corruption among those in charge of protecting the system against abuse.²¹

Box 16. Indicators of potential corruption in procurement

Step 1: government establishes and publicizes need for a good or service

- Vague of nonexistent specifications
- Particular brand or function for equipment mandated
- “Emergency” need/contract
- vendor helped establish specifications

Step 2: vendors submit proposal to meet the need

- Number of firms small or market share constant over time
- Patterns develop over time
- Information that bids are greater than market-clearing prices
- Consistent vendor “fingerprints” on all bids

Step 3: government evaluates vendors’ proposals and selects winner

- Contract awarded to other than low bidder
- Contract awarded to vendor with no track record
- Sole-source (no bid)
- Contract is rebid
- Government statement of work modified after initial need promulgated
- Overinvoicing

Step 4: vendor performs contract

- Cost overruns
- Sole-source extensions
- Award cancellation
- Poor quality
- Multiple change orders
- Protracted production or delivery schedule

Authors of these indicators themselves have added precautions about these indicators: “None of the indicators [...] is by itself a sure sign of corruption in a particular case. As a consequence, these indicators are only guidelines for suggesting where detailed investigation may be warranted.”²²

²¹ Corruption within the Tax System. *U4 Helpdesk Query (July 2003)*.
<http://www.u4.no/document/helpdesk/queries/query13.cfm> Last accessed on May 3, 2005

²² Klitgaard, R., Maclean-Abaroa, R., Parris, H.L. “Corrupt Cities. A Practical Guide to Cure and Prevention”, ICS Press (2000). P.p. 119, 124.

Box 17. How to detect corruption and fraud

Reports

Most serious fraud and corruption cases begin with a report or tip from an informant, and once detected, many such frauds can't be proven, at least within a reasonable time and budget, without an inside witness. Programs to facilitate and encourage reports are therefore quite important. Such programs include:

- Installing and publicizing confidential "Hotlines"
- Announcing an anti-fraud program and requesting confidential reports
- Sending confidential questionnaires to employees and contractors
- Voluntary disclosure, temporary amnesty and compliance programs for contractors
- Informant reward programs
- Whistle blower protection programs

Discovery of a "red flag"

If the case begins with the discovery of a red flag:

1. Match the red flag to the potential scheme(s).

For example:

- Unusually high bids from all bidders could indicate bid rigging
- Acceptance of high priced, low quality work could indicate kickbacks
- Payment of an invoice without a receiving report could indicate a phantom vendor

2. Then look for other red flags of the potential scheme(s). For example, if the first indicator suggests the possibility of a phantom vendor, look to see if the suspected vendor:

- Is on the approved vendor list
- Is listed in business directories
- Has a valid address
- Has a mail drop address
- Has submitted sequential invoices

and so on, looking for other indicators until the matter is resolved. Don't obsess over any one indicator – look for a number or pattern of indicators of the suspected scheme.

3. If there are significant indicators of the suspected scheme(s), determine if there are legitimate explanations. If not, continue the investigation.

"Proactive" tests for fraud

Internal corporate and external, on-line public record databases can be queried for indicators of fraud and corruption. See the examples below.

Internal database queries for kickbacks and conflicts of interest:

- Large price increases over a short period of time by a particular contractor or vendor.
- Significant increase in quantities purchased from a particular contractor.
- Continued acceptance of low quality goods (as indicated by higher rates of returns or credits).
- Multiple purchases just under upper level approval or bidding limits.

On-line database searches for kickbacks and conflicts of interest. Check:

- Real property records, neighborhood demographic information to see if the suspect employee is living beyond his means.

- Business filings for affiliations with the vendor, or to find front companies used to receive kickbacks.
- Court records for legal proceedings.
- Media records for background on the suspect contractor and employee.
- On-line address and telephone directories to match vendor and employee information.

Internal database queries for phantom vendors:

- Paid vendors that do not appear on the approved vendor list.
- Invoiced items that do not appear in receiving or inventory records.
- Multiple purchases just under upper level approval or bidding limit.
- Sequential invoices or inconsistent invoice number systems for the same vendor name.

On-line database searches for phantom vendors:

- Vendor address is a mail drop.
- Vendor address, telephone number or zip code matches employee's.
- Vendor street address is invalid.
- Same as kickbacks, above, to show approving employee has unexplained wealth or undisclosed outside business.²³

3.6. Audit²⁴

Audits differ in their focus. One can distinguish at least three types of audits:

- a financial audit,
- a general performance audit, and
- a performance audit focused specifically on ethics (or anti-corruption for that matter) related requirements.²⁵

None of the types of audits is intended as a tool to measure corruption *per se*. Rather they are often thought of as tools of deterrence of misconduct and data sources for investigators (primarily financial audits) or tools for assessing the performance of agencies (primarily general and focused performance audits).

Financial audit (be it done by state or private auditors) like some of the methods for the detection of corruption covered in part 3.5. is not usually perceived as a tool to monitor the state of corruption or government performance against corruption. Instead, in the context of anticorruption, it is first and foremost conceived as a weapon against corruption and a potent deterrent to waste and abuse of public funds.²⁶

Nevertheless, for example, adequate *ex ante* controls of commitments and payments as well as *ex post* audits of government income and expenditures not only promote good governance and guarantee financial integrity but also provide data, which allows one to get the sense of patterns of probable irregularities such as fraud and corruption. For an audit to be effective, it is important that there are developed standards for transparency

²³ Kramer, W.M. *Corruption and fraud - the basics*. <http://www.wmkramer.com/2basics.html> Last accessed on May 3, 2005.

²⁴ The drafting of part 3.6. was facilitated by kind assistance of Mr. Sébastien Lanthier.

²⁵ The latter two borrowed from: *Public Sector Integrity: A Framework for Assessment*. GOV/PGC(2005)3. OECD, March 11, 2005. P.70.

²⁶ See, for example: Guidelines for the Status Reports. Endorsed by the Advisory Group for the Anti-Corruption Network for Transition Economies. September 10, 2003.

in day-to-day public operations and output measures, which provide a baseline against which outside reviewers or agencies themselves can assess their activities.²⁷ Review may also extend outside pure financial auditing of income and expenditure and stretch as far as assessing the very public policies, for which money is spent (see Box 18 for a French example).

Box 18. Review of fiscal management: the Court of Audit of France

An independent judicial agency is responsible for reviewing fiscal management in France. The Court of Audit is made up of independent judges, selected through a professional career stream. The court is required under the constitution to assist the parliament and the government in overseeing budget law execution, and under the 1996 constitutional reforms is also specifically required to assist in oversight of laws governing social security financing. The court provides a report on the government account (and, since 1995, on the account of social security agencies) to parliament each year. The reports are aimed at verifying the regularity and accuracy of the accounts and verifying the quality of management and the proper use of public funds, up to and including an assessment of public policy. The court also prepares reports on special topics and submits these to both assemblies of parliament and to the president. It may conduct investigations on behalf of parliamentary commissions.²⁸

General and focused performance audits may have the integrity of public agencies as either one of their areas of interest (general performance audits) or as their primary focus (focused performance audits). This kind of audits pertains to evaluating not so much financial documents, but more to evaluating the presence and performance of, for example, ethics programs and codes, transparency in procurement and other relevant processes, co-ordination amongst “ethics” agencies, relevant reporting requirements, etc. Performance audits, which are focused on ethics measures, are basically straightforward performance reviews for ethics measures. As such they resemble implementation analysis described in part 3.4. but the latter is usually more focused on the implementation of particular policies and often takes the form of a study rather than a review process.

Box 19. Assessment by supreme audit institutions: Canada

The Auditor General of Canada regularly reviews values and ethics issues in the federal public sector. Her report of November 2003 includes a chapter on “Accountability and Ethics in Government”, while also earlier reports examined ethics in public institutions at the federal level.²⁹

²⁷ See: *Public Sector Integrity: A Framework for Assessment*. GOV/PGC(2005)3. OECD, March 11, 2005. P.72.

²⁸ Report on the Observance of Standards and Codes (ROSC). *France. Fiscal Transparency*. International Monetary Fund (2000). www.imf.org/external/np/rosco/fra/fiscal.htm Last accessed on May 12, 2005.

²⁹ *Public Sector Integrity: A Framework for Assessment*. GOV/PGC(2005)3. OECD, March 11, 2005. P.21.

³⁰ *November 2003 Report. Chapter 2. Accountability and Ethics in Government*. Office of the Auditor General of Canada (2003). <http://www.oag-bvg.gc.ca/domino/reports.nsf/html/20031102ce.html#ch2hd3a> Last accessed on May 12, 2005.

The ethics and accountability chapter of November 2003 report analyses current situation and proposes recommendations for five areas: parliamentarians' work on a code of conduct (in 2003 the Canadian parliament worked on issues related to ethics regulations), ministerial responsibility and accountability, raising awareness of values and ethics in public service, values and ethics in procurement and grants and contributions, root causes of problems, which are found in governmental programs and related to the issues of insufficient responsibility and accountability, compromised program integrity, ineffective oversight mechanisms, etc.³⁰

In addition, state auditor generals review ethics at the sub-national level administrations. For example, the 2001 Report of the Auditor General of Quebec reviews ethics in public institutions in Quebec.³¹ The report is available on:

http://www.vgq.gouv.qc.ca/publications/rapp_2001_1/Faits/Index.html

4. DISCUSSION

A major observation is that no ideal method for measuring corruption exists. Each approach has its limitations. However, this observation gives no grounds for giving up efforts to measure corruption as well as to assess anticorruption activities. Various remedies exist to overcome the limitations.

The most obvious remedy is the use of a combination of methods rather than any single one. For example, while the validity of perceived corruption alone as indicator of actual corruption may be subject to doubt, such findings become much more credible if supported by people's actual experience as revealed in surveys or qualitative inquiries (interviews, focus group discussions and the like).

Limitations for the measurements of corruption stem also from the fact that corruption is a highly complex phenomenon. Therefore, whenever possible, measurements should focus on multiple aspects of corruption rather than on any single indicator. If, however, only a single indicator is possible, care should be taken to establish what exactly is understood by the term and specifically what respondents (in case of surveys or interviews) mean by it.

No corruption measurement is capable of proving a particular level of corruption in a particular agency, sector or government on the whole to the extent that no alternative interpretation of findings is at least hypothetically feasible. In most cases one can speak with confidence about likelihood or probability rather than about established facts. For example, even if the results of risk assessment in a particular government agency show a very high likelihood of corruption, this cannot be taken as a proof that corruption really exists. But for a government willing to come to grips with this problem such information is of great value anyway.

Along debates on how to measure corruption, often equally much attention is paid to the issue who should do it. During 1990's there has been a proliferation of numerous efforts to measure corruption and assess anticorruption policies and this development still

³¹ *Public Sector Integrity: A Framework for Assessment*. GOV/PGC(2005)3. OECD, March 11, 2005. P.21.

continues. These efforts have been made by a variety of actors – international and national non-governmental organizations (e.g. Transparency International), inter-governmental organizations (e.g. the Council of Europe) including international financial institutions (e.g. the World Bank), national governments, and academic institutions.

The question of who does measurement and assessment is not irrelevant because this factor largely influences how measurements and assessments are done, how their results are used and not least how they are perceived in different arenas. What factors may be of importance in order to choose the most appropriate actor for a corruption measurement or anticorruption policy assessment exercise? What follows is a non-exhaustive review of such factors and related considerations.³²

- **Expertise and technical capacity.** Answer to the question who knows how to do measurement and assessment may be of decisive importance. Measurement of corruption is technically a relatively complex task and not every government or non-governmental organization possesses knowledge on how to do it. The first serious survey of corruption in Latvia in 1998 was carried out under the auspices of the World Bank. The Latvian government could not possibly do it because it did not have any experience with that kind of exercise. Similarly to expertise, it is also important to determine who possesses the necessary technical capacity.

In terms of technical expertise, several international organizations (e.g. the World Bank and Transparency International) have acquired such amount of it that they do enjoy comparative advantages over many other actors. On the other hand, national actors will usually enjoy a comparative advantage in terms of specific knowledge on circumstances in their particular countries.

- **Method.** Some of the methods, which are described in parts 3 and 4 of this paper, in some instances give a comparative advantage to specific actors. For some methods, technically there is no difference whether they are used by national or international, governmental or non-governmental actors. Thus measurements of corruption through perception (see 2.1.) or experience (see 2.2.) can and are done by all of these actors in various countries.

For other methods, national governments have advantages because they have better access to data if compared to outside actors. This is particularly true for such approaches as risk assessment (see 3.1.), internal indicators of corruption (see 3.5.) and audit (3.6.). Due to the necessity to obtain large amounts of internal information, they usually cannot be carried out from the outside. Even if outside parties (e.g. NGOs, consultants, etc.) are tasked with using these methods, their success depends on extensive involvement of respective government agencies.

³² This review is indeed not only non-exhaustive but it can serve no more than an example to which equally or better suited alternatives exist. See, for example, figure 1.4. *Decision-making tool: Key factors to consider when choosing between internal and external assessment* in document: *Public Sector Integrity: A Framework for Assessment*. GOV/PGC(2005)3. OECD, March 11, 2005. P.23.

For some other methods, the choice may depend on the level of openness of public agencies. The specific checklists described under part 3.2. can be used as tools both by national governments for self assessment and by outside actors but the success of the latter will depend on how much information on the activities of public agencies is available to them.

- **Territorial focus.** It is almost self evident that the area of interest (national, regional, global) largely determines who should carry out measurements and assessments. If one is interested in the in-depth exploration of situation in country X, national actors will have a comparative advantage even if in terms of expertise or resources they may need outside assistance. On the other hand, if one is interested in where country X stands in comparison to countries Y and Z, no single national government or other national actor alone is likely to succeed with the task.
- **Credibility.** Though technically it does not need to be so, people often look at who has done measurement or assessment in order to judge how credible the results are.

A simple assumption might be that the more perceived corruption there is in the government, the less will be the credibility of the findings of such government's own assessments (especially if such finding are contrary to popular perceptions). In such situations there are good reasons to transfer the task to either non-governmental or academic actors, or to international bodies/experts. A similar logic would apply within governments. Namely, if one is interested in the assessment of particular agency (e.g. corruption in tax administration) and this agency is widely perceived as corrupt, the task of assessment should to the extent possible be extended to other agencies. In other words, those who carry out assessment should enjoy a reasonable degree of independence (some form of such independence is a must for, for example, auditors).

Another simple assumption is that the involvement of a broader circle of actors / stakeholders will enhance the credibility (as well as legitimacy) of the exercise. This is probably one of the reasons why procedures such as GRECO evaluations (see Box 11) are built upon close cooperation between international experts and national authorities. The risk is, however, that such multi-stakeholder involvement may bring in the element of political bargaining, which limits the credibility of end results. For example, the need to achieve the agreement of a government that is being assessed, gives an opportunity to this government to achieve a more positive assessment than technically deserved.

- **Desired impact.** The desired impact of the measurement or assessment exercise is another factor, which should be taken into account. If the desired impact is, for example, a change in the awareness of the general public, international and/or non-governmental assessments are usually well-suited. This is even truer, if the aim is to address the international public. If on the other hand, the desired impact from the measurement or assessment is the launch or improvement of a national policy, an extensive involvement of a national government on the whole or its particular agencies is crucial.

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6. ADDITIONAL RESOURCES

Anti-corruption Network for Transition Economies (the site includes monitoring reports for the Istanbul Action Plan countries)

<http://www.anticorruptionnet.org/>

The Council of Europe. Group of States against corruption. GRECO. Country evaluations. <http://www.greco.coe.int/evaluations/Default.htm>

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The European Commission. Regular reports on accession countries (include reviews of corruption and anti-corruption policies)

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TI Bribe Payers Survey

<http://www.transparency.org/surveys/index.html#bpi>

TI Corruption Perceptions Index

<http://www.transparency.org/surveys/index.html#cpi>

TI Global Corruption Barometer survey

<http://www.transparency.org/surveys/index.html#barometer>

TI National Integrity Systems (The site includes country assessment reports.)

http://www.transparency.org/activities/nat_integ_systems/country_studies.html

V4 INDEX (compares the functionality of anti-corruption tools in the public administration in the capitals of the Czech Republic, Slovakia, Poland and Hungary. Transparency International - Czech Republic, GfK Praha (2004)

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