
Setting the Stage



Rationale and structure of the report

The centrality of corruption for growth and development

Corruption continues to make headlines around the world in both developing and developed countries—billions of dollars stolen from countries, leaks of offshore databases helping to bring down governments, and mass protests over corruption threatening political stability. New governments come to power on the promise of clean, accountable, and transparent regimes—as in the case of Malaysia, which saw a change in government in 2018 after 61 years. In rich countries, the term “corruption” is routinely hurled at political opponents, sometimes with facts to support the allegations, sometimes not. Relatives of leaders find themselves losing court battles in foreign countries over their unexplained wealth, triggered by the ostentatious consumption of luxuries. Already in 2020, the record for the largest legal settlement for overseas bribery ever was broken when Airbus SE agreed to a settlement of \$4 billion with France, the UK, and the USA.

Recognition of the pernicious effects of corruption helped establish its primacy as a development issue. Since the founding of Transparency International in 1993 and James Wolfensohn’s candid speech on the “cancer of corruption” in 1996, there have been deepening analyses and evolving approaches to tackling corruption. Governments across the world are trying to address this phenomenon, which manifests itself in different ways in different sectors and services. From 1Malaysia Development Berhad (1MDB) to the Fédération Internationale de Football Association (FIFA), from Operation Car Wash to the Luanda Leaks, recent headlines of corruption scandals only serve to highlight the continuing need for attention to the problem of corruption.

Research has long examined the deep and far-reaching impact of corruption on economic growth, management of public resources, and inequality. Early economic studies argued that corrupt practices distort the distribution and utilization of resources, leading to inefficiency.¹ Corruption also affects public welfare when investment decisions are driven by opportunistic, rent-seeking motives, rather than the intrinsic value that such investments can bring to

society. Corruption creates an uneven playing field for firms, distorting competition and innovation.

While corruption impacts everybody, the impact on the poor and most vulnerable is disproportionate, thereby exacerbating poverty and inequality.

Empirical studies have shown that corruption hits the poor the hardest. Many studies find that the poor pay a larger share of income in bribes, consistent with the idea that many payments for services are flat charges. Moreover, some have argued that the poor are more likely to be victimized either because they rely more heavily on state services² or because they are seen as having less power. In one study in Mexico, car accidents were staged in an experiment—the traffic police hit up the drivers of old cars for bribes and waved luxury cars along with warnings.³ While the rich gain access to services by paying bribes, the poor and vulnerable are restricted from accessing health, educational, and justice services that, in theory, are open and free.⁴ Likewise, some among the rich and powerful gain from grand corruption, while the poor suffer the consequences when money is siphoned off. Such money could have been put to more productive uses to build human capital and infrastructure, or address issues related to high-quality service delivery, jobs, gender equality, and climate change, to name a few.

Corruption not only undermines credibility and trust in governments but impacts the development of economic, social, and human capital, which is fundamental to long-term progress.⁵ For example, the two key factors that produce human capital, namely education and health, see corruption of various forms. Teacher absenteeism, kickbacks for school meal contracts, nepotism, and false degrees all weaken the efficacy of learning-related spending, and the pernicious effects of corruption do not stop there.⁶ In the health sector, goals can be undermined by corruption in the procurement of pharmaceuticals or medical equipment, and has been associated with problems as wide-ranging as antimicrobial resistance⁷ and HIV infection,⁸ and to child mortality⁹ more generally.¹⁰ In addition to the long-term consequences, corruption in the health sector can have immediate effects as we see now in the ability to efficiently address the COVID-19 pandemic (see box below). Further, corruption in infrastructure,

BOX A**Corruption Risks Stemming from COVID-19**

At the time of finalizing this report, all countries are dealing with the crises surrounding the COVID-19 pandemic. Governments are responding not just to contain the disease, but to address the multiple challenges of providing health care, food, and security to people as well as keeping the economy from crumbling due to the closing of businesses and forced lockdowns across the world. This unparalleled crisis has caught most governments unprepared and has led to very large sums of unplanned money being spent on health care, social security and economic stimulus. Speed is key and hence regular or standard operating procedures are often not realistic. Billions of dollars are being raised, borrowed, and spent by countries, circumventing standard procurement and other accountability procedures as they try to control the spread and aftermath of COVID-19.

The large scale of emergency spending by governments exposes them to a variety of corruption risks that may undermine the effectiveness of government responses. The strains placed on the public sector in responding to the current situation present enormous opportunities for corruption to flourish. Corruption can lead to the theft, wastage, and misuse of scarce resources, resulting in unnecessary suffering and death. It can also entrench elite privilege and inequality, and undermine institutions of accountability with lasting consequences. The risks and associated responses in such a situation are of a very different nature to those highlighted in the report, as this situation is unique and unprecedented.

Key risks of corruption from the COVID-19 response in the health sector include those related to corruption in the procurement of emergency supplies and services; supply chain and service delivery; and in the administration of the response to the health crisis. Risks in responding to safety nets, food and livelihood security stem from the theft and capture of emergency funds. The use of these funds could be undermined by distorted targeting, capture by vested interests and inclusion or exclusion of certain populations, as well as by being stolen prior to reaching the intended beneficiaries. Finally, the risks associated with reviving the economy are multi-faceted and include unequal application of emergency powers granted for various economic activities, ranging from distribution of benefits to implementation of policies and decisions taken by the government, and abuse of power.

Minimizing such risks, whether for health sector spending or safety nets or revival of the economy, requires mechanisms for oversight. This would involve defining and activating explicit processes and protocols for documenting emergency spending; tracking delivery of supplies involving central and decentralized authorities; publishing information on emergency spending; and conducting quick reviews. Such reviews would involve undertaking audits of spending as well as receiving feedback from beneficiaries through specific mechanisms, so that responses can take account of identified shortcomings and become more effective as the situation evolves. Use of pre-existing digital platforms both for distribution of benefits, as well as for addressing grievances and fostering partnerships with the private sector and civil society organizations for distribution and oversight, can build greater oversight and trust.

In short, to foster greater accountability it is important that government actions are clearly articulated, rules are enforced, violations are addressed, and problems remedied as quickly as possible in a transparent manner. Follow-up actions include dismantling temporary or emergency powers and provisions, conducting post reviews and bringing perpetrators to task. Communication to the public on all government actions from the allocation of funds to their use, as well as publicly reporting about the measures being taken to prevent corruption and to follow up on violations, will not just deter corrupt behavior in this situation but will help maintain the focus on the broader corruption agenda.

Source: World Bank. 2020. Ensuring Integrity in Governments' Response to COVID-19 (English). Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/801501588782665210/Ensuring-Integrity-in-Governments-Response-to-COVID-19>.

with its effects on road quality, and corruption in the police, with its effects on safety enforcement, are both associated with road fatalities with consequent impact on human capital. Corruption to avoid environmental regulations, kickbacks in procurement, bribes to pass building inspections, and state capture by interests in pharmaceutical companies, all undermine the developmental impact of public sector expenditures.

What makes this report on corruption different?

Since corruption manifests itself in many diverse ways, no single report can expect to address all the sources of corruption and approaches required to combat it. Instead, this report aims to highlight accumulated knowledge on anti-corruption thematically. It curates stand-alone case studies in the fight against corruption, i.e., examples of where public officials have implemented promising initiatives to combat corruption and enhance public sector performance. While a specific intervention or case may be showing signs of impact, it does not mean that these countries have made generalized progress in reducing corruption at the country level. Nonetheless, it may be possible to scale up these limited successes in difficult environments or to apply them to other countries keeping local conditions in mind. There may be learning in these cases. At the same time, as with many anti-corruption efforts, any of these successes runs a risk of reversal due to a policy or political change in the country.

Case selection was done through World Bank staff who have technical expertise in selected areas and countries, and through an extended network of partners, practitioners, and think-tanks known to staff. This process was similar to that used to produce *Improving Public Sector Performance through Innovation and Inter-Agency Coordination*, published in 2018 out of the World Bank's Global Knowledge and Research Hub in Malaysia. This approach implies that there may be other cases across the world that are known to individuals and practitioners, but they may not be documented or disseminated in a way that is accessible to a wider audience. Cases were solicited and selected on the basis of themes and sectors covered in the report rather than their geographical origin. Hence, while there may be several cases from a particular country or none at all, overall there is a broad geographic spread covering almost all regions,

including fragile and conflict-affected countries.

This report is structured to optimize its value and interest to government practitioners, researchers, international developmental organizations, civil society organizations (CSOs), think-tanks and the public at large. Within that sphere, the report should find an audience not only among anti-corruption agencies, but also ministries and institutions performing functions that tend to be most vulnerable to corruption (e.g., public procurement, infrastructure, and customs administration). This report is granular as it slices the issue of corruption into key thematic areas and specific sectors that are prone to corruption. Examples suggest a set of potential entry points and platforms for future engagement in specific areas. The structure along themes and approaches will enable practitioners, policy makers, and other audiences to zero in on sections that may be most relevant for their context. Hence most sections of the report can be read as stand-alone pieces depending on the area of interest. Cases aim to give a detailed account of not only what was done, but "how" the obstacles were addressed to achieve the reform and results.

The report approaches corruption by unpacking it into selected themes and provides examples of successful interventions. Focusing on emerging stories of impact across a range of countries, sectors, and tools challenges the notion that little can be accomplished. To focus on successes is admittedly risky, as reforms can be weakened or even reversed, sometimes quickly and sometimes through a gradual erosion of commitment. Alternatively, there may even be non-observed aspects of the success, making attempted replication fraught with difficulties. However, there is merit in focusing on success; where there is a will and an opportunity to confront the problem of corruption in one's organization, seeing how others have successfully addressed similar challenges can spark ideas and innovation. The case studies also provide examples of reforms driven not necessarily from within government but from civil society and by private sector interests. The cases also contextualize the design of reforms to warn against using those approaches blindly with scant attention to the country context. Given the diverse nature and magnitude of the problem, it is important to understand the tools, policies, and approaches that have worked in specific contexts to achieve goals at defined times. By no means exhaustive, the selected tools, policies, and approaches may help with the design of appropriate interventions within

country contexts. While the chapters and case studies are modular, they do not make up a menu. Though the report does not claim to fully address the complex political or social dimensions in each case, it recognizes the role or lack thereof of political leadership, cultural norms and other key factors in spearheading or putting at risk some of the anti-corruption reforms.

Coverage, limitations and structure of the report

The report is selective about what manifestations of corruption are covered. The overarching criteria for the selection of thematic areas are functions or sectors that are particularly prone to corruption and instruments or institutions that have experienced some success in combating corruption. The report organizes these thematic areas in three broad categories. First, it drills down into selected sectors and functions that are prone to corrupt activity and that have a high impact on development. Second, it zeros in on some of the policy practices and tools that have been effectively used by practitioners in different country contexts; and third it highlights the role of three key institutions in preventing and detecting corruption. Beyond these three categories, the report highlights successes in expanding transparency, citizen engagement, technological adoption, and stakeholder collaboration, which are critical across all sectors. As the report is case-study based, the focus is on the perspective of leaders and practitioners and the sorts of issues that they face in corruption-beset sectors. The chosen themes, instruments and institutions are not exhaustive, nor are they distinct sets as evident from linkages and overlaps discussed briefly below. The final section also has a country-specific focus on Malaysia, a case that traces the history of a country's anti-corruption efforts over the last few decades.

Each thematic area is covered in a separate chapter that generally begins with an overarching chapeau that delves deeper into the sector or instrument-specific issues, supported by case studies. It provides context to the reader about why the sector, instrument or institution is relevant for governments' anti-corruption efforts, possible entry points for engagement, what works, and what is less effective. It then draws on lessons from the two or three country cases that support the issues discussed in the chapeau. In some chapeaus, cases are in-built into the broader write-up, as they did not merit a detailed

description and instead are cited as examples or boxes within the chapter. Cases are used to draw lessons on key elements that drove success and aim to provide hands-on guidance to practitioners and policy makers. In contrast, for one or two thematic areas – such as the use of tax data and collaboration with tax agencies – the focus is on the cases.

The first part of the report covers issues, challenges and trends in five key thematic areas, supported by specific country cases that demonstrate some degree of success or provide valuable lessons.

The five thematic areas include public procurement, infrastructure, state-owned enterprises (SOEs), customs administration, and delivery of public services in selected sectors. These themes were chosen not necessarily because they offer the best possible solutions to address corruption but because of the central role they play in long-term economic and social development. Due to the centrality of these areas for economic systems and the pervasiveness of their interaction with the private sector and the general population, they pose large risks for misappropriation of public funds, the capture of revenues by elites, and collusive networks.

The five thematic areas cover a large canvas but are by no means exhaustive or distinct. Estimates show that **procurement** accounts for 10-25% of spending globally and anywhere between 10-30% of the cost of capital projects is consumed by corruption. The report cites three cases of which two are from fragile and conflicted countries (Afghanistan and Somalia). The first three thematic areas (procurement, infrastructure and SOEs) are inter-twined as many large corruption scandals in **procurement** are associated with **infrastructure** services, several of which stem from **SOEs**. Case studies from Colombia, Brazil and Angola highlight the importance of transparency, citizens' oversight and integrity to foster greater accountability in the functioning of SOEs. The report also examines the importance of public-private partnerships (PPPs) in this context through examples of poorly designed long-term partnerships that have resulted in renegotiations in several countries. **Customs** administration is another sector prone to both transactional and systemic corruption, where deal-based relationships and political interference are rampant. The report highlights an interesting case from Madagascar wherein 'performance contracts' were used to tackle corruption. Finally, **delivery of services**, which is a key area as it impacts people's day-to-day life, is covered through



three interesting and important sectors: health, land, and ports. Together, they represent a wide spectrum of services with unique approaches used in three country environments: health in Ukraine, land administration in Rwanda and ports in Nigeria.

The second part of the report focuses on cross-cutting themes like transparency, citizen engagement, and GovTech, plus selected tools to build integrity and detect corrupt behavior. The chapeau on **transparency and openness**, a cross-cutting and foundational tool to deter corruption, is supported by case studies from Kenya and Ethiopia that demonstrate the role citizens can play in bringing about greater accountability and integrity in government functions. New technologies and their use to deliver services and detect fraud and corruption are discussed in the **GovTech** chapter. **Asset and interest declarations** with different degrees of sophistication are beginning to show results in building integrity in some countries, as highlighted in the case of Ukraine and Romania. This is followed by a discussion of **beneficial ownership transparency**, another powerful tool to end the corrupt practices and proceeds of anonymous companies. Part II concludes with a focus on two case study examples of how **inter-agency collaboration with tax agencies** can contribute to better detection and prosecution of corruption.

Part III uses a broader institutional lens to consider the role played by oversight institutions to support government-wide reforms to fight corruption. Lessons regarding the role, evolution, structure and effectiveness of **Anti-corruption Agencies** are demonstrated by country cases from Bhutan, Lithuania

and the United Kingdom, three countries with very different histories. A short piece on **Supreme Audit Institutions (SAIs)** and their role in flagging dubious transactions is supported by case studies from Ghana and India. The last chapter discusses the role of **Justice Institutions** in controlling corruption and the challenges they face in strengthening operational effectiveness and independence.

A special country case study on Malaysia traces the evolution of the country's anti-corruption efforts and its political-economy dimensions over several decades. The Malaysian case reviews the efforts, opportunities and challenges faced by a country that had one-party rule for over 60 years until 2018, following a very large corruption scandal at its sovereign wealth fund 1MDB. It also highlights Malaysia's institutional and policy reform efforts to address corruption from the 1950s to the present.

The report concludes with a review of six cross-cutting factors that are common across the case studies, as well as some reflections on the agenda that lies ahead. It notes that while there are no panaceas for confronting corruption, the featured cases exhibit a mix of reform drivers that contribute to their impact. The chapter highlights the importance of political leadership and alignment of incentives, coupled with information technology, to enable greater transparency and accountability in public expenditure. Institutional capacity enables effective and sustainable implementation of reforms, while collaboration across international institutions and countries across the globe is critical to detect and confront illicit flows of funds.

Trends, measurement, and emerging issues

Global trends in implementing policies and tools that help reduce corruption

The tools, policies and mechanisms for controlling corruption have seen improvements in many areas, and are generally moving in the right direction, despite some reversals. Systems of public financial management (PFM), access to information, and mechanisms for accountability have all become more sophisticated with the use of improved technology. Laws prohibiting overseas bribery are becoming more prevalent and more widely enforced. On the other hand, in several countries, the right to information or to participate in public affairs is being curtailed, accountability mechanisms exist in name only, and enforcement is lax. Freedom House, in its annual review, finds steadily declining averages for their Functioning of Government measure, which focuses specifically on measures for controlling corruption. There is a growing need to address the role of secrecy and offshore jurisdictions, concern about the shrinking space for civil society, and distress over repressive means being used to curtail information.

While some of the common foundations for controlling corruption appear to be moving in the right direction, corrupt individuals are also finding it easier to hide their illicit gains. The need to move and hide large sums of illicit funds has contributed to growth in the demand for services that facilitate these movements and for the creation of offshore structures.¹¹ Secrecy-focused jurisdictions provide havens for hiding wealth, whether obtained legally or illegally, and some jurisdictions have competed for such business. While the historical origins are deep, the competition has led to an increasing number of secrecy jurisdictions. There is increasing recognition of the pernicious effects that policies in these jurisdictions and the abuse of anonymous companies and other legal structures have on corruption.¹²

Access to Information. The ability of citizens to make informed choices in their daily life and hold government accountable is directly related to their ability to have access to government information in a meaningful way. When access to information is the default, rather than the exception, the public, the media, and civil society can serve as watchdogs over the government. Countries that have passed access to information laws

often see such laws used by investigative journalists and civil society activists to uncover malfeasance of all sorts. Based on the Global Right to Information Rating (RTI Rating), which uses 61 indicators corresponding to features of a good RTI regime, both the number and quality of access to information laws have been increasing. An indicator that tempers optimism about this trend is provided by the Open Government Partnership (OGP), which tracks implementation of RTI commitments by OGP members. Between 2014 and 2018, the number of OGP members implementing RTI commitments dropped 15 percent and fewer members made such commitments in 2018 than in 2012. Since most OGP members already have RTI laws in place, the concern is over commitment by countries to improve their RTI legal frameworks and ensure quick and effective servicing of information requests.¹³ Access to information systems feature in the chapters on open government (chapter 6), infrastructure, and public-private partnerships (chapter 2), and supreme audit institutions (chapter 12).

Public Financial Management. Strengthening PFM systems can help reduce the risk of some forms of corruption through better accountability, improved spending and greater scrutiny of the budget, both by legislatures and the public, and can help constrain the ability to shift resources towards corrupt purposes. One useful source for tracking progress on PFM is the Public Expenditure and Financial Accountability (PEFA) program, initiated in 2001.¹⁴ The PEFA program provides a framework for assessing and reporting on the strengths and weaknesses of PFM, using evidence-based indicators to measure performance. A recent World Bank study¹⁵ demonstrates the usefulness of matching measures of corruption with measures of the policy and institutional framework. It found that "firms report paying fewer and smaller kickbacks to officials in countries with more transparent procurement systems, effective and independent complaint mechanisms, and more effective external auditing systems." Overall, for the subset of countries that have undergone the PEFA exercise multiple times, some saw their assessments get worse, but a larger number of countries saw improvements.¹⁶ Studies of PFM remind that reforms require long-term engagement with all stakeholders for successful implementation. Different aspects of public financial management are discussed in the chapters on procurement (chapter 1), public infrastructure

(chapter 2), state-owned enterprises (chapter 3), open government (chapter 6), and supreme audit institutions (chapter 12).

Transparency and Participation in Decision-Making.

Transparency can help strengthen accountability for the implementation of policies. When coupled with mechanisms of participation, transparency can also help limit the degree to which policies are biased in favor of certain groups, firms or individuals. When working in concert, transparency and participation can help limit state capture. Based on a study by the World Bank, between 2001 and 2016, about 60 countries had adopted regulatory impact assessment (RIA) frameworks¹⁷ that were publicly available. As with access to information laws, however, developing systems to implement RIAs as part of the legal and regulatory drafting processes is not trivial. Among the 57 countries whose reforms could be tracked, only 20 had operational and functional systems two years into implementation. The authors noted that public officials may resist RIA systems either because of the disruption to established processes and work patterns or because the associated transparency may expose practices which are not ethical or legal. The study argues that flexibility and patience are needed for the successful building of reform constituencies inside and outside government.

Accountability Mechanisms. Several accountability tools, such as income and asset declarations and conflict of interest disclosures for public officials are being more widely applied across governments. The percentage of jurisdictions with disclosure requirements has grown from 43 percent in the 1990s to more than 90 percent today. Many are taking advantage of electronic means for making and verifying the disclosures.¹⁸ These are discussed in greater detail in the case studies in chapters 8 and 9 of the report. Indeed, technological advances are strengthening mechanisms of accountability in many ways. These include the use of biometrics to eliminate ghost workers, e-GP for efficiency and integrity, public audit tools and beneficiary feedback mechanisms, and the use of drones and remote sensing to monitor progress on infrastructure projects. CivicTech and GovTech are providing promising avenues for accountability and have shown some positive results in conjunction with other tools. Chapter 7 discusses the latest trends in technology and their use to deliver services and detect fraud and corruption.

Enforcement of Stricter Foreign and Domestic Anti-corruption Legislation. While the United States of America was the leader in pursuing its companies for overseas bribery, it is no longer alone. The Foreign Corrupt Practices Act (FCPA) of 1977 made it unlawful for entities to make payments to foreign government officials to assist in obtaining or retaining business.¹⁹ Other countries have since enacted similar legislation, especially following the adoption of the OECD Convention Against Bribery in 1998. The UK Bribery Act is even more stringent, and enforcement has also been increasing. While universal enforcement of such laws is still a long way off, some progress has been made in the past decades.²⁰ The passage in 2003 of the United Nations Convention Against Corruption (UNCAC), which obligated signatory countries to criminalize behaviors widely viewed as “corruption”, was an important milestone. While legal frameworks have moved closer to criminalizing the behaviors widely seen as corruption, data on enforcement is not easily available and most observers see a large gap between de jure provisions and de facto implementation. Internationally, efforts to rein in overseas jurisdictions are bearing fruit, as the chapter on beneficial ownership transparency (chapter 9) explains. Pressure has also been increasing through the debarment processes of the multilateral development banks, including agreements to cross-debar firms and individuals that violate policies related to fraud and corruption. By the end of June 2019, more than 200 firms or individuals had been debarred by the World Bank.²¹

Measuring impact: Does the data help us?

Has the progress in improving policies and institutions for controlling corruption been matched with progress in reducing corruption? Have the tools and strategies adopted by countries been effective? Have the anti-corruption agencies, tax and audit institutions, CSOs and other institutions of accountability been effective in reducing corruption? The answers are not straightforward as they depend on the availability of indicators that robustly measure trends in different types of corruption over time. While the pros and cons of different measures—surveys on experiences, perceptions of experts, and indexes of both—have been written about before, a brief review may be useful.²²

It is important to distinguish between measures that are based on the perceptions of experts and those that track actual prevalence of corrupt behaviors over time. The former may have limited usefulness in tracking actual levels of corruption over time since perceptions may be biased by perceived correlates, such as poverty or form of political system. In addition, they tend to adjust slowly to changing realities. A range of biases can cloud perceptions of how good or bad things were in the past, making questions about perceived trends ("is corruption getting better or worse?") poor proxies of actual trends.²³ In contrast, surveys about contemporaneous experiences ("have you paid a bribe in the past year?"), evaluated at different points in time, provide better measures of actual trends. Even if they are well designed, however, surveys on corruption experiences may not always get honest answers, leading to underestimations of the extent of corruption.²⁴

While index-based measures have helped raise general awareness of the magnitude of corruption, they have limited usefulness for tracking changes over time. Two of the most well-known and widely used indexes are Transparency International's Corruption Perceptions Index²⁵ (TI-CPI) and the Control of Corruption measure in the Worldwide Governance Indicators²⁶ (WGI-CC). Both of these use composites made up of more than one indicator, combining information based on availability. The TI-CPI continues to be influential in raising awareness about corruption, and the WGI-CC is often used for statistical analysis given its long time series and broad country coverage. They both have their limitations,²⁷ however, when it comes to tracking progress over time. One reason has to do with the lack of conceptual clarity of the indexes. Imagine, for example, an index that comprises three sources of data: enterprise survey data on experiences with corruption at customs, expert perceptions of the overall prevalence of "corruption", and household surveys about informal payments and gifts for services. Such an index would have no natural units, a problem that is exacerbated when the data is patchy. Only one or two of these may be available in some countries, leading to an index with many missing data points and making it inconsistent across countries or even within a country over time.²⁸ In practice, the amount of missing information is huge. For the 210 countries covered by the WGI-CC in 2018, there are 127 different combinations of the sub-indicators—and, one may argue, 127 different definitions of "corruption". The issue is not a matter of a few missing observations

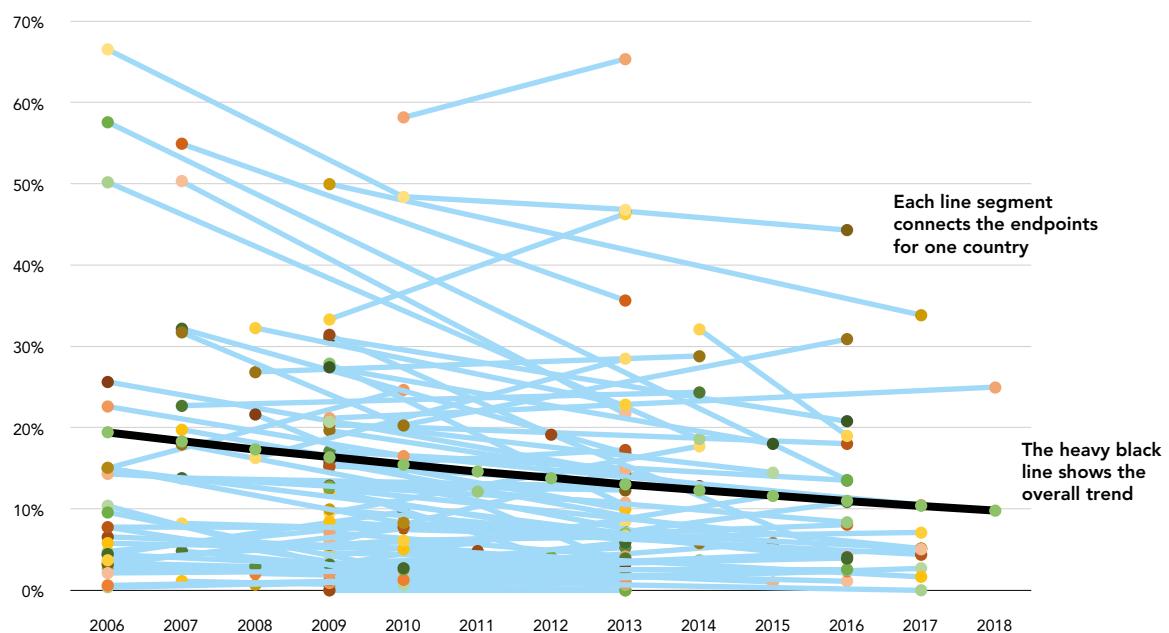
but is much more systemic since 57 percent of the underlying data points are missing. A second reason is more direct. The WGI-CC is rescaled each year to have a mean of zero and this reason alone means that it cannot be used to track progress over time. Using these composite indicators to assess changes over time, while commonly done, should be avoided.

Well-designed surveys, on the other hand, tend to provide a more accurate understanding of corruption trends over time, but they are intentionally narrower in scope. The World Bank's Enterprise Surveys since the early 2000s have allowed for systematic tracking of direct experiences with corruption in business enterprises, using a consistent methodology (the same questionnaires and sampling). To track and understand trends, one needs to focus on the countries that were in at least two rounds of the Enterprise Surveys. In the Europe and Central Asia region, such surveys have been carried out every three to five years since 1999, and each round has showed generalized reductions in administrative corruption.²⁹ A global approach would need to focus on the years since 2006 when survey questionnaires were harmonized across regions.³⁰

One benefit to working with certain survey data is the ability to focus on specific types of behaviors, rather than the generic term "corruption." Indeed, speaking too generically about "corruption" not only risks mashing up genuine successes and failures, but makes it hard to learn from either.³¹ The key corruption-related questions on the Enterprise Surveys concern taxes, government procurement, operating licenses, and import licenses. There is also a more subjective question about how much corruption is an obstacle to doing business.

The World Bank's Enterprise Surveys show a decline, on average, in administrative corruption on the whole, even though the individual country results vary. Global results suggest a decline in corruption on bribes paid to tax officials at an annual rate of decrease of 3.7%. Among firms that made any informal payment for a government contract in the past 12 months, the annual decline was 6.6%. The estimated annual rate of decline in the percentage of firms indicating corruption as a major obstacle is 5.4%. The estimates of the annual rate of change in the various measures of corruption are consistently negative, implying improvement over time, and most of them are highly statistically significant. (Figure A shows the percentage of firms that made

FIGURE A Percentage of Enterprises making Informal Payments (Gifts) to Tax Inspectors, among those with Contact (89 Countries)



Note: Based on the 89 countries that had at least two rounds of the Enterprise Surveys between 2006 and 2018. For each country the implicit annual rate of change was calculated. (The average rate of change is negative and significant.) These were then averaged and applied to respective variables. The year with the most observations was used to benchmark the trend lines, and the growth was projected forward and backward.

informal payments to tax inspectors for all countries with at least two observations. Each line represents one country. The heavy black line is the average trend.)

It is worth noting that while administrative corruption on average is declining, the pace of decline is slow. At these rates of change it would take nearly three decades (27 years) to reach a position at which the average country would have fewer than 5 percent of firms report that corruption is a major problem for doing business. Since the approach used in this thought experiment is to calculate rates of change, rather than absolute change, this approach is, perhaps, biased toward estimates of long convergence periods. Even so, it is clear that while the general trend is in the right direction, the pace is slow and progress is not universally present in all countries.

Some forms of corruption, particularly corruption that is less frequent but of large magnitude, are not well measured by surveys or any other existing method. Such grand corruption scandals routinely

surface, but the magnitudes are not known in a way that facilitates comparison over time. It is clear that when such cases do come to light, they are often massive—and consequential. Transparency International’s 25 Corruption Scandals that Shook the World lists scandals in football and jade mining, leaks that brought down presidents, death squads and Hollywood parties. The imperative to address corruption is as strong as ever.³²

From technology to behavioral science, other trends that impact corruption

Changing global trends and some additional factors present opportunities to address corruption but also create some challenges. Despite the improvement in reducing the prevalence of administrative corruption in many places, the spotty record and continuous stream of scandals suggest the need for a re-examination of approaches to controlling corruption. In addition, other factors have changed and continue to change rapidly, calling for a realignment of approaches. While

by no means exhaustive, a few of these changes, including technology, globalization, human behavior, politics and power, and the issue of incentives, are worth a mention.

GovTech can be a game changer for strengthening various aspects of governance and control of corruption, but technology can also pose risks.³³

Online platforms can be used to enhance transparency, strengthen citizen engagement, and establish grievance redress mechanisms, including whistleblower systems. Digital technology can also speed up government services and facilitate monitoring of service quality, obviating the ability to demand certain bribes. The ready availability of some technologies, such as mobile phone cameras, can make it harder for abuses to

remain hidden and others, such as distributed ledger technologies, can also prevent fraud. E-GP can level the playing field for bidders and facilitate the collection of data, which itself can help identify red flags that signal corruption risks.³⁴ While the rapid advance of technology holds great promise, it also poses cause for concern. The explosion of data and transparency needs to be met with a massive expansion in data literacy and analog complements, such as skills, infrastructure and institutions, to reap the full potential of digital dividends.³⁵ At the same time, digital technologies can also be abused to repress human rights or to transfer and disguise large amounts of stolen assets. The role of GovTech is discussed later in the report (chapter 7) as a thematic area with several country examples covering a wide range of services where technology is playing



a key role. Indeed, technology features throughout this report for applications in procurement (chapter 1), customs (chapter 4), service delivery (chapter 5), open government (chapter 6), asset and income declarations (chapter 8), and others.

Increasing globalization has facilitated the movement of people and assets across borders, leading to expansion of cross-border illicit financial flows. As discussed earlier, offshore financial centers have long been available as safe havens for illicit assets, but their use has expanded in recent decades with easy access to services of lawyers and bankers that specialize in cross-border financial dealings. At the same time, stricter enforcement of laws against overseas bribery is increasing the risk to international investors that do business with countries with endemic corruption, with fines running into the billions of dollars. Tools like asset and interest declarations (chapter 8), beneficiary ownership transparency (chapter 9) and sharing of tax administration data (chapter 10) are useful in addressing some of these.

A more systematic understanding of behavioral patterns, and experiments with innovative approaches, can make anti-corruption efforts more effective. Conceptual approaches have long viewed corruption as a reflection of underlying governance weaknesses.³⁶ In the past decades, advances in behavioral social science have revolutionized economics and are being harnessed for development work.³⁷ However, the implications for anti-corruption are just beginning to be explored. Social norms can sometimes explain the effectiveness or lack thereof of anti-corruption interventions.³⁸ For example, in an environment of systemic patronage, increases in salaries have been argued to increase the expected payout to benefactors who provided the jobs. Such cultural expectations of reciprocity could fuel corruption as pressure to conform to the average behavior can override or redefine one's personal integrity. Social norms and culture work the same way for those who pay bribes. When individual citizens are asked "why they pay bribes", many respond that "everybody does it."³⁹ Changing perceptions of what is "normal" and shifting social norms and behaviors is challenging and takes time. Many anti-corruption-oriented civil society organizations at the national level are focusing on shifting behavior, and finding it a slow process.⁴⁰ Social norms are prominent in the discussion of corruption in customs (chapter 4).

A deeper understanding of the power and political landscape of a country helps in designing interventions that not only address corrupt practices but also tackle resistance to their implementation due to a preference to maintain the status quo. As pointed out in *World Development Report 2017—Governance and the Law*, approaches that focus on transactions, without sufficient attention to context and history, or those that focus on particular forms of institutions, rather than the functions they perform, can have limited traction at best.⁴¹ In addition, since advanced economies are significantly more "rule-following" than developing countries, powerful organizations benefit from rule of law and may work to keep it because it is in their own interest to do so. In countries where rule of law is weak, in contrast, powerful organizations rely less on complex market contracts for their prosperity and are less interested in a generalized rule of law, making it harder for such reforms to stick.⁴² From a practitioner's perspective, the "political settlements" concept forces deeper thinking beyond specific transactions to the constellations of interests that may be benefiting from the extant situation.

Finally, a closer look is needed to consider how best to address incentives and influence the behaviors of individuals through reforming policies and institutions, with a view to reducing corruption. Much of the academic literature views corruption as the result of a "principal-agent" problem. The principal, say the legislature or even the general public, cannot perfectly control the behavior of the agent, say the public official, who has different incentives. Changing the misbehavior of the agent, then, entails stronger oversight and accountability for misbehavior, using principled tools like greater transparency as well as instrumental ones like asset and income declarations, discussed later in the report. A second school of thought, however, looks at individual instances of corrupt behavior as part of a broader system. In places where corruption is systemic, it is argued, trying to alter the behavior of individuals is challenging and slow, and it is best approached as a collective action problem. For practical purposes, the different paradigms complement each other and should not be seen as substitutes.⁴³ In this report, these paradigms are not purely theoretical, but have practical implications.

Notes

1. The literature on the costs of corruption is vast. Useful summaries can be found in the WBG Governance and Anti-corruption Strategy (2007), and Sofia Wickberg (2013), "Literature review on costs of corruption for the poor", U4 Expert Answer 382. The April 2019 *Fiscal Monitor* from the IMF examines the fiscal costs of corruption.
2. Mogens K. Justesen and Christian Bjørnskov (2014). "Exploiting the Poor: Bureaucratic Corruption and Poverty in Africa." *World Development*. Vol 58, June 2014: 106-115. Caryn Peiffer & Richard Rose (2018). "Why Are the Poor More Vulnerable to Bribery in Africa? The Institutional Effects of Services." *The Journal of Development Studies*, 54(1): 18-29.
3. Fried, Brian J., Paul Lagunes and Atheendar Venkataramani (2010) "Corruption and Inequality at the Crossroad: A Multi-Method Study of Bribery and Discrimination in Latin America." *Latin American Research Review*, 45(1): 76-97.
4. Hyll-Larsen, P. 2013. "Free or Fee: Corruption in Primary School Admissions." In *Global Corruption Report 2013: Education*, by Transparency International, 52-59. Transparency International; Chow, S., and D. T. Nga. 2013. "Bribes for Enrollment in Desired Schools in Vietnam." In *Global Corruption Report 2013: Education*, by Transparency International, 60-67. Transparency International; Corruption Watch. 2013. "Low-Income Housing: More Transparency Needed." <https://www.corruptionwatch.org.za/low-income-housing-more-transparency-needed>.
5. This section draws on World Bank (2019) Anti-corruption Initiatives—Reaffirming Commitment to a Development Priority.
6. As noted in the groundbreaking *The Many Faces of Corruption*, "in a surprisingly large number of countries in all regions of the world, corruption is pervasive at all levels of education, from primary schools through tertiary institutions. It can occur at any stage and among any group of actors from policy makers at the ministerial level to providers at the school level such as teachers and contractors to beneficiaries of education such as students and parents. Corrupt practices in education can include bribes and illegal fees for admission and examination; academic fraud; withholding teacher salaries; preferential promotion and placement; charging students for "tutoring" sessions to cover the curriculum needed to pass mandatory examinations and that should have been taught in the classroom; teacher absenteeism; and illegal practices in textbook procurement, meal provision, and infrastructure contracting." Harry Patrinos and Ruth Kagia, 2007, "Maximizing the Performance of Education Systems: The Case of Teacher Absenteeism," in J. Edgardo Campos and Sanjay Pradhan (eds), *The Many Faces of Corruption—Tracking Vulnerabilities at the Sector Level*. The World Bank.
7. Collignon P, Athukorala P-c, Senanayake S, Khan F (2015) Antimicrobial Resistance: The Major Contribution of Poor Governance and Corruption to This Growing Problem. *PLoS ONE* 10(3): e0116746.
8. Goldstein, Markus, Joshua Graff Zivin, James Habyarimana, Cristian Pop-Eleches, and Harsha Thirumurthy. 2013. "The Effect of Absenteeism and Clinic Protocol on Health Outcomes: The Case of Mother-to-Child Transmission of HIV in Kenya." *American Economic Journal: Applied Economics*, 5 (2): 58-85.
9. Hanf M, Van-Melle A, Fraisse F, Roger A, Carme B, Nacher M (2011) Corruption Kills: Estimating the Global Impact of Corruption on Children Deaths. *PLoS ONE* 6(11): e26990.
10. For a summary see Talha Burki (2019), "Corruption is an 'ignored pandemic'". *The Lancet*. Vol 19, p 471, May 2019. <http://www.thelancet.com/infection>
11. See Emile van der Does de Willebois, Emily M. Halter, Robert A. Harrison, Ji Won Park, J.C. Sharman (2011). *The Puppet Masters: How the Corrupt Use Legal Structures to Hide Stolen Assets and What to Do About It*. Washington: World Bank. Nicholas Shaxson (2011). *Treasure Islands: Uncovering the Damage of Offshore Banking and Tax Havens*. New York: St. Martin's Griffin. Oliver Bullough (2019) *Moneyland: The Inside Story of the Crooks and Kleptocrats Who Rule the World*. New York: St. Martin's Griffin.
12. Rankings of countries according to financial secrecy are provided by the Tax Justice Network, although the rankings do not facilitate comparisons in absolute levels of secrecy over time.
13. Open Government Partnership factsheet.
14. The original seven international development partners were: The European Commission, International Monetary Fund, World Bank, and the governments of France, Norway, Switzerland, and the United Kingdom.
15. Knack, Stephen; Biletska, Nataliya; Kacker, Kanishka. 2017. Deterring kickbacks and encouraging entry in public procurement markets: evidence from firm surveys in 88 developing countries (English). Policy Research working paper; no. WPS 8078. Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/817871496169519447/Deterring-kickbacks-and-encouraging-entry-in-public-procurement-markets-evidence-from-firm-surveys-in-88-developing-countries>.
16. Other sources tell a similar story: The Open Budget Survey (OBS), produced by the International Budget Partnership (IBP), shows the general trend toward greater openness of budgets. "OBS 2019 finds a modest global improvement in budget transparency, which is consistent with the overall trend measured by the survey over the past decade." A recent paper by the IMF draws on government finance statistics and tracks changes for 186 countries in 2003–13. The authors found a gradual improvement in the overall comprehensiveness of fiscal statistics, specific indices of the coverage of public institutions, fiscal flows, and fiscal stocks. They also found that most countries' reporting remains far from comprehensive. Rachel F. Wang, Timothy C. Irwin, and Lewis K. Murara (2015) "Trends in Fiscal Transparency: Evidence from a New Database of the Coverage of Fiscal Reporting". IMF Working Paper WP/15/188.
17. Peter Ladegaard, Petter Lundkvist, Jonathan Kamkhaji (2018). "Giving Sisyphus a Helping Hand—Pathways for Sustainable RIA Systems in Developing Countries" World Bank Policy Research Working Paper 8367. March 2018.
18. Ivana M. Rossi, Laura Pop, and Tammar Berger (2017) *Getting the Full Picture on Public Officials a How-to Guide for Effective Financial Disclosure*. Stolen Asset Recovery Initiative, UNODC, and World Bank.
19. United States of America Department of Justice.
20. Transparency International (2018). *Exporting Corruption - Progress Report 2018: Assessing Enforcement of the OECD Anti-Bribery Convention*.
21. See World Bank Group Sanctions System Annual Report FY19. Some countries have adopted similar systems.
22. Stephen Knack (2006), "Measuring Corruption in Eastern Europe and Central Asia : A Critique of the Cross-Country Indicators." Policy Research Working Paper; No. 3968. World Bank. Christiane Arndt and Charles Oman (2006), *Uses and Abuses of Governance Indicators*, Development Centre Studies, OECD Publishing, Paris. James Anderson (2009),

- "A Review of Governance and Anti-corruption Indicators in East Asia and Pacific". World Bank. Charles Kenny (2017) *Results Not Receipts—Counting the Right Things in Aid and Corruption*, Center for Global Development, Washington, DC.
23. For an exposition about the biases that lead us to remember the immediate past most prominently, and other biases, see Daniel Kahneman (2011). *Thinking, Fast and Slow*. Farrar, Straus and Giroux, New York. For other excellent reviews of how wrong perceptions can be see: Hans Rosling with Ola Rosling and Anna Rosling Rönnlund (2018) *Factfulness: Ten Reasons We're Wrong About the World—And Why Things are Better Than You Think*. Flatiron Books, New York. Stephen Pinker (2018). *Enlightenment Now: The Case for Reason, Science, Humanism and Progress*. Allen Lane, UK.
 24. See, for example, Omar Azfar and Peter Murrell, (2009), "Identifying Reticent Respondents: Assessing the Quality of Survey Data on Corruption and Values," *Economic Development and Cultural Change* 57, no. 2 (January 2009): 387-411; and Aart Kraay and Peter Murrell (2013), "Misunderestimating Corruption", *World Bank Policy Research Working Paper* 6488.
 25. Corruption Perceptions Index.
 26. Worldwide Governance Indicators.
 27. See footnote 31 for some critiques. Responses to some of the criticisms of the Worldwide Governance Indicators can be found here.
 28. Anderson (2009), op. cit.
 29. These findings based on the WBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS) have been reported in the EBRD Transition Report, the World Bank's Anti-corruption in Transition series, and other publications.
 30. As noted already, surveys on corruption experiences have been subject to criticism because some people do not participate honestly. To the extent that the rate of being candid does not greatly change with time, this criticism would not have much of an effect on our understanding of trends. In addition, the same studies argue that questions on perceptions of corruption face similar challenges. See, for example, Omar Azfar and Peter Murrell, (2009), op. cit., and Aart Kraay and Peter Murrell (2013), op. cit.
 31. While this section has focused on what is known about trends corruption in the past, an even more challenging set of questions centers on predictions of changes of corruption in the future. A current research project attempts to do just that: Alina Mungiu-Pippidi and Lucia Cizmaziova (2020) "Beyond the lag. How to predict and understand evolutions towards good governance?" European Research Centre for Anti-Corruption and State-Building, Hertie School of Governance, ERCAS Working Paper No. 61. May 2020.
 32. While this section has focused on what is known about corruption trends in the past, an even more challenging set of questions centers on predictions of changes of corruption in the future. A current research project attempts to do just that: Alina Mungiu-Pippidi and Lucia Cizmaziova (2020) "Beyond the lag. How to predict and understand evolutions towards good governance?" European Research Centre for Anti-Corruption and State-Building, Hertie School of Governance, ERCAS Working Paper No. 61. May 2020.
 33. For a review, see Adam, I., and Fazekas, M. (2019). Are emerging technologies helping win the fight against corruption in developing countries? Pathways for Prosperity Commission Background Paper Series; no. 21. Oxford, United Kingdom, http://www.govtransparency.eu/wp-content/uploads/2019/02/ICT-corruption-24Feb19_FINAL.pdf, p. 35.
 34. Liz David-Barrett and Mihály Fazekas (2019) "Using 'red flag' indicators to identify corruption and analyse reform efforts in the procurement process," ACE Anti-Corruption Evidence Research Program. July 8, 2019.
 35. World Bank (2016). *World Development Report 2016, Digital Dividends*.
 36. This point was made in World Bank (1997), *Helping Countries Combat Corruption: The Role of the World Bank*, published soon after it began to work more directly on anti-corruption. "Corruption is a symptom of deeper-seated factors. The causes are complex, and the means to control it are not fully understood. Corruption thrives when economic policies are poorly designed, education levels are low, civil society is underdeveloped, and the accountability of public institutions is weak—conditions that exist in many settings but are particularly prevalent in some developing countries. Corruption often has a political dimension and reflects the way power is exercised in a country. And it is constantly changing its form in response to changes in the global economy and technical innovation." (p. 5.)
 37. World Bank (2015). *World Development Report 2015: Mind, Society, and Behavior*.
 38. See, for example, Cheyenne Scharbatke-Church and Diana Chigas (2019), *Understanding Social Norms: A Reference Guide for Policy and Practice*. The Henry J. Leir Institute of Human Security. The Fletcher School of Law and Diplomacy, Tufts University. David Jackson and Nils Köbis (2018). "Anti-corruption through a social norms lens". U4 Anti-Corruption Resource Centre, Chr. Michelsen Institute (U4 Issue 2018:7). Hope Schaftkin (2018) "Changing Social Norms: What Anti-Corruption Practitioners Should Read." *Corruption in Fragile States Blog*. Tufts University. November 27, 2018.
 39. For example, *Corruption According to Citizens, Firms, and Public Officials—Results of Sociological Surveys*, World Bank, Government Inspectorate of Vietnam, UK-DFID, and UNDP. Hanoi, Vietnam: National Political Publishing House, 2012.
 40. An example of an attempt to systematically shape social norms at the country level is Accountability Lab's Integrity Idol competitions.
 41. World Bank. 2017. *World Development Report 2017: governance and the law: Main report (English)*. World Development Report. Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/774441485783404216/Main-report/>; Mushtaq H. Khan (2018), "Political settlements and the analysis of institutions", *African Affairs*, Volume 117, Issue 469, October 2018, p. 636–655. Alina Mungiu-Pippidi. 2015. *The Quest for Good Governance: How Societies Develop Control of Corruption*. Cambridge, U.K.: Cambridge University Press.
 42. Mushtaq H. Khan (2018), op. cit.
 43. See the debate on the pages of *Governance*. Anna Persson, Bo Rothstein, and Jan Teorell (2013), "Why Anti-corruption Reforms Fail—Systemic Corruption as a Collective Action Problem," *Governance*, Volume 26, Issue 3, July 2013, p. 449-471. Heather Marquette and Caryn Peiffer (2018), "Grappling with the 'real politics' of systemic corruption: Theoretical debates versus 'real-world' functions," *Governance*, Volume 31, Issue 3, July 2018, p. 499-514. Anna Persson, Bo Rothstein, and Jan Teorell (2019), "Getting the basic nature of systemic corruption right: A reply to Marquette and Peiffer," *Governance*, Volume 32, Issue 4, October 2019, p. 799-810. Heather Marquette and Caryn Peiffer (2019), "Thinking politically about corruption as problem-solving: A reply to

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