

Anti-Corruption in Adverse Contexts: A Strategic Approach

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Abstract: Developing countries are characterized by political settlements where formal rules are weakly enforced. Anti-corruption strategies in these contexts focusing on the enforcement capacities of the formal state have typically delivered poor results. An alternative approach is to identify anti-corruption activities that are likely to have a high impact and that can be feasible in these contexts.

We suggest an approach for identifying high-impact and feasible anti-corruption strategies from the bottom up. This involves identifying the overlapping processes of corruption that are often simultaneously involved in particular corruption problems. We typically expect to see more than one overlapping set of processes driving corruption in the implementation of particular policies or institutions. By drawing on theories of rents and rent seeking, and of political settlements, we can assess the developmental impact of these corrupt processes and the relative power and capability of the interests driving and sometimes resisting these processes.

We argue that feasible anti-corruption cannot be based only on developing governance capabilities in critical agencies. The latter is only likely to be effective (given the limited gains in enforcement capacity that are plausible) if the interests and capabilities of some of the stakeholders involved in driving or resisting the relevant corruption can also be changed. We examine four related strategies for changing these incentives and capabilities and we argue that this can provide a framework for organizing research on the impact and feasibility of anti-corruption activities in different priority areas in particular countries.

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Note: The argument in this paper is based on our successful proposal for the newly set up Anti-Corruption Evidence (ACE) Research Partnership Consortium at SOAS, with DFID funding. The analytical framework in this draft paper will be developed into a form suitable for journal publication.

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1. Introduction

The weak enforcement of a rule of law is closely related to the prevalence of corruption. Corruption involves different types of rule-violations by bureaucrats, politicians and businesses where power is misused for private benefit. Not surprisingly, corruption is correlated with the weak enforcement of formal institutions in general, including property rights and the rules of politics. All of these are in turn strongly correlated with the level of development. Countries that have high levels of corruption are therefore also likely to have weak property rights, a weak rule of law, high levels of corruption, informal political rents, and low levels of productive capabilities (even if they sometimes have high per capita incomes as a result of natural resources). These correlations raise important questions and challenges for policy.

Causality clearly runs in both directions. Low levels of development make it difficult to fight corruption and enforce formal rules, for instance because resources and incentives for enforcement are limited. At the same time, high levels of corruption can slow down development by reducing and distorting investments, thereby making it difficult to achieve high levels of development. This means there has to be some forms of effective anti-corruption even at lower levels of development. However, the effects of weak productive capabilities on enforcement and traditional anti-corruption strategies are often underestimated. Designing effective policies requires a strategic rethinking of anti-corruption strategies.

In our argument, two systemic problems linked to the nature of *political settlements* in developing and emerging countries make it difficult to implement the usual top-down anti-corruption strategies where improvements in enforcement capabilities, stricter punishments, and changes in incentives and costs of corruption are attempted across the board (Khan 1995, 2004, 2005a, 2005b, 2010, 2012). First, formal rules and across-the-board anti-corruption strategies are only likely to be effectively enforced when their enforcement is aligned with the interests of powerful organizations in the country. When is this likely? Countries become more advanced when they have a more diverse set of productive organizations in different sectors and activities. As organizations become more productive, they also become more powerful. They pay more taxes, fund political parties, employ more people and therefore begin to have a greater say in what politicians and bureaucrats do. The growing complexity of the economy also means that more and more of these organizations begin to have an interest in the enforcement of the formal rules required to conduct complex businesses and transactions. More economically developed societies therefore have a greater number and diversity of organizations that both have the incentive to want rule enforcement in general and have the power to do something about it. In contrast, the organizations that are powerful in less developed societies are fewer in number, and more importantly, less dependent on competitiveness and market transactions for their revenues. They can feasibly interact with each other in informal ways and generate rents through political connections. If the most powerful organizations in a country do not want the enforcement of formal rules, it is unlikely that a rule of law will emerge simply through enforcement efforts from above.

Secondly, as countries become more productive and diversified, political parties can raise enough revenues through formal taxation and legal political contributions to

construct their organizations and constituencies. In addition, they have to raise revenues from a great diversity of business interests and sectors and this sets a limit to special privileges that can be granted. These characteristics ensure that political parties have both the ability to be rule-following (because taxes and legal resources are substantial) and face the compulsion to follow rules (because rule-violating parties can lose significant sources of funding) and this makes them rule-following in their own interest. It is not just the quantum of revenue but also the diversity of sources that is important. When many sectors and firms are powerful, special privileges for a few will be effectively opposed by many others. This is why if a developing country has lot of tax revenue from one or two sources it does not necessarily become rule-following. More typically, in poorer countries, political parties can only raise significant revenues in informal and rule-violating ways, and when in power, the most feasible way of rewarding their supporters is to allow them to violate rules. In these contexts, it is difficult for political leaders to exercise 'political will' to enforce rules when their tenure depends on doing otherwise.

Without broad support for rule-following behaviour in a society, anti-corruption strategies that assume that it is possible to enforce rules to the extent that corruption can be directly tackled from above are likely to be poorly implemented in practice. A feasible anti-corruption strategy in such contexts should instead be to *sequentially attack specific instances of corruption where the anti-corruption strategy is both feasible and has a high impact on development*. These bottom-up anti-corruption strategies will enable more productive investments and activities, better developmental outcomes and more inclusive growth, and eventually help to create a broader-based economy with more power centres interested in the enforcement of formal rules. This in turn will make possible successively more ambitious anti-corruption strategies, ultimately making strategies targeting higher-level institutional characteristics like the rule of law or society-level transparency and accountability more likely to work as the society becomes more diversified and dependent on modern contracting.

The immediate anti-corruption priorities will depend on the sectors and processes that are most important for sustaining inclusive growth in particular countries. Identifying high-impact anti-corruption activities is very important if the effort invested in anti-corruption is to be justified. A common error is to equate the impact of corruption with the magnitude of bribes. An activity with relatively small bribes can have a high development impact, for instance if relatively small bribes prevent the enforcement of regulations on food adulteration and result in deaths and illnesses. In contrast, activities with significant bribes may have a lower impact. For instance, some profit-sharing transfers from businesses to politicians *may* have a lower negative impact on development if the productivity of investments is not too adversely affected. A high-impact anti-corruption approach therefore has to identify anti-corruption priorities and from these target the ones where anti-corruption is most feasible. The priority areas can differ across countries depending on the drivers of growth in different contexts. Anti-corruption policy also has to assess if specific strategies are feasible given the configuration of interests affected by the policy.

The paper is organized as follows. Section 2 summarizes some of the limitations of existing approaches to anti-corruption, section 3 outlines our alternative approach and finally section 4 summarizes four categories of feasible and relatively high-impact anti-corruption strategies that we have identified based on our previous work and that will

provide the starting point for developing theory and evidence on a number of anti-corruption evidence (ACE) clusters that will be the objective of the ACE research programme.

2. Limitations of existing anti-corruption approaches

Our approach joins up insights from the best research in a number of related areas to deliver policy-relevant research and the generation of new evidence on anti-corruption to support practical policy-making. We address two types of weaknesses in existing approaches.

First, a number of existing approaches have focused on high-level reforms such as strengthening the rule of law or strengthening property rights. The evidence provided by some existing research appeared to support such policy initiatives by showing correlations between institutional characteristics like the rule of law and the level of corruption across countries (Ades and Di Tella 1996; Rauch and Evans 2000; Treisman 2000; World Bank 2000; Lambsdorff 2005). A second set of approaches was driven by microeconomic principal-agent models and sought to change behaviour with changes in incentives like better pay structures for bureaucrats, better monitoring and stricter punishments (Rose-Ackerman 1978; Klitgaard 1988; Andvig and Moene 1990; Huther and Shah 2000; Spector 2005).

Neither approach delivered satisfactory results for reasons that are now widely recognized. They both ignored critically important *interdependencies* between individual calculations at the micro-level and political, social and cultural structures at the macro-level. They glossed over differences between sectors and the heterogeneity of firms and public agencies within and across countries. They also ignored characteristics of the ‘political settlements’, and the norms, cultures and behaviours related to different social orders (DFID 2015).

Most importantly, these approaches did not distinguish between policy variables, which are variables that decision-makers can change (including some institutions and organisations), and the institutional, organisational and political characteristics of countries that are themselves outcomes of evolutionary developments and cannot be changed by immediate policy. The quality of the ‘rule of law’ in a country, or the ‘independence of its judiciary’ are examples of institutional characteristics that are outcomes of complex processes and are not immediate policy variables. A policy-maker cannot ‘decide’ to improve the rule of law. They need to know what specific measures can be taken in which sectors or agencies in a country where the rule of law is weak. Categories of evidence collected on the basis of flawed analytical models can therefore show correlations between corruption and a series of other ‘variables’, but if these are not policy variables, this evidence is not very useful in telling policy-makers what they can do. There are two critical sets of theoretical insights that we believe have to be incorporated in a research programme to deliver policy-relevant anti-corruption evidence (Khan 2002, 2006a, 2006b).

First, anti-corruption research has to engage with the micro-macro interface between individual decisions and collective power structures as this determines the feasibility of particular types of anti-corruption strategies. We will use the political settlements framework (Khan 2010), which shows how the distribution of organisational power can

constrain institutional operation and governance. We will also use other similar political economy frameworks to examine policy interdependencies and policy feasibility.

The political settlements approach can explain why corruption is strongly correlated with other governance failures and suggest feasible ways of addressing the problem. Governance failures of different types in developing countries often have a common source in the significant 'informality' in the operation of the economy and polity as well as the use of political rents to maintain ruling coalitions. Corruption and other governance failures are therefore likely to be strongly correlated. In these contexts, immediate attempts to improve aggregated governance characteristics and overall levels of corruption are likely to fail. The policy challenge is to untangle directions of causality that are feasible to address. For instance, corruption in a particular activity can sometimes be feasibly addressed if incentives for some powerful organizations involved in the corruption can be changed, if new collective action of groups harmed by that corruption can be organized and feasible improvements in some targeted governance capabilities can be achieved. The political settlements framework offers a lens for examining these types of possibilities (Khan 2013a).

Second, anti-corruption research has to be much more sophisticated in its understanding of the diversity of 'rents' and the types of corruption associated with different rents. Corruption happens when there are valuable resources to capture and the decisions of bureaucrats or politicians determines their allocation. Rents describe the new incomes that are created when states tax or subsidize, allocate resource like land or natural resources, create employment in public organisations, introduce regulations that impose costs or benefits and so on. Corruption may be triggered when individuals try to influence these decisions or when public officials directly appropriate these incomes or resources for themselves or their clients (Khan 2000a, 2000b, 2005a).

The economic consequence of corruption, and the anti-corruption strategy that is required depends on the type of policy and the associated rents that trigger the corruption in the first place. An anti-corruption strategy that fails to begin with an analysis of the underlying policy triggering the corruption can lead to damaging outcomes. For instance, some corruption is triggered by damaging market restrictions that are created by wrong policies. These can generate corruption when businesses try to work around the restrictions. In this case anti-corruption strategy is a good thing but only if it is combined with a policy to remove the restriction. Simply attempting to stop the corruption could make society even worse off if the restriction preventing some useful activities stays in place. On the other hand there are many potentially useful policies that also affect incomes and can trigger corruption. For instance, government subsidies to private sector firms to invest in cleaner or more productive technologies can generate corruption if firms flout the conditions attached to these transfers. This corruption is just as important to attack, but here the technology policy or green subsidies should not be thrown out. The rent was potentially useful and we have to think of new delivery mechanisms or changing incentive structures in feasible ways to reduce corruption and achieve better outcomes.

In more complex cases we can have many different types of rents coexisting in an activity and careful analysis is required to identify what needs to be done. Without a theory and analysis of rents we cannot have a policy-relevant theory of corruption. This is particularly important when general improvements in the enforcement of rules are

not immediately likely, and we are looking for specific anti-corruption priorities targeting adverse outcomes in particular sectors.

Our identification of evidence gaps is consistent with the findings of a number of recent surveys of the corruption literature (Johnsøn, et al. 2012; DFID 2015) and takes the research agenda forward in significant ways.

Our analysis of differences in rent configurations and overlapping types of corruption can also help to explain why corruption appears to be so resilient to simple anti-corruption strategies. This is because if the underlying problems are different across sectors and policies, a more nuanced set of anti-corruption strategies are required to achieve impact. A rents approach can also help to explain why it has been difficult to agree about the causes and effects of corruption across cases. This is because quite different types of corruption are involved in different contexts. The ‘average’ effects of corruption are therefore sensitive to the choice of countries, sectors and periods. Corruption can appear to be compatible with development in some cases (like the East Asian tigers in the 1960s or China in the 1980s) while being seriously damaging in the countries we are studying (Rock and Bonnett 2004; Khan 2006a, 2006b). For the same reason, simplistic attempts to identify the efficacy of anti-corruption policies or combinations of policies can produce weak results (Treisman 2000).

The failure of much of the existing analysis and evidence to identify effective anti-corruption policy solutions can therefore be explained in two ways:

- (i) The diversity of corruption problems with different and overlapping rents, which means that different policy combinations are required for different problems and
- (ii) Differences in political settlements that mean that different combinations of policies may be required to address the *same* types of corruption problem in different political contexts.

Evidence base on corruption in the private sector.

The ability of the private sector to do business in corrupt environments appears to vary widely across sectors and countries, as do the apparent effects of private sector corruption. The effects of private sector corruption can include obstacles to doing business, the prevention of entry, the survival of inefficient firms, overpricing, regulatory failures, investments in the wrong sectors, cost inflation and so on. A few policy instruments cannot address all these problems. General improvements in governance, the rule of law and ‘doing business’ conditions can help, but we know that progress on these dimensions is slow in developing country political settlements. Part of our research will address general regulatory questions but the thrust will be detailed country- and sector-specific analysis, and cross-country comparisons to identify similar clusters of anti-corruption problems and to generate evidence on these ACE clusters in terms of strategies, difficulties and impacts. While there are some general corruption issues affecting the private sector, anti-corruption analysts increasingly recognize the importance of country and sectoral specificities in designing effective programmes (Spector 2005; Campos and Pradhan 2007).

The diverse types of rents and corruption in the private sector has to be explicitly recognized. The private sector is often a victim of some types of corruption and is often vocal against it, and at other times it is primarily a beneficiary, and drives corruption through links with bureaucrats and politicians. As a result, private sector support for

anti-corruption initiatives at the collective level through business associations and other means has usually been half-hearted and largely ineffective. In many countries, almost all firms are involved in some types of corruption, and even firms that are victims will often not want to rock business arrangements by exposing their involvement. In some case, the political settlement is such that almost all operations involve some informal or entirely corrupt activity, and this constrains firms from taking particular complaints too far, because public officials can expose them in other areas. In this context, general anti-corruption strategies are unlikely to work, and even very specific ones have to be carefully designed to align interests with feasibility. Our research on private sector corruption will be driven by the recognition that the private sector is diverse and corruption relationships vary significantly across countries, sectors and types of firms.

The types of corruption a firm engages in can change over time, with changes of government, and at different stages of the firm's life cycle and so on. Evidence and analysis of these differences is critical for identifying feasible and high-impact anti-corruption strategies, and for creating incentives to induce potentially compliant firms to actually begin to support anti-corruption measures. Our preliminary work on private sector corruption has demonstrated the usefulness of overlapping process analysis in identifying priorities and policy combinations for effective anti-corruption that would not otherwise have been apparent (Khan 2014; Mathieson 2014). Our research methodology for the ACE programme builds on this work and already offers some significant developments on which to structure an integrated and ambitious research programme.

The growing evidence base on private sector problems and corruption issues provided by the *Doing Business* initiative has been valuable. However, much of that effort assumes that the private sector suffers from similar types of corruption problems that can be addressed by reducing unnecessary market restrictions and failures in the service delivery functions of the state. However, an understanding of firm and sectoral diversity suggests that these types of market-restricting policies are not the only drivers of damaging corruption in the private sector and these types of corruption may also not satisfy our criteria of having a high impact and being feasible to address. Not enough attention has been given to the generation of systematic evidence on other types of rent distortion and rent extractions that the private sector has been implicated in, sometimes as victim but often as a driver. The ACE programme will generate new and complementary evidence on different types of corruption involving the private sector in a diversity of sectors, and classify the most important/feasible anti-corruption strategies in clusters that will allow for comparative policy and research evaluation.

Evidence base on anti-corruption policy interdependencies.

Existing research shows that with the exception of a small number of technical measures like PFM, the vast majority of anti-corruption interventions have weak and contested impacts. Attempts to discover effective policy combinations through cross-country comparisons have not generated much useful evidence or results. Clearly, policy effectiveness depends on the presence or absence of supporting policies and governance capabilities in other areas but just saying that 'context matters' does not help. Generating useful evidence depends on effective strategies for making the problem of interdependence tractable for analysis. Societies are differently constituted, politically, institutionally and culturally: they constitute different types of 'political settlements'. We believe a tractable method of looking at the relationship between

policy choices and the collective characteristics of a society is to use frameworks like political settlements to generate evidence on combinations of policies that are effective in countries with identifiable types of political settlements. This will help policy-makers identify policy feasibility in different contexts as well as priorities for action.

But we need to spell out what we mean by identifying the interdependence between policy combinations and political settlements. The distinction between policy variables and collective institutional and social characteristics is again relevant here. It is not useful to discover a correlation that shows that a particular combination of policies is effective for anti-corruption in a country where the political settlement is very different from our target country. Therefore, questions on interdependence have to be framed quite differently. We first have to know the combinations of *policy variables* that we are trying to introduce to solve *specific* problems. This is why an interdependence analysis must also draw on an understanding of rents and corruption typologies given our theory of change. There are many types of corruption affecting different public and private sector activities, and addressing each requires different policy combinations defined by the technical characteristics of the rents and the configuration of overlapping types of corruption in that sector or activity. The relevant policy interdependence to investigate is to ask which policy combinations of potentially effective policies may be sufficiently implementable to address a specific corruption issue, *given the macro-characteristics of a particular society*.

For this reason, our study of interdependence will focus on sectoral and lower level questions because we believe the interdependencies at a very broad level of aggregation often do not have clear policy responses. At the highest level of aggregation of a developing country society, there are so many interdependent institutions and governance capabilities that are weak or dysfunctional that policy effectiveness at the aggregate level requires too many difficult problems to be simultaneously fixed. This is not feasible, and is one reason why ambitious ‘good governance’ reforms have not resulted in positive results in most developing countries. This too supports the recognition referred to earlier that anti-corruption has to have a strong sectoral focus and work from the bottom up (Spector 2005; Campos and Pradhan 2007).

Estimating the impact of corruption

Existing approaches to generate evidence include the quantification of levels of corruption based on perceptions and subjective survey evidence, or the observation of ‘proxy’ characteristics correlated with the corruption. Each of these approaches has its problems (Søreide 2006). For instance, surveys based on perceptions have the problem of subjective distortion and the definition of corruption is generally too broad to distinguish between types of corruption at an operational level. The problem of using proxies (such as delays in health delivery, or leakages from budgets) to infer corruption at the operational level is that variations in these may be due to factors other than corruption. It is often also difficult to define a proxy that is entirely unconnected to outcomes, so unless we are careful, the measure of corruption can get confused with the outcome, and then one cannot be strictly used to explain the other. In our work on evidence we will contribute new types of evidence, but we will also collaborate with existing teams that are working on proxy indicators and other approaches.

The existing approaches to evidence are also inadequate because *the magnitude of corruption is often not a good guide to the effects of corruption* because different types of rents may be involved. A rents analysis shows that the impact of corruption depends not only on the extent of corruption (measured by the level of bribes) but also on the extent to which the corruption *distorts the policies necessary for achieving important policy goals*. This is why the same *magnitude* of corruption can have very different effects on development *outcomes* (Khan 2000a, 2000b). Relatively small bribes in some activities (like evading rules on food contamination) can do a lot more damage than bigger bribes elsewhere. This knowledge can help policy design because we know that aggregate levels of corruption may take time to reduce given the characteristics of the political settlement and the prevalence of patron-client politics. Anti-corruption policies that aim to reduce corruption across the board therefore often have limited effects. In contrast, if we can identify the types of corruption that have a high negative impact in some areas, anti-corruption efforts can be targeted in line with our theory of change.

Our response to this challenge will be to supplement the aggregated and indirect quantitative evidence with new types of qualitative and quantitative anti-corruption evidence based on i) locating areas where corruption is judged to have high negative impact, ii) assessing the feasibility of interdependent combinations of policies addressing these corruption problems in specific political settlements and iii) classifying the feasible anti-corruption strategies in these areas in our innovative *ACE clusters* to assist comparative work and policy evaluation. Some research could even be dangerous if it inadvertently threatens powerful interests or underestimates the likely responses of powerful interests. Problems of irrelevance and risk emerge if the research methods fail to properly identify the rents involved and the characteristics of the organisations seeking the rents. Some rents may also be linked to coalitions with significant violence potential, often linked to governing regimes or predatory groups (Khan 2005a, 2006a; North, et al. 2013). Research identifying areas of feasible and high-impact anti-corruption activities has to be informed by these insights in making judgements about feasibility in particular contexts.

3. An alternative approach

Our **overarching theory of change** is that in countries whose levels of development and political settlements do not yet allow effective collective enforcement of formal rules **IF** anti-corruption *sequentially attacks corruption at critical points where anti-corruption is both feasible and has a high impact*, **THEN**, corruption levels will decline at an accelerating pace, **BECAUSE**, the immediate anti-corruption strategies will enable more developmental activities, helping to create a more broad-based economy with more power centres interested in the enforcement of formal rules in their own interest, which will make possible successively more ambitious anti-corruption strategies, ultimately making strategies targeting higher-level institutional characteristics like the rule of law or society-level transparency and accountability more likely to work.

Both the incremental (bottom-up) and the systemic (top-down) approaches to anti-corruption are therefore required, with the more ambitious top-down anti-corruption strategies gaining in policy relevance with the level of development and the spread of productive capabilities in the economy. However, the priority in most developing countries is likely to be the bottom-up targeted anti-corruption that is based on a sound

analysis of the corruption blocking critical and specific development goals. Much of the existing anti-corruption evidence and strategies do not satisfy these requirements and our approach to the ACE programme focuses on (but is not restricted to) filling this gap in evidence and policy analysis.

The research programme is developed in the following way. We begin with two **‘guiding theories’** which respond to the key evidence gaps identified in the literature. These provide us with the tools to define a research framework that allows us to locate a large number of different research questions in a coherent research map that can generate policy-relevant evidence. We then justify a classification of anti-corruption theory and evidence in one or more of our four ACE (anti-corruption evidence) clusters.

Guiding theories

In line with our theory of change, we want to identify feasible and high-impact areas for anti-corruption activities and deliver an evidence base for assessing the anti-corruption policy options, including their impact and feasibility in different contexts. We also want the evidence on different problems to be ‘clustered’ in ways that are most useful for policy and for further research. To do this, we use two interconnected ‘guiding theories’ to structure the framework, but we also maintain openness to incorporate many different disciplinary and evidence-handling approaches to shed light on particular questions. This maximizes the insights gained within the broad analytical framework defining the research programme. We believe this combines the benefits of having a coherent framework where the location of different research questions and their relationship to each other can be identified, with disciplinary and evidential experimentation within the questions.

Our two interlinked guiding theories are the theories of Political Settlements, and theories and typologies of rents, rent seeking and corruption.

A) *Political Settlements, Institutions and Governance.* An important strand of recent research we draw on is the literature on how governance in developing countries is constrained by the configuration of their political settlements (Khan 1995, 2010, 2012; Roy 2012). *It is now widely recognized that the poor enforcement of formal institutions in developing countries is not an anomaly that can be solved simply by investing in enforcement agencies or supporting transparency initiatives or the rule of law.* These ‘top down’ initiatives can sometimes help, but the configuration of organisational capabilities and powers means that informal processes of rent allocation and capture by powerful and largely informal organisations are likely to remain important for some time. In particular, informal power networks are likely to continue to distort the operation of formal institutions in these countries.

The importance of this strand of literature, which engages with a number of related political economy approaches, is twofold. The analysis of the current political settlement and its direction of evolution provides an overall risk assessment for anti-corruption and other development programming in a country. Secondly, mapping the relative power of the organisations and agencies involved in a particular corruption process is necessary to determine the feasibility of different anti-corruption strategies.

B) *Rents, Rent Seeking and Corruption.* The work of Joseph Stiglitz and other leading economists has shown that different types of rents (broadly defined as incremental

income flows associated with particular policies or institutions) have complex effects (Stiglitz 1989, 1996). Some rents are essential for well-working markets and to achieve development outcomes (efficiency wages or health sector subsidies), and others can destroy value and block development (monopoly rents, predatory extractions). Corruption is likely to be involved whenever policy creates rents in developing countries because their political settlements imply that rule-violating behaviour is widespread. To engage in anti-corruption activities in these contexts, we have to locate the corruption in the context of specific policies and rents to determine the package of policy responses that are required to improve development and welfare outcomes. In some cases anti-corruption has to be combined with the *removal* of the policies that created the rents, in other cases they have to be combined with policies to *strengthen* or *redesign* existing policies. Khan's work on rents and rent seeking has shown that corruption is most damaging when it supports the persistence of damaging rents, or distorts or destroys potentially developmental rents (Khan 2000a, 2000b, 2004).

The differences in types of rents allow us to classify corruption according to the rents they are associated with. This can be done in a number of ways, and we use the four-fold classification in Khan (2006a).

Market-restricting corruption emerges when corruption or policy mistakes create market restrictions like red tape and barriers to entry, which then provoke further corruption to evade these restrictions. This is the type of corruption that is implicitly recognized in Doing Business surveys. Corruption here is a way of by-passing market restrictions, but actually creates incentives for bureaucrats and politicians to create further market restrictions.

In contrast, in ***state-constraining corruption*** the underlying policies and rents are potentially socially useful and corruption prevents these resource flows from achieving development goals. This is potentially a very important type of corruption because at the sectoral level in many developing countries, the failure of necessary government policies and regulations seriously constrains development. This type of corruption will be an important focus of ACE research.

Political corruption describes rent creation and allocation through informal patron-client networks through which powerful groups maintain their power. This type of corruption is closely related to the type of political settlement and is often not easy to fight, particularly for development partners (Khan 2005a, 2010; North, et al. 2013). The reduction of political corruption is a longer term challenge, and is related to our theory of change identifying the importance of creating a more diversified and productive society. In many cases, the best immediate response is to identify power networks so as to insulate priority developmental programmes from political rent capture. The failure to distinguish political corruption from other types of corruption has resulted in many anti-corruption initiatives failing. An analysis of the specific political settlement is therefore vital background analysis because the feasibility of addressing other types of corruption depends on the ways in which political corruption is intertwined with other corruption.

Finally, ***predatory corruption*** is a particularly damaging variant where coercion is used by powerful groups to extract rents. This type of corruption becomes dominant at advanced stages of state failure. The anti-corruption requirement here is to strengthen

the enforcement capacities of the state while increasing the legitimacy of ruling elites, and this is quite difficult and challenging for policy. Different corruption types can overlap in the same sector or activity, highlighting the importance of clear analysis of the primary corruption problem and therefore the most important anti-corruption strategies that are required.

Our two guiding theories play a role in each stage of research design, **not** in determining the theories and methodologies used within every research question but in identifying the questions that are likely to be useful and identifying likely anti-corruption strategies that locate the evidence in particular ACE evidence clusters.

Their first function is to help identify the research questions that we should begin to investigate. Our extensive prior work on governance, anti-corruption, political economy and sectoral analysis in our target countries enabled us to use these theories to identify questions in priority areas that were likely to result in the identification of high-impact variants of corruption that would also be feasible to address. These hypotheses about impact and feasibility may later be accepted, modified or rejected in the course of the research, but we begin with a higher probability of success if we have a sensible way of selecting questions. Secondly, our guiding theories help us to develop an overall framework for the programme that locates questions in a meaningful way and enables us to design comparisons, rankings and other ways of using the data from a wide variety of methodologies and questions in tractable ways.

Having identified potentially useful questions and a framework for locating them, we enable and encourage a wide variety of disciplinary approaches to provide answers on the causes of and possible solutions to the corruption problems in these questions. Some questions may use a deeper application of the rents and political settlements approach, others may use entirely different methodologies from other disciplines to look at, for instance, the role of collective action and organisations, specific features of institutions, individual and collective behaviour, legal frameworks and agencies, and so on. In the same way, we ensured that across the questions a wide variety of data collection and processing strategies were used, ranging from deep case study approaches to the collection of evidence, statistical techniques, RCTs and so on.

The research framework

The research framework is designed to deliver policy-relevant anti-corruption evidence. Given the complexity of the questions and the diverse types of evidence that will be generated, we recognize from the outset that a theoretically coherent way of summarizing and presenting the evidence will be vital for determining the usefulness of the project and the data it generates. We therefore propose to organize the evidence that is generated in a particular anti-corruption evidence (ACE) cluster.

Presenting the emerging results of the ACE programme as answers to a long list of questions targeting specific problems may not be useful beyond the specific questions being studied. Given the variety of corruption problems, coming up with a useful way of organizing the evidence is a challenge. For instance, even if we look at regulatory problems in a single sector and country like the Bangladesh garments industry, quite different corruption problems are involved in building regulations compared to effluent

regulations, and quite different anti-corruption strategies are likely to be recommended. How is the anti-corruption evidence and policy to be compared across cases? The function of our suggested ACE clusters is to classify the evidence from different research projects according to the dominant type of anti-corruption strategy, so that problems with similar responses can be compared. The two following diagrams show the sequence our analytical steps in designing and researching questions on private sector corruption and policy interdependencies.



Figure 1 Analytical Steps in Private Sector Research



Figure 2 Analytical Steps in Policy Interdependency Research

4. ACE Clusters

Evidence of the magnitude of the *corruption* problem is not the same as an assessment of the impact and feasibility of *anti-corruption* which is the focus of the ACE programme. More important therefore will be the measures of impact and feasibility of different approaches to anti-corruption that are generated as outcomes of the research. This information will also have to be collated and made comparable across types of problems, sectors and countries if it is to be useful beyond the direct problem that was studied. Each project will be expected to generate evidence on impact and feasibility of the anti-corruption strategies being examined.

Impact measures the estimated result and therefore the *desirability* of pursuing a particular anti-corruption strategy. The preliminary monetary measure of the size of a corruption problem is not necessarily a sufficient measure of the desirability of attacking it. The research in each project will generate a variety of information on impact, including the economic impact, but also the developmental impact (including

the environment, on economic diversification and so on) and social impact (including on inclusion of the poor and of women, on health and on equity). There will be a rich variety of evidence generated by different research projects, and the data on impact will be different across questions and projects. Our aim is to collate the diverse types of measures of impact in ways that can be compared across cases.

Feasibility will measure the difficulty of implementing various types of anti-corruption strategies. Attacking a low-impact variant of corruption can waste policy resources, but so can a policy that addresses a high-impact variant of corruption that is not feasible to address. Feasibility too can be measured along a variety of dimensions. How many policies and governance capabilities need to be addressed, how difficult are each of these changes, and so on. Once again, different research projects will generate a variety of quantitative and qualitative evidence on the difficulty of different types of anti-corruption strategies. To be useful, this evidence too has to be collated and classified to make assessments as comparable across cases as possible.

Policy-makers and researchers who will use the evidence from the ACE project will also want to know more about the anti-corruption strategy whose impact and feasibility is being reported, because there are many different types of anti-corruption strategy.

We therefore envisage the usefulness of classifying our evidence on impact and feasibility by *type of anti-corruption strategy* so that comparisons become more meaningful across cases, and policy-makers and researchers can select the types of strategies to compare given the particular problem they are facing.

An effective anti-corruption strategy in a developing country will typically require a combination of two responses. First, as is well-recognized, an anti-corruption strategy typically has to enhance the monitoring and enforcement capacities of some critical agencies connected to that corruption problem. Secondly, and this is often not so well-recognized, there also has to be a strategy to reduce the incentives for damaging corruption and/or to increase the level of effective support for these anti-corruption activities. The second is critical because in developing countries the context is one of widespread rule-violations on an everyday basis. *The feasibility of a particular anti-corruption strategy is therefore likely to require not only some governance capacity improvements, but also policy combinations that change the incentives of some critical players to make the governance and enforcement task feasible.*

A useful way of classifying the evidence is therefore to look at the strategies for changing the incentives for corruption in particular areas and activities. We find that in each of our research questions, the anti-corruption strategy relies on at least one of four broad types of strategies for making the anti-corruption enforceable. These four clusters of strategies will serve as the starting point for organizing the evidence generated by the ACE programme. Some complex corruption problems may require a combination of more than one of these types of strategies. Other types of anti-corruption strategies may also emerge in the course of the research, justifying the addition of a number of new ACE evidence clusters. However, our four initial clusters of anti-corruption strategies will help to initiate the research programme and help to classify the evidence on impact and feasibility emerging from different research questions. By grouping the evidence on impact and feasibility in similar anti-corruption strategies together, more useful comparisons and policy lessons are likely to emerge. The four ACE evidence

clusters are listed below. We also provide examples of research questions where the evidence generated on impact and feasibility of the anti-corruption strategy can be classified in one of these clusters.

ACE Cluster 1. Incentive Restructuring Strategies

Here, the focus of the anti-corruption strategy is to change the relative returns to activities in different parts of a connected production or value chain.

By increasing the returns to productive activities relative to unproductive ones, anti-corruption enforcement can become more feasible, and the underlying corruption problem can be addressed.

Many corruption problems that harm development become entrenched because powerful organizations in the private and/or public sectors do not see the benefit of shifting to more productive strategies that require the abandonment of the damaging corruption. In some cases, policy combinations can restructure incentives in the production and value chain in ways that may be attractive to powerful players in the system. If so, the self-interest of these players can be mobilized to support the enforcement of anti-corruption policies that now benefit them, and also help to achieve developmental objectives of the country.

ACE Cluster 1: Incentive Restructuring Strategies

Illustrative example from the Bangladesh Power Sector

Private sector power generation in Bangladesh faces an adverse structure of incentives that supports damaging corruption and results in a slowdown in the expansion of power plants and high costs in generation. The risk-adjusted returns in power generation are not sufficient to attract a large number of serious private sector players to bid for contracts. Instead, the incentive structure attracts less capable but politically-connected companies to get lucrative contracts through collusive negotiations. The interests of the dominant players sustain this incentive structure. Moreover, intense competition between these politically-connected groups slows down the allocation of contracts. It may, however, be feasible to implement a policy combination that can change the relative returns to productive investments if enough powerful interests benefit from it. This may be a possibility in Bangladesh because a number of domestic power generation companies with powerful connections may have potential productive capabilities to benefit from such a shift. Research will generate evidence on the feasibility and impact of policies that aim to restructure incentives and thereby mobilize support for anti-corruption activities that support productive outcomes.

ACE Cluster 2. Strategies enhancing compliance by addressing differences in organizational interests

Here the focus of the anti-corruption strategy is to address differences in the interests and capabilities of different types of organizations to enable the

potentially compliant to comply and selecting appropriate strategies for dealing with others.

Organizations can refer to firms or other types of private or public sector organizations. Some firms may lack capabilities to comply with regulations either because they are too under-capitalized or for other reasons. They have to use corruption to survive. Others could potentially have complied, but the absence of appropriate policies and conditions that allow them to comply lead them to be corrupt too. Anti-corruption is only likely to be effective in these contexts if policy combinations can be introduced that allow the potentially compliant to actually comply. Depending on why others cannot, policy also needs to introduce exit strategies or consider other means of dealing with organizations that cannot comply.

Many entrenched corruption problems in developing countries are of this type. Many or most types of firms and organizations in a sector may be corrupt, but for very different reasons. A feasible anti-corruption strategy has to recognize the heterogeneous nature of organizations and devise strategies that help the compliant to comply. One reason why anti-corruption is so difficult in many countries is that even organizations that want to comply often find they have to violate rules, and this creates a race to the bottom where all organizations in the sector become non-compliant and corrupt. If the potentially compliant group is significant a policy combination that enables their compliance will have significant support that can help to make the overall anti-corruption strategy feasible.

ACE Cluster 2: Enhancing Compliance by Addressing Differences in Organizational Interests

Illustrative example of Building Regulations in the Bangladeshi garments industry

In recent work for DFID on private sector corruption we showed that the failure to enforce building regulations in the Bangladeshi garments industry was related to firm heterogeneity (Khan 2014). Some potentially compliant high-capability firms were forced to bribe to get certification. They then sought to recover this loss by capturing rents through violations. Other firms violated regulations because they had no capability to meet existing regulations and their rents depended on violations from the outset. As the latter firms employ large numbers of poor people, regulations either have to be appropriately redefined or exit strategies have to be introduced if regulatory enforcement is to improve social outcomes. When organisational heterogeneity is the main issue, adequate policy responses involve identifying the different types of firms, organisations or agents so that appropriate policy responses can be identified to address the different drivers of violations. Research here will generate evidence on the impact and feasibility of policy combinations that can address this issue.

ACE Cluster 3. Strategies of organizing collective action

The primary focus of these strategies is to organize groups to engage in effective collective action to support the enforcement of particular aspects of an anti-corruption strategy.

While higher-level enforcement capabilities are weak in developing countries and are difficult to fix, in some cases there are local interests or conflicting interests that can be mobilized to assist the enforcement of particular rules that are socially useful. The most feasible anti-corruption strategy may be to support collective action by interests aligned with the enforcement of particular policies or regulations. The organisation of collective action also requires policy support, and again combinations of policies may be required, with the possibility of multiple ways of supporting the collective action. The research will generate evidence on the impact and feasibility of anti-corruption strategies of this type in different sectors and contexts.

ACE Cluster 3: Organizing Collective Action

Illustrative example of Effluent Regulations in the Bangladeshi textiles industry

The enforcement of effluent regulations in the textile and garments sector in Bangladesh has failed because processes of certification suffer from corruption. In this case, international buyers are not very concerned if the certification does not correspond to the reality because the verification is difficult either way. However, in some areas local communities are increasingly aggrieved and their collective action could be supported by policy to help them monitor and report violations in ways that could be certified or publicized to impose costs on export-oriented violators. The policy interdependence analysis should ask what policy combinations could achieve this. Funding NGOs to help organize affected citizens is a possibility, but may need supporting policies and monitoring to ensure the money is not wasted. The political settlement analysis would have to assess whether collective action by citizens would be resisted by the industry, and if so to what extent. This research will generate evidence on the impact and feasibility of this type of anti-corruption response.

ACE Cluster 4. Strategies Addressing Contested Rights

Some corruption problems emerge because there are overlapping or contested rights and the only resolution available to the contesting parties may be to engage in corruption as a way of resolving disputes.

The anti-corruption strategy here has to identify the conflicting claims and to *introduce acceptable conflict-resolution strategies that do not require recourse to costly corruption processes.*

The underlying problem here is that several parties are in conflict over resources or rents that result from (sometimes legitimate) overlapping claims over the policies or

assets. This type of conflict can sometimes emerge because policies and regulations are (often deliberately) badly designed and confer conflicting rights and rents to different people or sometimes to the same person. For instance, there may be several interpretations of the duty payable on a particular import. Resolving these conflicts requires bribes, and in the simplest case, this is just a variant of market-restricting corruption.

The more significant and less tractable cases are where the conflicts over rights derive from overlapping rights that may each have some legitimacy. For instance, different systems of rights may have existed over land and the conflicts between these rights may not have yet been resolved. For this type of problem, clarifications or changes in rules or improvements in administrative enforcement capabilities or even collective action responses are inadequate. Effective and legitimate conflict resolution processes have to be devised that can find compromise solutions that offer the parties an alternative, cheaper and more predictable mechanism of conflict resolution compared to competitively bribing land administration officials, judges and others.

ACE Cluster 4: Strategies Addressing Contested Rights

Illustrative example from Land Administration in Bangladesh

The corruption in land administration in Bangladesh, as in many developing countries, is partly due to administrative corruption related to manipulations of land records. But it is also partly due to inconsistencies in the land records that often reflect legitimate overlapping claims. One of our research questions uses the experience of an innovative BRAC programme of conflict resolution in land claims affecting poor women, using out-of-court conflict resolution processes. We will use data from the project to estimate the effectiveness of conflict-resolution processes as a mechanism for avoiding corruption-driven resolutions. The interdependency analysis will identify the combination of governance capabilities and policies that enables BRAC to play this role, and to assess its effectiveness given the political settlement. Finally, if effective, how replicable is this model? This research will generate evidence on the impact and feasibility of this type of anti-corruption strategy.

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