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Analysing the impact of corruption on private sector development

Country Case Studies and Analytical Tool

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DFID Department for International Development

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1. Executive Summary

A number of DFID partner countries have ongoing programmes supporting private sector led economic development. In some cases, plans are in progress to scale up this support quite significantly. Given the potential impact corruption can have on private sector growth, it is important to understand these dynamics, in order to design appropriate responses.

This guidance note outlines a methodological framework that DFID advisors can use to identify how corruption affects the private sector in specific country contexts and what responses would be appropriate to address the identified corruption constraints given the local political economy. The guidance is intended to support analysis that informs programme prioritisation, intervention choice or private sector development strategy.

Through several channels, corruption can be a serious impediment to private sector development and broader economic growth. It is ranked as one of the top two barriers to doing business in two-thirds of DFID's main partner countries[2]. As discussed in detail in Annex 1, evidence indicates that corruption generally has a negative impact on firm-level costs and decisions. It poses a significant barrier to market entry, it increases uncertainty which impedes long term and fixed capital investment, limits growth and productivity, and is a particular problem for small and medium size enterprises which lack the clout, capital and connections to circumvent the problem. However, as the literature also highlights, in certain contexts corruption can 'grease the wheels' of economic growth by providing a means of overcoming bureaucratic delays, for example. The literature contains much less evidence on the effectiveness of anti-corruption initiatives that focus on private sector development.

This guidance note is part of a larger project which includes the development of a literature review on the impact of corruption and private sector development (Annex 1), a framework for analysing the impact of corruption on the private sector at the country level, and three country case studies where this approach was applied – Bangladesh, Nepal and Sierra Leone (Annex 3). The analysis produced as part of the three case studies has led to a number of operational implications for DFID country offices.

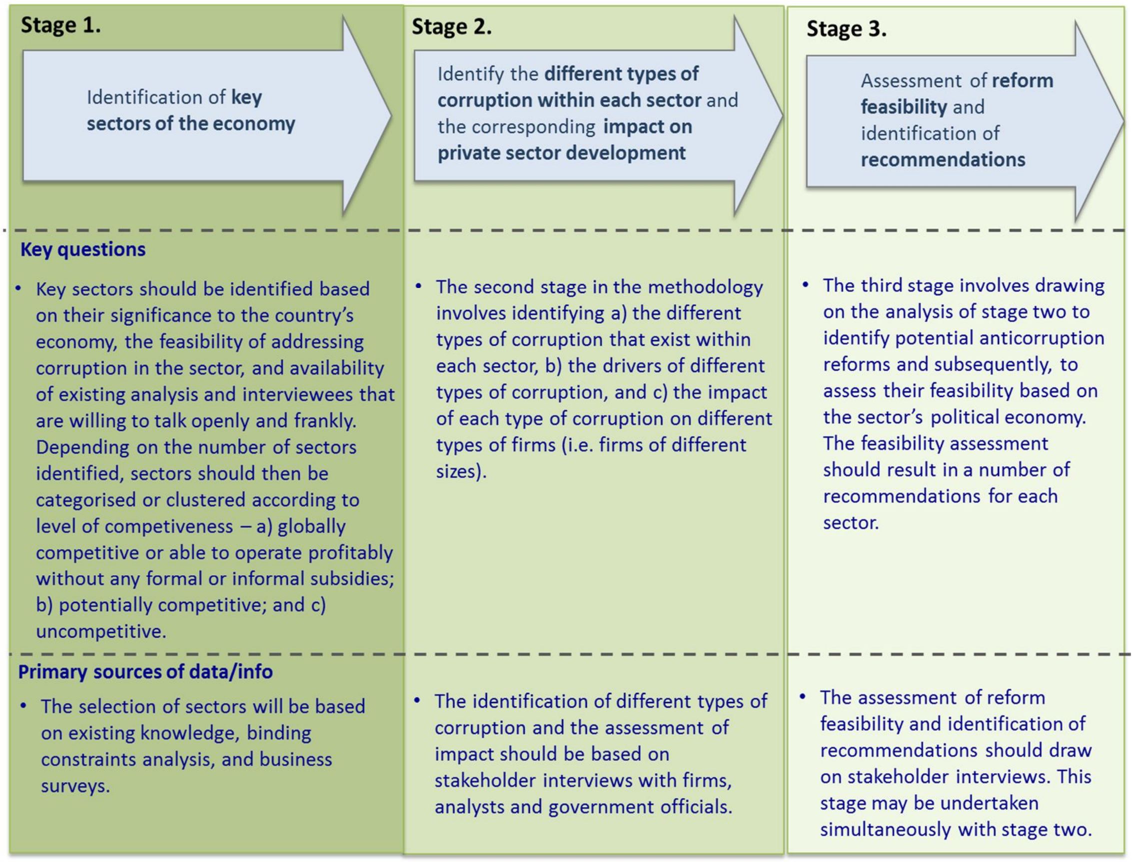
The original analytical framework was tested during the three country case studies and revised based in this experience. The original analytical framework had three stages; a) identification of key constraints to private sector development in a specific country context, b) assessment of the role of corruption in these constraints, and b) identification of corresponding recommendations. One key insight from the case studies was that corruption creates different constraints for firms in different sectors, depending on the competitiveness of the sector. As such, a revised framework was formulated which starts by identifying a number of key sectors, before proceeding to identify the key corruption constraints within

[2] The Global Competitiveness Report 2012/2013 surveyed businesses in 21 out of DFID's 28 partner countries. 14 of these 21 countries reported corruption as the top or second highest problem for doing business.

each. The main body of this guidance note outlines the reflections on the original framework which led us to reframe and arrive at the revised version.

The refined analytical framework has three phases:

Figure 1: Revised Analytical Framework



This framework has been developed based on the following engagement principles (which are described in more detail in section 3.1):

1. **Clarify the primary purpose of the assessment to ensure a cohesive and responsive product and** focus the methodology and identify what information is really needed.

2. **Review the availability and suitability of existing analysis and data to ensure assessment objectives and allocated time are realistic.**

3. **Consider the level of access that can be gained to informants or insiders before defining the scope of analysis.**

The note is organised into two sections; section one describes the original analytical framework that was developed and tested during the three case studies, along with lessons that were learnt in applying the framework. The annex section reviews the state of evidence on the impact of corruption on private sector growth and related interventions.

2. Assessing the impact of corruption on private sector growth in a given context

As part of the development of this guidance note, three case studies were carried out in Nepal, Sierra Leone and Bangladesh. For the Nepal study, a small number of corruption constraints were analysed in-depth. Sierra Leone maintained a broader selection of corruption constraints which were not covered to the same depth. The Bangladesh study focused on the garment sector.

Testing the analytical framework in different contexts revealed a number of factors that should be considered when analysing the impact of corruption on private sector development.

- **Firstly,** it became apparent that **each country required a specific approach depending on the level of economic and political development and the specific sector in which firms operate**. The effects and drivers of corruption vary greatly depending on the political settlement and the specific links between business and government. The level of development of the private sector, whether some parts of it are already globally competitive, and how extensive those sectors are, and how many sectors are close to competitiveness all make a difference to the nature of corruption and what can be done to tackle it. A further dimension is the extent to which natural resource rents are a major part of the story. Anti-corruption strategies in countries with very small globally competitive sectors or large commodity rents would have to work without significant private sector allies capable of challenging corrupt processes impeding their growth.
- **Secondly, it became clear that efforts to quantify the cost of corruption, and different forms of corruption, would not generate accurate figures** and as such, should not be attempted within the scope of the case studies.
- Lastly, attempting to prioritise different forms of corruption based on the level of private sector constraint, scope for reform and availability of information, highlighted the challenges of objectivity. Ultimately, it was found that it is very difficult to avoid a significant degree of subjectivity in the prioritisation. .

As such, the purpose of this report is not to present ready-made issues and solutions but rather, based on the case studies, to identify issues that need to be considered when seeking to understand the impact of corruption in private sector growth in a given context and identify options for addressing it.

2.1 Where to start? Preliminary issues to consider

The comparative application of the above framework in the three countries, and its refinement from one case study to the next, showed that the following issues should be considered when analysing the impact of corruption on private sector development:

1. Clarify the purpose of the assessment to ensure a cohesive and responsive product.

During the course of carrying out the case studies, it became apparent that country offices had different interests and expectations about what the assessments would deliver. Clarifying the primary purpose of the assessment is key to focus the methodology and identify what information is really needed. Some information may be interesting per se, but not critical to the purpose. For instance, if the purpose is primarily to identify programming entry-points, a quantitative assessment of the costs of corruption to firms may not be necessary, much as it is interesting.

2. Review the availability and suitability of existing information to ensure assessment objectives and allocated time are realistic.

The case studies demonstrated that the availability of information has implications for how to plan the assessment. In many countries, much may have been already written about corruption (prevalence, nature, perceptions) and about the private sector (state, constraints to development). Yet that information may be outdated, incomplete or its usefulness limited for the purpose of the assessment. Prior knowledge and contacts also matter. In the case studies, the researchers were able to draw on much more useful pre-existing analysis, knowledge and contacts in Bangladesh than in Sierra Leone, for which there is a limited amount of related analysis. In practice, this means that achieving the same depth of analysis would have required longer in Sierra Leone[3]. Pre-existing information / analysis that is likely to provide a particularly useful basis include:

- analysis on the evolution of the political settlement in country and role of corruption within it;
- analysis of the political economy of corruption in country;
- analysis or knowledge of links between private sector firms and politicians;
- disaggregated analysis of constraints faced by firms in different economic sectors; and
- analysis of the level of competitiveness of different sectors of the economy.

3. Consider the level of access that can be gained to informants or insiders before defining the scope of analysis to ensure an assessment of selected issues is possible.

This is a question that is likely to be recurrent throughout the analysis, however the challenges of accessing key informants may only became apparent in latter stages of the analysis. In Bangladesh for example, the foreign-owned business sector was not investigated in depth because it was not possible to find foreign owners willing to speak freely about the details of corrupt processes affecting their business. In Nepal,

[3] It should be noted that the Bangladesh study was undertaken after the Sierra Leone and Nepal case studies and thus benefited from the methodological insights

corruption in the haulage sector was identified early on as an important area for in-depth analysis, but during the course of the assessment it proved very challenging to get sufficient access to identify the drivers and processes of corruption in this sector. The analysis had to be refocused on other sectors where sources willing to talk and reveal ‘closed’ practices were more readily available.

The risk is that certain important sectors will be left out as a result. But it also suggests that offices may need to think carefully early on about who to involve in the analysis (could some local staff or trusted local consultant get greater insider access to certain sectors for instance?). The assessment may also need to be considered as a process rather than a one-off exercise, with relationships developed over time making it easier months down the line access sectors that were previously ‘closed’.

2.2 Getting to the heart of the matter: key framing questions

The comparative application of the original analytical framework in the three case studies revealed the following framing questions to be central to the analysis:

1. What is the structure of the economy?

Firms at different stages in development may face or be constrained by different forms of corruption. The original analytical framework developed for use in the case studies proposed to take key constraints to private sector development in country as a starting point before identifying the role of corruption in relation each of these constraints. However, the process of undertaking the cases study analysis revealed that firms in different sectors of the economy or at different stages of development may face or be hindered by different constraints, and in particular, by *different forms of corruption*.

Considering the structure of the economy could provide a useful way to cluster firms that share similar characteristics (in terms of their ‘growth path/potential’) in order to gain a more disaggregated and nuanced understanding of how corruption affects them. Useful questions to ask are:

- Are there any globally competitive sectors in the economy?
- Are there any sectors that are not yet globally competitive but expanding domestically?
- Are there sectors in the economy that are productive and growing, while operating without any form of government subsidy?
- Have there been government attempts to support potentially competitive sectors become competitive? If such attempts were unsuccessful, did corruption contribute to the failure?

Methodological issue no.1: Clustering firms in non-diverse economies

Clustering firms based on the level of competitiveness was found particularly useful in the case of Bangladesh, since there is a diverse economy – some sectors are globally competitive and growing, while others are not and require government support. However, in contexts where the economy has limited or no diversity with very few sectors close to being globally competitive, clustering firms in this manner is likely to prove challenging. The approach may still prove useful if the categories are defined in ways that reflect the levels or diversity found in specific contexts. For example, while Nepal has no economic sectors that can be considered globally competitive, firms could be clustered into sectors based on the potential to be competitive – i.e. in Nepal hydro, ICT and tourism have the potential to be competitive, while manufacturing does not.

2. How does the experience of corruption by firms differ across sectors/clusters?

Some sectors are more susceptible to corruption than others. Understanding this is key to identify and assess possible options for response. **Corruption may not only have a different impact across sectors but may also involve very different *processes* for different business sectors even when they involve a same agency**. In Bangladesh for instance it was found that while corruption in customs as a whole did not, on average, have a high impact on business, corruption in customs clearance was a particular problem for the garments industry (an important driver of the Bangladeshi economy). As such understanding its drivers in that sector deserved attention. The purpose of the analysis, here, is ultimately to understand *what forms of corruption are most harmful for firms in different sectors.*

3. Within a single sector, what are the different reasons for firms or officials to engage in corruption?

Another insight gained from the case studies was that different firms may engage in the *same* type of corruption for different reasons. Identifying these different motivations matters (see . Failure to do so can explain why general broadly-defined anti-corruption strategies can perform poorly.

2.3 Methodological issues arising from testing the framework

The case studies trialled several different approaches to assessing the degree to which corruption constrained the private sector, sometimes in combination. The table below provides a comparative assessment of these approaches.

The most significant difference in the way the case studies prioritised sectors was between the qualitative approach used in the Bangladesh and Nepal case studies, and the quantitative approach used in the Sierra Leone case study. While it may not always be possible or desirable to use a quantitative scoring matrix as a means of prioritising sectors, in some cases it may be a way of presenting the analysis in a more accessible way and open up a discussion on priorities. However, it should be noted that the time needed to do this in a more robust way needs to be carefully considered in light of the usefulness of this approach. The workshop approach used in Sierra Leone may be worth exploring more. It was considered to be a useful addition and a way of bringing stakeholders on board with the study.

Bangladesh	Nepal	Sierra Leone
Selection based on (i) availability of information and interviewees, and (ii) pre-analysis assessment of competitiveness of sector, impact of corruption and feasibility of reform – drawing on existing knowledge	Selection based on an 'light-touch' application of the criteria included in the overarching methodological framework, which assesses impact of corruption and feasibility of reform – drawing on desk research, primarily business surveys, and a small number of interviews. The Nepal study also considered pre-existing DFID Nepal analysis – i.e. avoided sectors that had been analysed extensively.	Selection based on quantitative scoring of each of the criteria included in the overarching methodological framework. Selected sectors were validated in a workshop to test ideas on the relative importance of particular corruption sectors and in identifying potential entry points.

Methodological issue no.2: Qualitative vs. Qualitative methods

Assessment method	Case study	Benefits of method	Limitations of method
Qualitative judgement by asking firms directly what forms of corruption are the greatest impediments to their business and drawing on surveys providing such data.	Nepal	Provides a good understanding of how firms perceive they are impacted by different types of corruption.	Firms may not be aware of some forms of corruption that constrain their business. Disaggregation by sector is difficult. This method may also ignore forms of corruption that stop firms from entering the market in the first place since only firms that are in business can be surveyed.
Trying explicitly to quantify costs of corruption as a way of determining relative impact – drawing on surveys and asking firms what forms of corruption are the greatest impediment to their business.	Sierra Leone	Provides a very visual and accessible assessment of the different forms of corruption. Provides a point for discussion on which to validate the findings. (e.g. through a workshop)	Assigning a numerical rating to the severity of different forms of corruption inherently requires a large degree of subjectivity. The numerical values could be misinterpreted as empirical/objective. Requires significant time to gather relevant data to support the ranking.
Qualitative judgement, drawing on desk research and existing knowledge to identify sectors of the economy where corruption was restricting firms from becoming competitive.	Bangladesh	Provides a nuanced analysis of how different forms of corruption creates different constraints, of varying degrees, depending on the sector of the economy.	Requires a researcher with a deep knowledge of the economy being analysed, and extensive contacts in the private sector. Is likely to be more difficult in contexts where there is limited existing research to draw on.

2.3 Identifying entry-points for action

The original analytical framework aimed to identify entry-points for addressing corruption that constrains the private sector and subsequently, to identify moderately feasible initiatives that would address such corruption. Given the opaque nature of corruption and the related vested interests, it will be rare that any reform will be 'very feasible'. There is likely to be opposition to any anti-corruption intervention from affected quarters and we can expect more or less serious attempts by beneficiaries of corruption to derail interventions at implementation stage. In this note, 'moderately feasible' is therefore considered to mean where there are genuine entry-points for achieving the sort of progress that firms consider important for the survival and growth of their business, despite the inevitable existence of obstacles and sources of resistance. Key questions to ask include:

1. Can the interests of firms in a particular sector be harnessed for reform?
2. How can the interests of firms and powerful elites be aligned?
3. What bureaucratic capability is needed to implement reform/ enhance policy and how easily can it be acquired?

Assessing the feasibility of reform

The Nepal and Bangladesh case studies both explicitly assessed the political economy obstacles and opportunities associated with reforms in the sectors that had been selected for analysis. Reforms were then proposed and justified based on this analysis in order to ensure proposed solutions were feasible. The Nepal case study also outlined the success and failures of previous reform attempts in each of the focus sectors and considered this when determining the feasibility of reform.

The approach to determining the feasibility of reform used in the Bangladesh case study set a clear criteria for determining low or medium feasibility. Since no anti-corruption policy is likely to be 'very feasible' in terms of ease of implementation there is little point in defining such a category. A strategy was judged to be moderately feasible if (i) implementation was not likely to face strong resistance at the level of the ruling coalition, *and* (ii) if the implementation strategy required bureaucratic competence and enforcement capabilities that could be feasibly acquired, *and* (iii) if the strategies were likely to be supported by important sector stakeholders. Strategies were judged to be of low feasibility if one or more of these conditions did not hold.

Assessments of impact and feasibility require well informed subjective judgement based on triangulation. Given the opaque nature of corruption and its impact on the private sector, it is important to acknowledge where questions remain about the confidence level of the assessment of impact and feasibility. This may involve highlighting differences in opinion among interviewees, competing arguments in the literature, or by being clear about instances when propositions are supported by statements from a limited number of stakeholders.

The issue of transparency around confidence of assessments of impact and feasibility was particularly critical to the case studies given the limited amount of time assigned to each. Each of the case studies made a particular point of highlighting the number of stakeholders that supported assessments, and the type of stakeholder – i.e. firm representative, government official or analyst.

2.4 What did piloting the analytical framework tell us? Operational implications from the Bangladesh study.

The garments industry in Bangladesh is the country's biggest single exporter and employer, accounting for around ten percent of GDP (almost 15 percent if supporting industries are included), almost 80 percent of exports and around four million direct jobs, mostly for women (Transparency International Bangladesh 2013). If indirect jobs that depend on the garments industry are included, the total employment dependent on the industry possibly exceeds ten million. Thus, the significance of the performance of this sector for the health of the Bangladesh economy and for keeping poverty in check cannot be overstated.

The industry suffers from serious problems of regulation and governance but has found ways of operating in this adverse context. Yet some of the strategies used by the sector to do so have allowed less scrupulous businesses (which may be numerous) to cut corners, and to evade regulations on labour laws, environmental laws and building construction.

Breaking the cycle of regulatory failures is the foremost challenge. Many of the types of governance failures and corruption faced by the sector are driven by the limited capacity of the State to provide public goods. It derives from the culture of confrontation in politics, the weakness of public infrastructure like roads, railways and ports and the failure to guarantee and enforce land rights. Tackling these issues involves significant state-level reforms. Feasibility of implementation in the short to medium term is low, because it goes against the interests of powerful groups within the political settlement and developing the appropriate bureaucratic competences and enforcement capabilities will take time.

However, some corruption problems are more specific to the sector. Their impact ranges from low to high, but feasibility of reform is higher than for the major corruption issues discussed earlier. We discuss two variants of these types of corruption: the corruption involving customs officials clearing duty-free imports of inputs for garments factories, and the corruption driving violations of regulations.

1. Corruption and the Enforcement of Regulations

The Rana Plaza collapse of 2013 brought to the fore serious lapses in the enforcement of labour, building and environmental regulations in the garments sector (Transparency International Bangladesh 2013). Corruption is both cause and consequence of this extensive failure in enforcement. This type of corruption is clearly *high impact* not only because of its impact on the welfare of workers and the environment, but also because a loss of reputation can, beyond a point, result in a collapse of the sector itself. Once again, the problem has several layers of drivers and focusing only on one set of causes is unlikely to result in effective policies. **However, our overall assessment is that a properly designed reform strategy here is *moderately feasible.***

The key drivers of the corruption associated with regulatory failure are summarised in **Error! Reference source not found.**. The arrows beginning at the top right hand corner show two separate causal factors emanating from the government side of the equation. **The first**

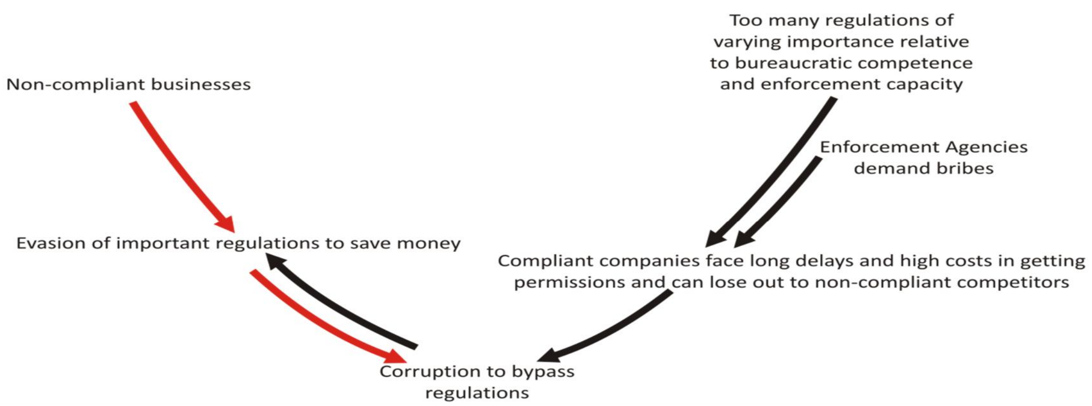
driver of corruption of this type is that the regulatory structure is far too ambitious and complex given the available competences of the bureaucracy and the enforcement capacities of the state. The existence of a large number of regulations that cannot be enforced can be expected to result in corruption of the market-constraining type.

For instance, around seventeen licences from different agencies are required to start a garments factory and many of these require periodic renewals. Around seven steps of approval are required from the initial building permission for a factory to the final approval of the building construction by Rajuk, the Capital City Development Authority, which has to authorise building work in a broad belt in and around Dhaka. In Dhaka district, which had 17,000 factories registered with this office in 2013, there were 22 inspectors. These 22 people are supposed to audit and approve certificate renewals of these factories. Apart from the fact that this would be physically impossible to achieve on the basis of site inspections given the numbers of inspectors involved, most of the inspectors also lack the training and skills to do their job properly, lack adequate vehicles and do not have any computing facilities. **It is not surprising that certificates are typically renewed without factory visits, in exchange for money (Transparency International Bangladesh 2013: 25-29).**

As a result of these extremely severe capacity and competence constraints, many businesses have to engage in corruption to acquire the certification they need to operate. This does not mean there are no compliant businesses in Bangladesh. There are many excellent companies with high labour, building and environmental standards. But they are compliant because their owners want to be, or because they are large factories that are subject to international inspection, not because of the local regulatory and certification regime. There was no disagreement on this issue across our respondents.

This type of corruption inflicts large transaction costs, particularly for new entrants who have to figure out who and how much to pay, even though the direct financial impact is again relatively small. Our respondents classified these bribe costs as irritations, though when we put the package of problems together we get a high impact type of corruption that leads to regulatory failure.

Figure 4: Corruption and Regulatory Failure in the Garments Industry



However, the problem is that if a business has to pay for the certification it requires to operate, and it knows that there is no capacity on the part of the state to monitor and enforce regulations, there is a strong incentive to not comply with costly regulatory requirements in order to save money and to ensure that the business does not lose out in competition with less scrupulous competitors who could undersell them. Thus, this causal chain takes us not only to corruption, but also continues to regulatory failure and possibly very undesirable outcomes, with regulatory violations by firms who would possibly have been compliant if every other business was.

The second causal driver, again from government, is the more usual one that bureaucrats and agencies with the power to delay and withhold licences from businesses may want to collect bribes even if they had the capacity to monitor and enforce properly. The third driver represents the possibility that some businesses do not intend to be compliant and want to evade important regulatory conditions. These businesses are willing to pay inspectors and in the absence of a strong regulatory authority that can limit this source of corruption, non-compliant businesses can push out compliant ones through unfair competition.

Feasible Anti-Corruption Strategies to Improve Regulatory Outcomes

The discussion of drivers suggests the elements that a feasible anti-corruption strategy in this area needs to have.

i. First and foremost, the gap between the list of regulations and the competence and capacity of public agencies to enforce these regulations has to be significantly narrowed. Without that, no regulatory reform strategy is likely to work. Part of this process is undoubtedly to increase public investments in personnel and competences in the appropriate agencies *by orders of magnitude*. But even this is not likely to be sufficient even in the medium term given the enormous gap that exists between regulatory aspirations and the bleak reality of actual enforcement and monitoring capacities.

   A necessary part of reform must therefore be to reduce the long list of regulatory requirements in different areas to a core of absolutely essential minimum requirements that *have* to be enforced for all businesses, and that *can* be enforced with feasible improvements in competences and capacities.

ii. Secondly, internal processes and disciplining mechanisms within the agencies obviously have to be improved as well, together with changes in the regulatory structure such that regulators cannot impose costs on compliant firms by delaying the renewal of licences or by carrying out long audits. This requirement is very similar to the Customs case discussed earlier. The default should be the automatic renewal of licences till violations are unequivocally established. Here again, the simpler the rules are, the easier it is to establish whether there has been a violation or not, particularly in the context of the very limited competences and capacities on all sides. Without these changes, the second driver cannot be addressed and compliant firms can be compelled to bribe to continue in business.

iii. Finally, a more credible regulatory structure that makes it possible for the majority of firms to be compliant, would split the business sector into those who would genuinely support the enforcement of rules that everyone followed, and a minority who will always want to free ride or violate regulations. The latter are the third driver of corruption. This minority has to be dissuaded using penalties as in every other country. The problem now is that penalties for violation are not credible threats in a context where almost every firm is non-compliant either by choice or by necessity.

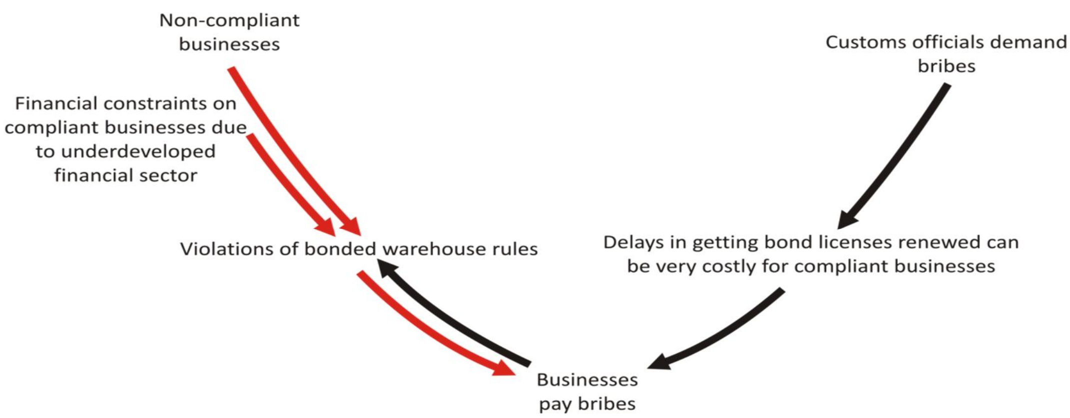
2. Customs Clearances and Corruption

The garments industry depends on duty-free imports of raw materials through bonded warehouses. There is no duty payable if the products are re-exported but firms have to utilise the imported inputs for exports rather than selling in the domestic market. This requires a validation process where customs officials check whether the utilisation of inputs matches the exports of the firm. Bond licences, required by firms to do business, are dependent on the outcome of this audit. Withholding or delaying renewals allows customs officials to threaten high costs on businesses and extract speed money for licence renewals.

This type of corruption has a *low to moderate impact* on business outcomes (the sums paid are limited compared to turnover although often calibrated according to the relative standing of the owner and their ability to pay). However, **it is one that is deeply resented by businesses and against which a properly designed anti-corruption strategy is *moderately feasible*. This, combined with the importance of the sector for the economy makes it worth prioritizing**.

Discussions with representatives of business and government revealed at least three superimposed processes that make this corruption problem deeply embedded and difficult to fight despite his relatively modest cost on firms. The different drivers involved are summarised in **Error! Reference source not found.**. A strategy for addressing this type of corruption only has a chance of success if all the important drivers are taken into account in the design of an anti-corruption strategy.

Figure 3: Drivers of Customs Corruption in the Garments Industry



The line of causation shown by the arrows originating at the upper right hand corner of **Error! Reference source not found.** highlight one driver of this corruption; the power of customs officials to impose large costs on businesses, even if they are compliant, by delaying the renewal of their licences or carrying out lengthy audits. For example, while regulations allow for imports to exceed utilisation by a certain margin, these margins are often exceeded. Government audits into imports and utilisation can delay shipments creating large additional costs for firms. As a result, many businesses that may otherwise have been compliant are forced to pay speed money to have their licences renewed in time. Since all or most firms have to pay bribes for renewing their licences regardless of compliance, they then have a strong incentive to violate bonded warehouse rules by selling some of their imported inputs in the local market as a source of easy money.

The second and third drivers come from the business side of the equation and are shown by the arrows originating at the upper left hand corner of **Error! Reference source not found.**. Some businesses are non-compliant because their profitability is too low and they *intend* to violate bonded warehouse rules to generate extra income. The duties on imported fabrics mean that the domestic prices of fabrics are higher than the import price, so selling duty free fabrics in the domestic market is an easy source of additional income. These businesses are happy to pay customs officials to enable this to happen. This is different from the first case because these businesses would not be compliant even if there was no pressure from customs.

The real complication is a third driver also originating from business. There are many potentially compliant firms in the industry that violate rules (e.g. engage in local market sales) because they suffer from serious temporary cash flow problems as a result of credit market failures. The income flows for garments firms can be very irregular due to delays in shipments or payments. But all firms have large monthly cash commitments in the form of significant wage and utility bills. Companies that are profitable can still have several months every year or every few years when they face severe cash shortages. The institutional failure here is that the financial system is not geared to provide short-term cash to viable garments firms facing payments problems. Our respondents told us that it was quite common for fairly viable firms to have to borrow short-term cash on the kerb market to pay wage bills during lean months at interest rates of around 10 percent *per month*.

Feasible Strategies for Targeting Customs-Related Corruption

An understanding of these parallel drivers shows why a feasible anti-corruption strategy targeting corruption by customs officials has to have several parallel components.

i. <u>First, the policy has to address the weaknesses in the internal management of the Customs Department</u> that allows officials to demand payments from compliant firms. This may involve standard measures like improving salaries, and improving internal monitoring and procedures for removing officials with persistent complaints against them. It would also involve procedural measures to prevent customs officials from imposing large costs on firms by holding long audits or delaying the renewal of licences.

   The regulations already allow a temporary renewal of licences while an audit or investigation is taking place so that firms cannot be threatened with large losses, but firms told us that even these renewals take time and they are prepared to pay speed money because the absence of proper paperwork affects their access to bank credit for importing inputs. An effective anti-corruption strategy would reform procedures so that licences are automatically renewed and the company is only penalized if an audit eventually proves definitively that a violation has taken place.

However, our analysis of drivers suggests why this may be insufficient for an effective anti-corruption strategy. Both compliant and non-compliant businesses may want corruption to continue, but for different reasons. This means that a sufficient coalition of support cannot be created within the industry for a strong anti-corruption drive against customs officials. Both compliant and non-compliant firms are likely to collude with customs officials to ensure that an anti-corruption strategy is not implemented unless the deeper problems driving non-compliance by many firms are addressed.

ii. A second plank of an effective anti-corruption strategy must therefore address some of the relevant market failures that drive this corruption. One way to split a potentially large group of compliant firms from a minority of non-compliant firms in this context would be to address the huge market failure in raising short-term operating credit – an apparently unrelated area. The availability of a dedicated short-term credit facility for export-oriented firms could potentially have a significant impact by reducing the opportunity costs of compliance.

Iteration & Triangulation: lessons from the Bangladesh study

Given the opaque nature of corruption, triangulation is critical when analysing corruption and its impact on firms. The Bangladesh study methodology, which drew on lessons from the preceding two studies, made the subjectivity of judgments explicit, and used triangulation and cross-checking to qualitatively confirm impact and feasibility. High-level participants in the sector - both business and government - were engaged in closed-door and confidential discussions, to triangulate descriptions of the causes and effects of specific processes of corruption in that specific sector.

The involvement of both sides of corrupt transactions in each discussion was important to triangulate responses to cross-check the veracity of processes and costs. A process of iteration was used, going back repeatedly to the same individuals with more information and counter-arguments each time, to check and challenge claims and counter-claims till a rounded understanding of the processes of corruption and assessments of impact and feasibility could be achieved.

3. Summary of the Operational Implications arising from all 3 Case Studies

The table below provides a summary of the possibilities for reform and DFID support arising from all three country case studies:

	Analysis	Operational implications and recommendations
Bangladesh	Corruption in customs in the garments sector in Bangladesh has a number of drivers.	Successful anti-corruption strategies have to separate the potentially compliant from the non-compliant firms by addressing the deeper state capacity problems that drive potentially compliant firms to corruption. For example, without addressing the lack of formal sector credit for garments producers in Bangladesh, compliant firms are unlikely to support anticorruption reforms.
		Addressing the multiple drivers of corruption can involve activities which would be considered instinctively unrelated. For example, in the case described above, a successful strategy would have to address the important market failures that drive this type of state-constraining corruption by providing official short term credit facilities.
	There are high levels of corruption in Bangladesh's regulatory system as a result of the existence of a large number of regulations which cannot be enforced.	Addressing corruption in regulatory bodies can often require reducing the gap between the list of regulations to be enforced and the capacity of public agencies to enforce these regulations. This may require activities to target internal processes, capacity and incentives however, it may also require reducing list of regulatory requirements that public agencies attempt to enforce to a core of absolutely essential minimum requirements that *have* to be enforced, and that *can* be enforced.
	The Bangladesh government's digitisation strategy for addressing corruption in the land administration system is an example of how reforms can have a perverse effect.	Some anti-corruption policies that ignore the problems of state capacity driving state-constraining corruption can actually make matters worse. The experience of widespread corruption in land administration suggests that digitisation is open to the possibility of significant manipulation by insiders who know exactly what is at stake and the areas where manipulation can achieve significant rewards. Digitisation needs to be fully transparent or it could make things worse.
Nepal	In Nepal public sector reforms which reduced corruption were often more effective when they relied on mid-level and senior officials.	Design-phase scoping analysis should identify whether or not coalitions for reform exist in mid-level management.
	Initiatives to construct and rehabilitate roads in Nepal may not provide the expected cost savings for firms as a result of anti-competitive activities.	Efforts to reduce the impact of syndicates on transport prices may be an important accompaniment to road development.
	Corruption can affect firms of different sizes very differently. It is likely that the impact of syndicates on small and medium size firms is more severe than on larger firms, which have stronger negotiating power and can enter into	Anti-corruption strategies that seek to improve conditions for private sector development should first identify which group of firms (S/M/L) are the target beneficiaries within a specific sector. A strategy can then be developed to target the relevant form of corruption.

	contracts with transport providers.	
Sierra Leone	At a general level donor efforts to combat corruption have focused on tackling corrupt behaviour within public sector institutions.	There is a need for a broader anti-corruption approach encompassing interactions between the public and private sector, and also addressing corruption that is purely within the private sector.
	There has also been a tendency for donors to focus on traditional, supply-side anti-corruption measures, such as supporting the Anti-Corruption Commissions, which have shown their limitations.	There is significant potential to strengthen demand side anti-corruption measures, most importantly by strengthening business associations in their organizational, advocacy and research capacities to enable them to draw attention to the costs of corruption and to press for change.
	In Sierra Leone, international partners could also encourage the Government of Sierra Leone to negotiate and adopt bilateral or multilateral investment agreements. At present investment agreements only exist bilaterally with UK and Germany.	Development partners, diplomatic missions and trade representations should also be able to use their influence to advocate greater policy consistency and support the position of foreign investors. It should be possible to adopt a more assertive position, particularly in cases where conditionality surrounding multilateral loans has been breached.
	In terms of corruption in land registration in Sierra Leone, without addressing the severe weaknesses in land survey processes, fraudulent entries to the land registry will continue. This indicates the need for broader reform encompassing the Ministry of Lands and including revision of land legislation.	The sequencing and inter-connectedness of anti-corruption strategies should be considered carefully when designing anti-corruption strategies.

2.5 Main challenges and limitations of the approach

Based on the application of the approach in the three case studies, the following challenges and limitations became apparent:

1. The trade-off between breadth and depth of analysis.

The approach allows flexibility in terms of depth and breadth so that it can be tailored to the particular needs and resources of the country office. However, without clear terms of reference on the scope of work and the specific questions that need to be answered, there could be a temptation to cover a large number of sectors/ forms of corruption. Given the generally limited amount of pre-existing analysis/information on the impact of corruption on private sector development at the country level, and the challenges in developing robust evidence of how corruption takes place and how it affects firms, there is a risk that a broad analysis fails to produce the depth of analysis required to inform programming.

2. The prioritisation and selection of sectors could be applied differently by different analysts.

The approach dictates that sectors/ corruption issues should be prioritised based on: 1) level of private sector constraint caused by corruption, 2) feasibility of addressing such corruption, and 3) availability of information 1) and 2) with confidence. However, given the subjectivity of assessments of impact and feasibility, and the lack of a rigorous or standardised methodology for prioritising sectors/different forms of corruption, it is quite possible that analysts could choose to emphasise each of these three categories to different degrees in order to justify their selection.

There is a benefit in maintaining some flexibility in the application of the approach to enable it to be tailored to the needs and specific purpose of the DFID advisors. However, the process of prioritisation should be explicitly discussed from an early stage, and the final analysis should explain the prioritisation process carried out.

3. Focussing on sectors for which there is the greatest amount of information could mean missing the most pressing constraints.

In some contexts there may be particular challenges in obtaining relevant information due to a lack of pre-existing analysis or difficulties finding firms and other stakeholders that are willing to talk openly. This could lead to a focus on sectors and corruption issues which are not the most pressing private sector constraints. The prioritisation and selection process should thus be done in a transparent manner, and reports should acknowledge that there may be more severe corruption constraints outside the scope of study. The case studies highlighted how the pre-existing analysis of corruption and private sector development in Bangladesh was one factor that allowed a more in-depth and nuanced analysis than was possible in Sierra Leone, where there was limited such analysis.

3. Conclusion

The guidance note describes the experience of testing and refining an analytical framework which sought to analyse the impact of corruption on private sector development within specific contexts, taking into consideration that factors outlined above such as the type and size of business and the context in which they operate.

This experience highlighted the importance of the following factors when attempting to analyse the impact of corruption on private sector development:

1. What is the structure of the economy? A key insight from the cases studies is that firms at different stages of development may face or be hindered by different constraints, and in particular, by *different forms of corruption*.

2. How does the experience of corruption by firms differ across sectors? Some sectors are more susceptible to corruption than others. Understanding this is key to identify and assess possible options for response.

3. Within a single sector, what are the different reasons for firms or officials to engage in corruption? Another insight gained from the case studies different firms may engage in the *same* process or type of corruption for different reasons. Identifying these different motivations matters.

The analysis produced as part of the three case studies has produced some valuable methodological insights and pointers. It has also led to a number of operational implications for DFID country offices as indicated in the table above.

However, the framework would benefit from further testing particularly in Africa in a more comparable context to Bangladesh (the most successful case study), where the private sector is more developed and globally competitive. Each case study was an improvement on the previous and the revised framework that has resulted from the learning process has not yet been widely applied across a sufficient range of DFID contexts.

With the roll out of DFID's Inclusive Growth Diagnostic since this work commenced, the further application of the framework would also benefit from the insights arising on the political economy of growth. In particular it should draw on the analysis of the nature of elite capture, elite incentives and state-business relations as well as literature on the overall political settlement.

Annex 1: State of evidence on the impact of corruption on private sector growth and related interventions

This section provides a summary of the main findings from the literature review. It highlights evidence of the impact of corruption on private sector growth, as well as the evidence of the impact of interventions aimed at addressing corruption that constrains private sector growth. It also identifies gaps in the evidence base. Broadly speaking there is a sizable body of literature analysing the impact of corruption in private sector development, covering both micro and macro-economic impact. However, there is very little systematic evidence available on the effectiveness of interventions aimed at reducing the impact of corruption on private sector development - section 2.2 below highlights the evidence that is available in this regard.

1.1 Corruption channels

The literature highlights a large number of channels through which corruption influences economic growth and private sector development. In many cases, the impact of corruption is framed in terms of whether it works to facilitate (grease) or hinder (sand) business development with the majority presenting evidence that supports the latter. The various channels through which this works are summarised below.

Both a barrier and enabler to entry/operation in the formal sector

High levels of regulation and red tape are used as a means of extracting bribes and other rents, in corrupt contexts. For firms seeking to enter the market, this imposes an onerous bureaucratic process, which can be very costly to navigate (Mauro, 1995; 1998). In some cases these costs may prohibit some firms from entering the formal sector altogether, and may result in them staying or withdrawing to the informal sector (Djankov et al., 2002). Firms that operate outside of the formal sector are inhibited in their ability to access private finance and public services and are likely to be at a disadvantage in enforcing contracts, employing more people and expanding their business.

However, corruption can also facilitate the entry and operation of firms in the formal sector. Bribes can be used to ensure approval to open or operate in cases where regulations are not complied with (Meone & Sekkat, 2003: 74). This is likely to assist firms in their entrance into the formal sector (grease) and may even lower their costs in doing so compared to those who do not pay bribes to circumvent regulation. The impact of this type of corruption depends on the regulation being circumvented: if in relation to health and safety or protection of the environment, this is likely to have serious consequences for public welfare (Transparency International, 2009: 25).

Cost of productive operations

Complex regulatory environments and the bribery this can encourage also affects businesses already operating as they too are often compelled to pay bribes to secure licences, access services or facilitate speedy payment of invoices, for example. Given this environment, businesses often find it beneficial to develop relationships with bureaucrats or other officials who can help them circumvent the onerous bureaucratic hoops and reduce the burden of bribe paying. This all detracts from what can actually be spent on productive activity and is likely to increase the cost of operation (see World Bank's Doing Business Indicators and Southgate et al, 2000).

However, corruption is thought to 'grease' the wheels of commerce through its ability to speed up inefficient bureaucratic processes (e.g. Huntington, 1968; Leff, 1964; Leys. 1970). A bribe can be used to reduce waiting time for a permit, licence or other necessary paperwork. Moreover, government employees who can levy bribes may be compelled to work harder and more efficiently, so they can levy more bribes. In this sense, corruption is beneficial in contexts where institutions are ill-functioning in the first place. The logic of this channel implies that corruption may be beneficial to the private sector in contexts where other aspects of governance are already poor and ineffective (Meone & Sekkat, 2003).

"…corruption may be beneficial to the private sector in contexts where other aspects of governance are already poor and ineffective (Meone & Sekkat, 2003)."

Reduces production efficiency

Corruption can create additional costs for firms which can distort their future operations by leading them to avoid corrupt sectors, and consequently, adopt inefficient production models (Olken and Pande 2013 in ODI/U4 Unpublished). A study of the effects of corruption and bureaucracy on the productivity of 909 firms in Ghana, Kenya and Tanzania (Faruq et al. 2013 in ODI/U4 Unpublished) found that a 1-standard deviation improvement in corruption levels improves firm production by more than 14 percent. The study also found that firms in more corrupt setting were less production efficient than those in less corrupt settings.

Uncertainty in contracting

Contracts can be an important legal safeguard ensuring both parties are held to account. However, in a corrupt context, contracts do not provide the same level of confidence since they can be undermined by ad hoc law changes, weak contract enforcement and the discretionary powers of bureaucrats and those in the legal system. This can be extremely detrimental to growth and investment (Mijiyawa, 2008). Based on several thousand survey

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Reduces personal and commercial investment in human capital

In a meritocratic environment, there is an incentive for people to invest in in their education and training. However, in a corrupt context where jobs and promotions are based on nepotism and patronage, this incentive is reduced. Furthermore, if bureaucratic positions hold the promise of access to economic rents through corruption, individuals are more likely to compete for bureaucratic positions than those on the private sector (Romer, 1994; Murphy, Shleifer, and Vishny, 1991; Ehrlich and Lui, 1999). Consequently, the labour force available to the private sector will become relatively drained of talent and skill, particularly in countries where the private sector is weak and not yet able to pay better salaries than the returns in the public sector. A number of studies also indicate that corruption reduces the short and long term investment rate of domestic firms (Mauro 1995; Pellegrini and Gerlagh 2004; Rahman et al. 2000; and Anoruo and Braha 2005 – all referenced in ODI/U4 unpublished).

Reduces government investment in human capital

Corrupt officials may seek to create opportunities that garner higher rents, skewing public funds to capital-intensive projects (infrastructure, construction, military ventures etc.) at the expense of public services such as health and education. This will have obvious negative implications for the general welfare of the population and will stunt the ability of the labour pool to access education, skills training and healthcare (Porta and Vannuci, 1997).

Reduces quality of infrastructure

The allocation of public procurement contracts through a corrupt system is likely to mean that contracts are awarded to the highest briber rather than on the basis of value for money or quality since favour is skewed towards those with better connections. Furthermore, the cost of the bribe is likely to inflate the overall cost of the infrastructure (Lambsdorff, 2001) and/or reduce the amount of money available to guarantee the projects quality (Mauro, 1998). As a result, corrupted officials are likely to allow the use of substandard materials, or overlook other construction infringements related to labour, the environment and safety.

Impacts on political stability

There are arguments going in both directions in terms of the potential impact of corruption on political stability. Some studies have indicated that a high degree of perceived corruption may reduce the legitimacy of political institutions and fuel political discontent and instability (Mulloy, 1999; Mo, 2001). In some cases, it can be argued that corruption is integral to the political order and may even be seen as legitimate by significant proportions of the population (Le Billion, 2003). When officials use corrupted means to redistribute resources (patronage) with the goal of appeasing or co-opting certain groups, it may be seen as a way of safeguarding against political discontent. Corruption is often relied on to fulfil this stabilising function in post-conflict and otherwise fragile states (Le Billion, 2003).

Overall, the literature lends more support to the idea that corruption plays a 'sanding' role, rather than a 'greasing' one (Aidt, 2009). Additionally, there are a number of studies that indicate that SMEs, innovative firms and other entrepreneurs are particularly vulnerable to corruption's negative impacts (e.g. Zhou & Peng, 2012; Djonkov et al. 2002). However, the picture is far from complete or consistent and others have found that corruption, in specific contexts, can have positive impacts, or at least that growth can coexist with corruption. Summarising over 40 studies, Campos, Dimova and Saleh (2010) find that only 32 percent of those studies find that corruption is negatively and significantly associated with growth, while in 6 percent a positive and significant association is found, and in 62 percent an insignificant association was reported. The literature is likely to be innately skewed since academic publications tend to only publish papers where effects have been found, which potentially makes papers that find no significant impact less visible.

Importance of context

Whilst much of the literature supports the view that corruption generally has a negative impact, not all do. As Khan (2006) and Wedeman (1997) note, several country cases illustrate that high levels of corruption can coexist with high levels of economic growth and impressive private sector performance. Reconciling these seemingly mixed findings, many have concluded that corruption's impact is highly contextual. While cross-national statistical analysis is used by some to test context specific hypotheses, several studies have used qualitative methods to illustrate how corruption influences the private sector in a specific context. Case studies are particularly useful in corruption research to dig deeper into why a country does not fit the general 'trend'.

However, the findings of case studies are innately difficult to generalise across other cases, and qualitative researchers face the daunting task of trying to identify what role corruption (of varying types) plays in influencing how the private sector develops. The impact of corruption is likely to vary greatly depending on the level of corruption, types and mixes of types of corruption, the composition of the private sector, and broader political and economic factors. Some of the factors that are likely to be the most important variables are summarised below.

"The impact of corruption is likely to vary greatly depending on the level of corruption, types and mixes of types of corruption, the composition of the private sector, and broader political and economic factors."

Political regime

Some commentators have indicated that the levels and impact of corruption can be 'tamed' in contexts where the population have the ability to vote out leaders who extract too much from society through corrupted methods (Aidt et al. 2008; Drury, Kries & Lustig, 2006). These commentators have also found that non-democracies suffer more economically from corruption than democracies. Khan (2010) argues that forms of political corruption are endemic in the political settlements of developing countries, whether democratic or not, and the differences in outcomes are related to the distribution of power across different types of organisations. The pervasiveness of political rents (and therefore of forms of political corruption) in developing countries is also supported in the work on Limited Access Orders (North, et al. 2007; North, et al. 2009; North, et al. 2013).

Economic comparative advantage

A country's comparative advantage can be an important factor in influencing how damaging corruption is on the private sector (Larsson, 2006). Where countries are competing for trade and investment with countries where corruption is less prevalent, this is likely to hinder investments in the more corrupt countries. Where the levels of corruption between competing countries are similarly plagued with corruption, this is likely less of an issue.

Centralisation and organisation of corruption

Contexts where rent-seeking is more centralised (and therefore is likely to be more disciplined and organised, enforced by a central authority) will likely mean that bureaucrats will 'tame' their demands and reach an implicit agreement around the size and frequency of bribes, resulting in more predictable and lower value bribes (Shleifer and Vishny, 1993; Bardhan, 1997; Blackburn and Forques-Puccio, 2009). Larsson (2006) argues that the disorganisation of corruption in Russia versus the organisation of corruption in China helps to explain their diverging growth paths.

"Contexts where rent-seeking is more centralised will likely mean that bureaucrats will 'tame' their demands and reach an implicit agreement around the size and frequency of bribes, resulting in more predictable and lower value bribes"

Corruption typologies and type of rent created

Wedeman (1997) distinguishes between three types of corruption: 'looting', which involves uninhibited plundering by the state; 'rent-scraping', which describes the creation and collection of distortionary rents (e.g. excessive red tape); and 'dividend collecting', which involves the transfer of a percentage of profit from business to government officials in return for policies and services that allow enterprises to earn profits. Wedeman argues that differences in the composition of corruption across cases can explain outcomes, as countries can exhibit a mixture of each type.

Similarly, Khan (2004; 2006) develops arguments about how different types of rent seeking will have different impacts on the private sector. He categorises these into four types. 'Market-restricting' corruption (or bureaucratic corruption, similar to Wedeman's 'rent-scraping') wherein public officials use their power over state services to extract rents. This may not be the most influential or damaging type of corruption in a country. 'State-constraining' corruption is associated with rents that address market failures, or are necessary for the operation of a market economy. Here corruption and rent-seeking have a very different effect and can distort the implementation of corrective programmes or appropriate policies. 'Political corruption' occurs when leaders redistribute state resources using off-budget transfers or other corrupted means to political factions in order to maintain power and consolidate political stability. This often coincides with poor private sector performance and is often the most damaging (and most difficult to tackle). 'Predatory corruption' is typified by theft and primitive accumulation by public officials, similar to Wedeman's 'looting' and is expressed through direct grabbing of public resources or collusion in the extraction of donations or 'protection money' from businesses by political parties and local mafia etc. It is important to understand the combination of different types of corruption in a particular country when designing interventions either directly impacting the private sector or a broader anticorruption initiative.

2.2 Evidence on the impact of interventions aimed at addressing corruption as it affects the private sector

There has been a wide range of programmes and services initiated under the anticorruption label for the purpose of improving private sector development (see Mathisen & Weimer, 2007, for a compilation). According to the UNIDO-UNODC (2007), private sector directed anticorruption measures exist at three levels. At the micro level are measures that adjust business practices to prevent corruption involving the private sector. This includes codes of conduct, corruption 'hotlines', revisions to HR policies, and audits and public disclosures of information.

> "The literature review completed to inform this guidance note did not find one systematic review of studies that have gauged the effectiveness of anticorruption initiatives that focus on private sector development."

At the 'meso-level' lie interventions that involve other institutions and organisations, like business associations, chambers of commerce, trade unions, and NGOs (UNIDO-UNODC, 2007). These institutions can bring firms together and help to coordinate and support their respective anticorruption initiatives, through the provision of advisory support to firms, platforms for businesses to discuss corruption, and awareness raising more generally. An integrity pact is one specific example of a meso-level intervention. Integrity pacts are agreements reached between a government agency and companies bidding for a government contract; they establish that all parties will abstain from bribery, collusion and other corrupt practices during the life of the project.

Measures that require government action and change in the government are 'macro level' anticorruption interventions (UNIDO-UNODC, 2007), and they make up the bulk of anticorruption programming. Something as targeted as increasing the wages of bureaucrats in a specific department would be considered a 'macro-level' intervention, as would be efforts to liberalise or privatise sectors of government bureaucracies, reduce the degree of bureaucratic red tape businesses have to deal with in formalising or operating, or institutionalise more judicial independence. Setting up anticorruption agencies and national strategies is also macro in focus.

Two types of intervention are commonly considered by DFID country offices as a means of addressing private sector constraining corruption; business associations and integrity pacts. Research has found that business associations have played an important role in setting integrity and anti-corruption standards for businesses mainly through certification programmes and the adoption of codes of conduct (U4 Brief 2013). In particular, business associations can play a critical facilitative role in collection action strategies such as integrity pacts, certification mechanisms, and anticorruption declarations, among others (Morrell and Bettcher 2013; World Bank 2008; both referenced in U4 2013). However, to date business associations have rarely played this role as facilitators of collective action (Pieth 2012 in U4 Brief 2013).

However, there are significant evidence gaps when it comes to the efficacy and impact of these programmes. Research indicates that business associations have, at times, advocated effectively for better governance (Goldsmith 2002 in Johnson, Taxell and Zaum 2012), and there have been instances of integrity pacts have had notable positive results in reducing corruption in public procurement (Boehm and Olava 2006; Transparency International 2002; both in Johnson, Taxell and Zaum 2012). However, there are very few studies that have systematically analysed the impact and effectiveness of initiatives to support business associations as facilitators of change (U4 Brief 2013). Further, the evidence that business associations can lead to reductions in corruption is very weak (Johnson Taxell and Zaum 2012).

With regards to the circumstances under which business associations are likely to be effective, a recent study found that "there is a broad consensus that there is no blueprint regarding the best approach to be used by business associations when engaging in the fight against corruption and promoting collective action approaches" (U4 Brief 2013). Research indicates that the success of integrity pacts is based on the presence of trust within the group of actors involved (Marquette and Peiffer 2015). Integrity pacts are often unsuccessful when the following factors are not in place: transparency of information and the ability of actors to monitor each other throughout the process of procurement bidding; continuity of actors with time horizons long enough to last the process of procurement (i.e. low public service turnover); and the political will of the government to be involved at all (ibid.).

More generally, the literature review completed to inform this guidance note did not find one systematic review of studies that have gauged the effectiveness of anticorruption initiatives that focus on private sector development. Johnson, Taxell and Zaum (2012) observe that there is little evidence on the impact of the interaction and interdependencies of different anticorruption and other governance initiatives. This is attributable in part to donors who have not produced rigorous evaluations and by academics who have produced a limited amount of operationally relevant research (Johnson, Taxell and Zaum, 2012: 1). There are also some innate challenges in estimating effectiveness in anticorruption programs. For example, anticorruption initiatives often coexist with other governance interventions, which makes it extremely difficult to know what impact the anticorruption element had on a given outcome, independent of other types of interventions (ibid.). Mathisen and Weimer (2007) observe that this is especially the case in anticorruption initiatives in support of private sector development; they are usually embedded in some national or regional framework, like a PSRP.

Relatedly, evaluating the effectiveness of a given anticorruption program based on its ability to reduce corruption is a task made especially difficult because of the inherent challenges in measuring corruption. Moreover, anticorruption programs in support of private sector development rarely go beyond a 2-4 year program cycle (Mathisen and Weimer, 2007) which may not be long enough to estimate effectiveness, much less to expect that a given initiative will influence corruption levels or other institutional deficiencies.

With these limitations aside, for a handful of public sector-focussed interventions, Johnson, Taxell and Zaum (2012) conclude that the evidence is at least ‘fair’ with respect to whether the intervention has been effective in the reduction of corruption. This includes public expenditure tracking surveys that track how public money flows from ministries to front-line agencies, and can therefore offer an estimate of the ‘leakages’ which are due to corruption. Procurement reforms have also had a generally good success rate; this is especially the case for reforms that introduce non-discretionary auctions in procurement, or that increase monitoring and auditing of procurement officers. These interventions do not focus on corruption that affects private sector development but could indirectly address corruption that constrains the private sector – i.e. by improving the effectiveness of public sector spending on the enabling environment for business, such as roads and infrastructure.

For both anticorruption authorities and civil service reform programs, the evidence indicates more ineffective track records, than effective. In the case of anticorruption authorities, their ineffectiveness has been attributed to receiving uneven or insufficient financial support (see Tangri and Mwenda, 2006, for example), having limited independence from political influence (Hussman, Hechler, and Penailillo, 2009), and a lack of political will (Quah 2000). With respect to civil service reforms—merit-based recruitment and promotion and salary reforms, for example—their failure to be effective, on balance, is usually attributed to the reluctance of domestic elites to give up patronage power in the civil service (Panter, 2003). Given this reasoning, this particular set of anticorruption interventions seems most ill-suited for contexts with high degrees of political corruption.