Forthcoming blog: Developing Systems to Combat Corruption

In a March 2018 blog PFMConnect co-principal David Fellows discussed the [deficiencies surrounding corruption perception indices](#) and outlined how objective data analysis could offer a clearer insight into the systemic nature of corrupt behaviour, thus providing a more precise indication of the corrupt parts of an administration, the number of external parties that are engaged in corruption, and features of the [public financial management (PFM) system](#) that need to be strengthened in order to combat corruption.

In a forthcoming blog **"Developing Systems to Combat Corruption"**, David describes how an objective data system is used in practice and how the concept may be developed. Some further examples of objective data and their use to combat corruption is available [here](#).

How Useful are Perception Indices of Corruption to Developing Countries?

Posted by David Fellows[1]

The value and limitations of perception indices

There are numerous corruption perception indices. They provide an outsider's impression of the prevalence of corruption across the various branches of government. Some indices focus on issues of bribery, others are more general in scope. Some indices aim to engage with the general public, and others with businesses or NGOs. Perception indices can incentivise governments to tackle corruption given the reputational damage that they can inflict.

The shortcomings of perception indices, however, have been widely recognised, including in recent studies by UNDP and the IMF[2]. Their evidential base is limited; survey samples are generally small; within the same index a variety of methodologies may apply so they can lack internal consistency; methodologies change so trends can be questionable; standardisation is difficult to achieve between or even within

countries and, as a result, the ranking of countries can vary from one perception index to another.

The relevance of objective data

Those agencies and officials responsible for preparing these indices are aware of the deficiencies and make considerable efforts to mitigate them. Their key deficiencies are unassailable, however. Perception indices are based on impression, personal experience and hearsay rather than hard fact. In a multi-faceted study of villagers' perceptions of corruption affecting road building in Indonesia, Olken finds that perceptions are a good indicator of the presence but not the quantum of corruption. He concludes that "there is little alternative to continuing to collect more objective measures of corruption, difficult though that may be"[3]. These factors can allow governments to diminish the importance of the messages that perception surveys contain.

An alternative approach has been proposed in a recent paper by Fazekas[4]. The paper gives an account of recent research into public procurement in which legal, regulatory and administrative records have been analysed to reveal the presence of corruption. Relevant factors include: the characteristics of the tendering process; the political affiliations and personal connections of suppliers; and the location and transparency of information about the ownership of these supplier companies. Fazekas correlates these various data sets to reveal behaviour that indicates a skewing of contract awards toward suppliers with particular characteristics.

Fazekas uses the term 'objective' to refer to factual data that are not mediated by stakeholders' perceptions, judgments, or self-reported experiences. Nevertheless, the data are based on provable characteristics (e.g., from suppliers and procurement agencies). This approach, however, can provide some significant challenges. Databases may not be available

electronically, thus hampering data collection, and information is not collected on a systematic basis across countries. Despite these reservations, the approach can produce valuable evidence identifying areas of public administration that are especially prone to corruption, the role of officials in facilitating corruption, and the means by which corruption is being perpetrated.

Objective data analysis and developing countries

European countries and the USA have been at the forefront of this kind of work, but it also has potential for guiding administrative scrutiny and reform in developing countries. The necessary analysis could be undertaken by internal auditors, anti-corruption agencies, or other oversight bodies. These agencies could use the results to improve system design, and commission detailed forensic investigations of those concerned.

Fazekas uses sophisticated statistical techniques, but simpler methods could also be employed to measure inappropriate administrative processes, potentially illicit flow of funds between parties with close personal ties, the unexplained accumulation of personal wealth, citizens' complaints, and other indicators of corruption. These results could then be used to identify potential levels and sources of corruption and, if acted on, lend credence to the government's anti-corruption commitments.

The approach outlined above is relevant to national and local government, as well as public corporations where significant levels of corruption can occur at the highest levels. Such work could be enhanced through external moderation and research collaboration across national boundaries, perhaps at regional level. A recent piece by the present author, published [here](), discusses the growing relevance of digital media to governance reform.

The importance of national leadership

Objective data analysis can offer a clearer insight into the systemic nature of corrupt behaviour, thus providing a more precise indication of the corrupt parts of an administration, the number of external parties that are engaged in corruption, and features of the PFM system that need to be strengthened. It can provide data to support a vigilant administration that wishes to maintain pressure on corruption, complementing efforts to increase prosecutions or administrative reforms.

Whatever ideas are advanced, they will all require commitment from national leaders if they are to succeed.

[1] David Fellows is Co-principal of PFMConnect. He is an accountant and PFM specialist with significant interests in digital service development and performance management. His thanks are extended to Cornelia Körtl and Domenico Polloni for their invaluable contribution to this article.

[2] UNDPs Guide to Measuring Corruption and Anti-Corruption (2015). See also IMF 2017, "The Role of the Fund in Governance Issues – Review of the Guidance Note, Preliminary Considerations".

[3] Benjamin A Olken, "Corruption Perceptions vs Reality" – https://economics.mit.edu/files/3931

[4] Mihály Fazekas "A Comprehensive Review of Objective Corruption Proxies in Public Procurement" https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2891017.

Videos addressing good public financial management

We have commenced the publishing of videos about aspects of our work associated with supporting good public financial management.

We list below the videos available to-date:

Small island developing states need improvements in their digital communication infrastructure to help them recover from COVID-19. We have set out four collaboration approaches for SIDS and their stakeholders to consider actioning in our "Small Island Developing States, COVID-19 and Digital Technology" video based on our recent blog. Petit États insulaires en développement, COVID-19 et technologie numérique. Pequeno Estados em Desenvolvimento insular, COVID-19 e Tecnologia Digital. Pequeña Estados Insulares en Desarrollo, COVID-19 y Tecnología Digital.

Improving PFM digital transparency in SIDS finance ministries (http://blog-pfmconnect.com/wp-content/uploads/Videos/Improving-PFM-digital-transparency-in-SIDS-finance-ministries.mp4) examines recent trends in the use of public financial management (PFM) digital platforms by the finance ministries of small island developing states (SIDS) and potential opportunities. A shorter version of this video examines **SIDS finance ministries** use of Facebook to promote PFM digital transparency in small island developing states

COVID-19, Brexit and the English Regions (http://blog-pfmconnect.com/wp-content/uploads/Videos/COVID-19-Brexit-and-the-English-Regions.mp4) discusses the UK Government's levelling-up policy for the English regions and the impacts of COVID-19 on the implementation of this policy.

Virtual Schooling in the UK

(http://blog-pfmconnect.com/wp-content/uploads/Videos/Virtual-Schooling-in-the-UK.mp4) examines the development of **virtual schooling** in the **United Kingdom** to support home education resulting from the Covid-19 lockdown.

[Digital government in developing countries](), based on our recent [blog](), recommends developing countries should employ an evolutionary approach to digitally-enabled reform and outlines a detailed implementation strategy for them to adopt in such projects. [Gobierno digital en países en desarrollo. Le gouvernement numerique dans les pays en developpement](). [Governo digital nos países em desenvolvimento]().

[Local government revenue systems corruption]() outlines the different parts of local government revenue systems and presents strategies for combatting associated corruption. [Corrupción de los sistemas de ingresos del gobierno local. Corrupção dos sistemas de receita do governo local. Corruption des systèmes de revenus des administrations locales]().

[Supporting good public financial management]() provides images of some of the countries where we have supported the development of good public financial management (PFM). You can view all the countries and places where we have worked [here.]()

[Evaluating public private partnerships]() highlights a number of questions to be addressed by public sector organisations when considering the merits of a public private partnership (PPP)

Public financial management

weaknesses can lead to corruption

Mauritania's experience

Global corruption trends

Two recent reports on Global corruption trends highlight a number of states facing serious challenges and our analysis indicates some interesting links between corruption and standards of public financial management.

Transparency International's recently released 2016 Corruption Perceptions Index for 2016 indicates that Mauritania's ranking deteriorated noticeably in 2016 compared to the previous year. The full data set for all 176 countries is available [here](#) and the Mauritanian data is shown at Figure 1.

Figure 1: Transparency International Corruption Perceptions Index Mauritania results 2015-2016
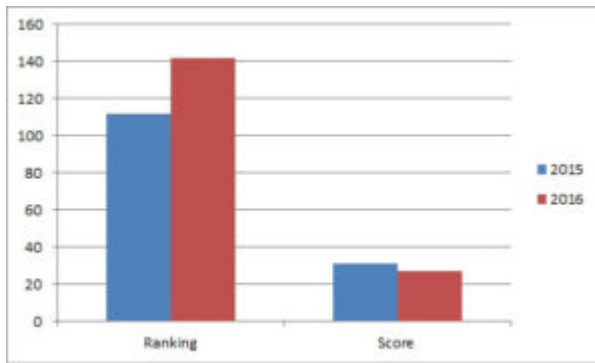
The World Economic Forum's 2016 Global Competitiveness Survey, released on 15 September 2016, included the results of their annual Executive Opinion Survey which aims to measure critical concepts affecting the business environment such as the incidence of corruption. This survey shows that Mauritania was ranked 124th out of the 138 countries for corruption. The World Economic Forum's 2016 Global Competitiveness Survey report is available here.

We have developed a spreadsheet showing (i) the country rankings for the World Economic Forum's Executive Opinion Survey (not publicly available) and reported corruption impediment scores and (ii) a comparison of the Transparency International and World Economic Forum survey results that are available for 125 countries. Contact us if you would like to receive a copy of our spreadsheet.

We have found that there is a significant overall negative correlation between the scores in the two surveys (a Pearson coefficient of -.78).

Mauritania's poor PFM and poor corruption performance

Mauritania's corruption rankings in both surveys are relatively poor with scores falling in the bottom 20% of the two surveys. Many developing countries, including Mauritania, face significant challenges in addressing corruption. We have previously identified a wide range of actions that governments

(as well as the private sector) could take to assist in reducing corruption levels that include improving a range of public financial management practices in our blog [International Development and the Challenge of Public Sector Corruption](#).

Last year we examined the Public Expenditure and Financial Accountability (PEFA) results of the twenty-four countries, including [Mauritania](#),that published PEFA assessments during 2013-2015. Nine of the twenty-four countries studied, including Mauritania, had PEFA results indicating relatively weak public financial management; Mauritania was ranked 19th out of the twenty-four countries studied using a scoring system that the IMF has previously employed. Mauritania recorded relatively poor scores in a number of key PFM activities that are important in reducing corruption including payroll controls, internal audit, financial reporting and external audit; details are shown at Figure 2; this chart can be viewed in more detail [here](#).

Figure 2: Mauritania PEFA indicators' relative performance
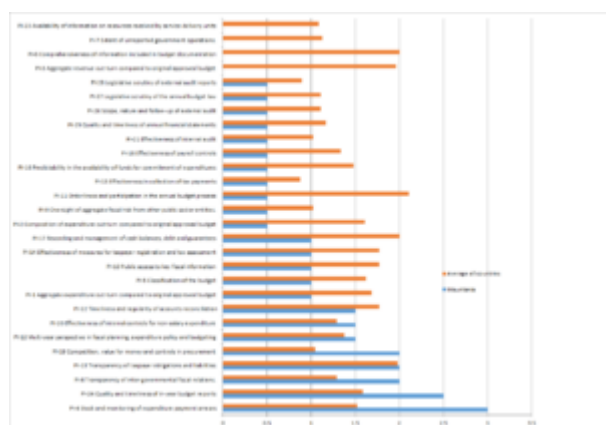
Seventeen of the above-mentioned twenty-four countries feature in Transparency International's 2016 Corruption Perceptions Index. Sixteen countries (Ghana is the exception) recorded below –average scores in TI's 2015 and 2016 surveys; details of the 2015 and 2016 scores and the percentage change between these periods are presented in Table 1.

Table 1: TI 2015-2016 scores for 2013-2015 PEFA assessment countries

	PEFA score	TI 2016 score	TI 2015 score	% change in 2015-2016 scores
Armenia	60	33	35	-5.71%
Azerbaijan	61.5	30	29	3.45%
Belarus	49	40	32	25.00%
Bosnia & Herzegovina	50	39	38	2.63%
Burkina Faso	58.5	42	38	10.53%
Congo Republic	21	20	23	-13.04%
Gambia	32	26	28	-7.14%
Ghana	27.5	43	47	-8.51%
Guinea-Bassau	14.5	16	17	-5.88%
Kyrgyz Republic	49.5	28	28	0.00%
Macedonia	44.5	37	42	-11.90%
Madagascar	25.5	26	28	-7.14%
Mauritania	26.5	27	31	-12.90%
Mongolia	42	38	39	-2.56%
Nepal	50.5	29	27	7.41%
Papua New Guinea	21.5	28	25	12.00%
Timor-Leste	36	35	28	25.00%

With ten of the seventeen countries in Table 1 recording either no change or a deterioration in their scores in 2016 (including Mauritania), the negative Pearson correlation between overall 2013-2015 PEFA scores and TI corruption scores for these countries strengthened from -0.41 in 2015 to -0.56

in 2016 pointing to the possible impact that poor PFM may have in facilitating corruption in the public (and private) sectors.

The World Bank noted in November 2016 that "Mauritania's PFM system remains weak". If countries, such as Mauritania, employ robust anti-corruption strategies, including actions to address key PFM weaknesses currently influencing corruption levels, they may in time be able to make some progress in curbing corruption.

Need to resolve a public financial management problem? [Inquire now](#) to schedule an initial online meeting.