
Corruption: definition, measurement and assessment across various sectors

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Recommended minimum time required: 4 hours



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Introduction

«Corruption is a cancer: a cancer that eats away at a citizen's faith in democracy, diminishing the instinct for innovation and creativity. Important national investments are crowded out of already tight national budgets. It wastes the talent of entire generations. It scares away investments and jobs.» Joe Biden, former US vice-president.

Objectives

This module has a few main objectives:

- 1.** To provide a basic understanding of corruption diagnosis and measurement challenges;
- 2.** To provide an overview of the existing indices of corruption, with a short critical evaluation (this will enable students to have the tools for evaluating the pros and cons of any additional index);
- 3.** To enable students to assess corruption in a few sectors (e.g. judiciary, energy, health) by providing the necessary steps/actions that need to be taken.

1. Diagnosing corruption

A full understanding of the causes of corruption depends on an accurate analysis of its political and economic features. It is important to know whether corruption is primarily individualistic or systemic because a different diagnostic approach should be used depending on which category dominates — in some cases, the principal-agent approach may suffice, while in others it will need to be complemented by the wider political economy approach to combat systemic corruption. Table 1 illustrates these diagnostic approaches with respect to eight sample sectors or government activities.

With the **individualist approach**, corruption is frequently conceptualized as a principal-agent problem (Rose-Ackerman, 1978; Klitgaard, 1988; Bardhan, 1997). Line employees act on behalf of superiors, firm managers on behalf of owners, bureaucrats on behalf of elected officials and ultimately the electorate. Principals need to select, monitor, and motivate their agents to act in accord with the former's interests (such as productive work, company profit, or effective public policies and services). The agents, being the implementers, are closer to the realities on the ground and therefore have access to information and opportunities that can benefit them — instead of (or at the expense of) their principals. Corruption happens when the agent acts for his or her own gain in ways inconsistent with the interests of the principal. In some societies, certain types of advantage-taking behaviour are considered innocent, but others — embezzlement, bribery, and cronyism, for example — are mostly considered corrupt and are outlawed in whole or in part. Principal-agent analysis highlights individual incentives, which reflect the flow of information, the range of the agent's unrestricted power and discretion, and the tools available for principals to impose accountability.

The principal-agent paradigm is a powerful tool for understanding corruption and for organizing efforts to combat it, but its focus on individual incentives limits its analytical utility. The more complex individual interests are, and therefore incentives, the more difficult they are to analyse. Elected officials have multiple interests — as policymakers, politicians, entrepreneurs, family heads, individuals — and these interests can come into conflict. Likewise, citizens are as diffuse and diverse as principals. They usually have little material reason to inform themselves in detail about the workings of government, which can give officials and narrow interests wide scope to ignore or disserve public interests. Citizens — the supposed principals — have no real control over the agents' incentives, yet many countries successfully avoid (or reverse) serious corruption.

As noted earlier, where systemic corruption is prevalent, networks and alliances exist that rely on exchanges to meet their objectives. These networks may use elements of the state and the political system to mediate their exchanges. Many, perhaps most, such exchanges are corrupt. In some systems — many of them long-standing democracies — electoral politics and policymaking provide the primary means of exchange (through campaign contributions or bribes influencing policy decisions, for example). In other systems, interest articulation through the political system is either impossible (authoritarian regimes) or not highly developed (quasi- or new democracies). Here, exchange tends to occur by means of bribery in return for favourable administrative decisions, diversion of state resources, favouritism in hiring and tender awards, and the like.

If state institutions can be used as instruments to carry out corrupt exchanges, then these institutions can also be suborned or weakened in order to facilitate, hide, or protect such transactions.

In such a system of widespread state corruption, it follows that any person, system, or institution can become involved in corrupt exchanges. This includes not only the usual suspects such as low level bureaucrats and senior officials controlling revenue streams and administrative choke points. The very institutional safeguards needed to impose checks and balances — from the courts to the supreme audit agency — may be implicated as well. Even civic associations may be compromised.

Diagnosing corruption using the individualist or systemic prism impacts the identification of key weaknesses in integrity factors and, implicitly, the design of reform measures. Table 1 illustrates this in relation to corruption in selected sectors and government activities.

Table 1. Illustrative types and diagnoses of corruption

Location and Type of corruption	Diagnosis of causes	
	Individualist	Systemic
Energy – Diversion of state oil revenues to personal and campaign accounts	Weak accounting and auditing systems. No controls on campaign finance or money laundering. Lack of transparency and criminal enforcement.	Network control of state, parties, and firms translates into state fiscal autonomy from political processes and the ability to self-enrich and perpetuate control.
Customs – bribery, fraud and collusion in customs administration	Lack of transparency, monitoring, and audit control (e.g., via computers) of valuations and levies. Low official pay and professionalism. Incentive effects of high duties.	Patronage system requires bureaucrats to buy positions and pass bribe shares upwards. Imbalances mean government is the main employer and can impose will on traders. Trade reform would threaten status quo sustained by elite collusion, lack of political competition, and reliance of campaign funds on corruption.

Location and Type of corruption	Diagnosis of causes	
<p>Procurement and infrastructure – bid-rigging, kickbacks, over-invoicing</p>	<p>Vague design parameters and bid procedures. Weak inspection and audit. No competition. No established bid protest procedures.</p>	<p>Elite and mafia networks embedded in state and private sector institutions engage in collusion and self-enrichment. Weak corporate governance and absent or inadequate official asset declarations. Campaign finance dependent on bribery.</p>
<p>Judiciary and Prosecutors – bribery, favouritism</p>	<p>Low judicial status and pay. No checks and balances in appointments and tenure. Vague laws and procedures. Ineffective appeal system, oversight, and sanctions.</p>	<p>Lack of real political challenge and competition. Weak norms of legality and accountability. Carryover of “telephone justice” from Soviet era. Social imbalance and lack of economic restructuring mean no effective constituency for enforcement of contracts, property rights and civil liberties.</p>

2. Review of existing materials

The starting point of any assessment is to ask «**What is known about corruption and integrity in this country?**» General background research for a corruption and institutional integrity assessment should answer these questions:

- What is the level of per capita income — is the country low-income, middle-income, or where in this range is it situated? Have per capita incomes in recent years been rising or falling?
- What kinds of structural changes have been taking place in the economy in recent years? What sorts of dislocations (unemployment, relocation, housing problems, etc.) have been caused by these changes?
- What kinds of macroeconomic and financial policies have been pursued by recent governments? Have these policies tended to stabilize or destabilize output, prices, and employment?
- What is the nature of the involvement of foreign investment in the economy?

Answers to these general questions can be found in documentation produced by the International Monetary Fund (IMF), World Bank, and the regional development banks (the European Bank for Reconstruction and Development (EBRD) and the Asian Development Bank (ADB) are relevant for countries in the European and Eurasian regions). Some of this documentation is in the public domain in the form of printed and electronic reports, and within them there may be links to further information. Sometimes, however, certain types of reports on individual countries are kept confidential¹.

⁽¹⁾For example, consultation reports produced by IMF staff can be made public only with the permission of the national authorities of the country in question.

A corruption assessment involves the interpretation and comparison of **indices** (indicators or scores from various sources). These indices are developed with a range of methodologies. To avoid errors, one must ask the following questions:

1) **What definition of corruption is being used?** How broad — or conversely, how precise — is the definition of corruption explicitly or implicitly used in a survey? Is the definition made explicit to respondents? If countries are being compared, how sure are we that «corruption» means the same things to respondents in, say, Zambia, Moldova, and Indonesia?

2) **What is being measured?** For example, is it the frequency, prevalence, or cost of bribes? Is it a vague notion of the amount of corruption? Or is it the effect of corruption on some other variable, like political risk or investment climate?

3) Is the index based on perceptions or experiences? Polling public opinion can yield interesting results but is of limited value in finding out about the types, frequency, and cost of corruption. More accurate data is collected by asking people about their own experience.

4) Is the index based on subjective or objective measures? Perceptual and informational data are considered subjective — they depend on the answer of individuals to survey questions, and are thus coloured by respondents' incentives to withhold or colour information through the filter of their own opinions. Objective measures, when available, are preferable. Examples include price data or objectively recorded events such as response (or lack of response) to requests for publicly available information.

5) Does the index show relative or absolute performance? There are a number of widely used indices that serve as broad indicators of the levels of corruption and government in a country. Typically, these indices show the performance of a country relative to others. Such indices give no direct evidence about change, and it is wrong to construe a change in relative position as an absolute improvement. Some indicators, however, do give absolute measures or scores of some type. In these cases, one should beware of analysing information in isolation from comparators — for instance, how electoral turnout in a country compares to that in other countries at a comparable level of economic and political development, or to that in well-established democracies.

6) What scale and questions are used, and how is that related to other scales and questions used in comparator indices? In comparing countries (or comparing sectors or agencies within a country) one must make certain that the same scales and questions are being used. Questions can vary among questionnaires, and even be changed («improved») on the same surveys over time.

7) What is the significance of statistical differences? Often in data by which countries are ranked — as with the Transparency International Corruption Perceptions Index and the World Bank's Control of Corruption Indicator — small differences in country scores can lead to what appear as significant differences in ranking, when in fact these differences are not statistically significant.

A well-known example of this is that a controlling criterion for eligibility for the Millennium Challenge Account was whether a country was above or below the median score of the Control of Corruption Indicator — even though the authors of the World Bank report made it abundantly clear that there was a broad range of scores around the median that were not statistically different from each other!

8) What is the possibility of measurement error? Estimates are subject to various types of measurement error. Measurement error can be particularly problematic if a specific indicator is used to make important decisions (such as allocating donor funding). One should investigate and understand the scope and impact of possible measurement errors.

9) What consistency and data checks have investigators used? Those making use of indicators should understand that there can be issues with consistency and data checks (and so the warning given above for measurement error applies here as well). Sometimes problems arise during survey implementation. It is necessary, therefore, to verify the consistency of answers given by the same respondents, or group of respondents. If these checks show signs of inconsistency, there is a problem with the survey design.

3. Major indices of corruption

The major indices of corruption and institutional integrity have been described at length elsewhere (Spector & Duong, 2002; Kaufmann, Kraay, & Zoido-Lobaton, 1999a, 1999b, 2002), and subjected to various critiques (Johnston & Kpundeh, 2002; Galtung, 2005; Lanyi, 2004). These measures give broad-brush indications of matters such as the prevalence of bribery, perceptions of corruption in the public service, state capture, transparency in the business sector, and the strength of public institutions of accountability and civil responsibility.

Indices fall into two categories: subjective and objective. **Subjective indicators** can be derived by (1) surveying a wide sample of people and asking them about their perceptions regarding the presence of corruption among government officials, or (2) polling experts on their opinions with regard to the characteristics of particular institutions in the public or private sector. There have also been attempts to construct «objective» indices (i.e., based on hard data), described below.

1) Perception Surveys

Among the indicators of corruption perceptions, the best-known is **Transparency International's Corruption Perceptions Index**, which is based on a weighted average of the results from a number of other surveys, both public and private. By aggregating survey results, Transparency International (TI) can rank a large number of countries. The Corruption Perceptions Index is a convenient summary of surveys, whose results tend to be correlated with each other, and it is used to make both intercountry and inter-temporal comparisons. Though the TI index is used to track progress over time, it can only do so for periods of five years or more, because each year's index includes data from the previous three years. But this is a dubious exercise, since movements from one year to another in values for a country are more likely to represent errors in measurement rather than genuine changes in the level of corruption.

Another weakness of the TI index is its lack of specificity as to the type of corruption perceived, with the result that inter-country comparisons may be of limited value, and progress over time is biased both by possible changes in the importance of different types of corruption over time, as well as by factors that may bias perceptions (such as changes in media coverage, or changes in corruption awareness or expectations). The same can be said for the World Bank's Control of Corruption Indicator, which forms part of its set of governance indicators, and which is also constructed by calculating a weighted average of

different survey results for each country (see Kaufmann, Kraay, & Mastruzzi, 2005). While the World Bank and TI numbers are highly correlated, there are differences between the rankings of various country pairs.

2) Opinion Surveys

The second approach surveys opinions of experts. It calculates indices that are based on variables related to the quality of governance or institutional integrity. Here, the main sources are private intelligence companies and certain surveys carried out by the World Bank. Some of the main sources of information are the following:

a) Freedom House, Nations in Transit. The ratings by Freedom House, published annually in *Nations in Transit*, cover electoral processes, civil society, independent media, governance, corruption, and the constitutional, legislative, and judicial framework. This index covers 27 countries in Central and Eastern Europe and the former Soviet Union.

b) International Country Risk Guide. Among the private sources, the *International Country Risk Guide* provides one of the longest statistical series. It includes an explicit corruption variable as well as political risk factors such as democratic accountability, bureaucratic quality, government stability, and law and order (see Kaufmann, Kraay, & Zoido-Lobaton, 1999b, p. 50).

c) Heritage Foundation & The Wall Street Journal, Index of Economic Freedom. The annual *Index of Economic Freedom* includes corruption-related measures such as government intervention in the economy (which many economists believe is positively related to corruption), property rights (negatively related to corruption), and regulation and the black market (both positively related to corruption). These estimates are prepared for 161 countries, based on expert opinion and research staff assessments.

d) PriceWaterhouseCoopers Institute, Opacity Index. The *Opacity Index* — where opacity means broadly the absence of transparency — creates indices for legal and judicial opacity (including shareholder rights), regulatory opacity, economic policy, and accounting and corporate governance — in addition to its separate indicator for corrupt practices.

e) The World Bank. The World Bank has compiled a large database of political institutions that details how many political parties there are, how often governments change, etc., for a large number of countries over several years (Beck et al., 2001). This can be treated as a source of information for certain kinds of integrity (largely political and macro-accountability).

f) **Center for Dispute and Conflict Management, Polity IV.** Polity IV is a database of political institutions that has data on such variables as the frequency of elections.

While data from the sources summarized above (both perception and opinion surveys) are undoubtedly helpful for deriving a broad picture of the country in question, one should be careful not to claim more for these measures than is intellectually credible, and not to draw improper inferences from them.

It is because of weaknesses in the meaningfulness and statistical robustness of these kinds of measures that one needs to find other means — such as surveys and hard data — to provide more specific evidence that is pertinent to corruption and institutional integrity, especially at the level of specific sectors and government agencies.

3) Objective Indicators

The major work in bringing together a large amount of data on different aspects of governance has been performed by Daniel Kaufmann and his colleagues at the World Bank. In this work, the World Bank economists gather together the largest number of ratings and scores available for each country and aggregate them under six main governance indicators: voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption. Country scores are not strictly comparable, however, since the number of sources on which the score is based differs from country to country. The authors themselves point out that these data need to be interpreted with great caution, as standard deviations are large relative to the units in which governance is measured. This seems to be particularly true for the indicators for rule of law and corruption (Kaufmann, Kraay, & Mastruzzi, 2003).

Knack and Kugler (2002), in a report prepared for the World Bank and Britain's Department for International Development, argue that the type of governance indicators just described have several failings: they do not lead to the clear targeting of reform measures, are unspecific, and are difficult to accept politically. Knack and Kugler try to develop second generation indicators that are replicable, available across many countries and over time, accurate, and specific to particular institutional arrangements. Such indicators can be defined as **process measures** — for example, budget processes and legislative oversight — and **performance measures**, such as budgetary stability and quality of service delivery. These indicators can at least in part be measured in strictly quantitative terms. Among the indicators regarded by the authors as most promising are the timeliness of audited financial statements, budgetary volatility, the ratio of average government wages to average wages in non-governmental sec-

tors, international trade tax revenue, and contract-intensive money. A large number of these measures, combined with the kinds of survey data already described, can be combined into «governance scorecards» for countries. This attempt to create sets of «hard» data relevant to governance, to supplement the «soft» data derived from surveys, is certainly laudable.

From the viewpoint of measuring corruption, however, the connection between corrupt practices and governance measures may be quite unclear. Poor scores on many of these indicators can be the result of weak government organization and capacity, or just plain bad economic policies and management, rather than corruption per se.

4. Assessing the corruption in various sectors

4.1. Assessing corruption in the business sector

There has been a lot of work done on the scope and intensity of regulation and licensing of businesses.

For example, Djankov et al. (2001) documents the procedures, times, and costs involved in setting up new businesses in 75 countries, listing a wealth of information that can be used to place each country's activities in context. IRIS's Red Tape Analysis of Regulation and Bureaucracy in Romania reports on the bureaucratic and regulatory procedures that affect Romania's business environment. The World Bank's (2002) Costs of Doing Business Survey for Moldova contains masses of information on and analysis of the regulatory framework. These are just a few examples of many existing studies that are easily available online.

These sources, however, only touch on corruption — although its presence is implicit in the analyses. Direct, comparative information can be found at <http://info.worldbank.org/governance/wbes/index1.html>, an interactive website which uses data from the World Business Environment Survey. Within seconds, one can obtain information for over 100 countries on the percentage of revenues that firms reportedly pay in bribes. For example, one could ascertain that corruption was reported as distinctly less of a problem in Zimbabwe than in Albania.

In this way, many existing surveys, such as the World Business Environment Survey, contain elements that report, in a general manner, on corruption in licensing and business regulation. An important example of a country study is the ongoing study by the Center for Economic and Financial Research (CEFIR) in Moscow, which has focused on the bureaucratic burden on business in its «Monitoring Administrative Barriers to Small Business Development in Russia» project. The CEFIR surveys confirm widespread use of unofficial payments and of the use of intermediaries, which are sometimes specialists in corruption, using both money and political connections as currencies. The area of corruption in licensing and business regulation seems to be one where survey techniques are viewed as fair, but not entirely trustworthy. Preliminary evidence from the IRIS pilot study in Romania suggests that between 20 and 50 percent of firms do not give candid answers to sensitive questions.

There are a number of considerations and lessons learned that must be taken into account when conducting an assessment of corrupt practices in business licensing and regulation:

1) Include surveys of businesspeople

There are several reasons for this:

- a) Corruption is a normal part of business, so many firms are willing to report on corrupt practices.
- b) Many agencies are involved in the licensing and regulatory process, so it is productive to focus on firms as the respondents (at least to understand the dimensions of the corruption process). Trying to obtain the information from all the pertinent agencies would lead the investigator into a bureaucratic labyrinth.
- c) The most important task is to understand the impact of corruption on firms, which makes them the best respondents to give a broad overview of the problem.
- d) Public officials are more reticent — less likely to give candid or complete answers — than businesspeople. Modules of special questions to identify reticent respondents can allow the analyst to make substantial adjustments to estimates of the prevalence of corruption.

In the Romania pilot study, for example, IRIS's reticence module revealed that the standard method of assessing the prevalence of corruption was underestimating the extent of informal payments by around 30 percent.

2) Start with an analysis of the regulatory environment

In order to identify the multiplicity of agencies and activities that may be subject to corrupt activity, business licensing and regulation assessments should start by analysing the country's regulatory environment. Djankov et al. (2001) list over 70 different procedures that companies might have to undertake simply to start a business. This includes cumbersome procedures like certifying the uniqueness of name, certifying the marital status of the owners, formulating a financial plan, and informing the post office. In order to conduct a thorough assessment, therefore, the investigator must gain a comprehensive understanding of what these activities are and how businesses must comply with them. Important information can be obtained about the relative burden of corruption from different regulatory authorities, but only if these are included in the survey.

3) The use of intermediaries can understate the amount of corruption

Businesses often use a single intermediary to handle licensing, regulation, and related corruption problems. This is especially the case for new businesses that want to enter a market quickly. For example, CEFIR found that 40 percent of new firms used intermediaries in Russia when first entering into production. Many of the intermediary services (and therefore bribes) are included in a single fee. If intermediaries are used, an analysis of the informal payments actually made to public officials may understate the amount of corruption. A use-

ful complement to surveying firms, therefore, is to determine the price that intermediaries charge for various services. Variations in these prices can be a good way to find out how much corruption varies across regions, and this information is readily available. Surveying the intermediaries for more detailed information will likely produce less candid responses than surveying firms. This is because the intermediaries are often intimately tied to the regulators themselves in supporting and making the web of corruption more «efficient,» while the firms are somewhat passive victims. Indeed, the intermediaries are sometimes former regulators who have experience in how the business actually works.

In Romania, for example, IRIS found that there were significant differences in payments to intermediaries across Romanian judets (administrative districts). The proportion of firms that made payments to intermediaries varied from 0 to 83 percent.

4) Include the non-monetary costs paid by businesses who do not bribe

Those who do not bribe suffer from the existence of corrupt activities. Firms that refuse to play the game will find their waiting times increased and the amount of bureaucratic activity intensified. The costs of these to businesses have to be considered part of the cost of corruption.

4.2. Judicial sector

The judicial sector is made up of several components that are often combined in one or more bureaucracies, but in ways that differ greatly across countries. These include:

- 1) The court system
- 2) The offices for court administration
- 3) The bureaucracy for enforcing judgments of the court
- 4) The administrative hierarchy that runs the court system on a daily basis
- 5) The administrative hierarchy in charge of overall organization of the court system and the appointment of officials (including judges) within that system.

The judicial sector is crucial to any anticorruption strategy.

A well-functioning judiciary provides a check on other public institutions. It is the final element in a system of accountability, providing a forum that examines and adjudicates on acts of corruption that have occurred in any arena.

Not surprisingly, existing empirical studies show a strong relationship between corruption in the judiciary and corruption in other public institutions.

The importance of integrity within the judicial system is unfortunately matched by difficulties in identifying acts of corruption. Where corruption is entrenched, it usually takes highly organized forms, with court officials organizing payments to judges, who are thus screened, and with lawyers making payments for clients, sometimes without the latter even knowing that a high fee for a lawyer with a reputation for winning cases is in fact money used to buy decisions. These processes are facilitated by the repeated interaction of lawyers, specific court officials, and judges — a process that creates strong incentives to continue corrupt behaviours and not to reveal information.

While the processes of corruption are hard to detect in the courts, implying that corruption can be underestimated, it is also crucial to guard against the opposite error of overestimation. Often, initial assumptions about levels of corruption in the judicial system are based on rumours and generalized opinion, and may well be exaggerated. The court experience is a painful one, even for victors. For losers, the assumption of corruption is an easy way to rationalize one's own feelings of injustice. There is ample evidence that for these reasons court corruption has been overestimated in some transition countries.

Corruption in the judicial system can take many forms:

1) Bribery

Where there are bribes, the recipients can be judges or court administrators, depending on circumstance and administrative structure. The payer of the bribes can be a litigant, a lawyer, or even an interested public official (often using official funds or providing over-budget allocations). Possible purposes of bribes include:

- a) A favourable judgment (both in terms of win/loss and amount of damages/sentence)
- b) favourable decision on a matter of law (interpretation of law, admission of evidence, etc.)
- c) Delay or speeding up of scheduling
- d) Access to court documents
- e) Destruction of court documents
- f) Manipulation of procedural decisions

- g) Use of court personnel to enforce judgments in an illegal manner
- h) Use of court personnel to perform services for litigants.

2) Extortion

Extortion — bribery driven by the threat of violence — is an obvious possibility in the judicial sector, given the power that is at the hands of the judicial sector and the natural interaction of that sector with criminal activities. Many of the above-noted occasions for bribes can involve extortion. Employees of the judicial system sometimes facilitate extortion by acting as a conduit for information flows and for access to the subjects of the extortion.

3) Misappropriation

Misappropriation does not appear to play a major role in judicial sector corruption, given the relatively small amount of funds that pass through it. Nevertheless, the IRIS pilot study in Georgia uncovered evidence of an opaque procurement system in the judicial sector that signalled corruption vulnerabilities.

4) Patronage

Patronage can occur in many forms, with different consequences for each form. There can be a monetary motive, for example where ministry or court system officials accept bribes to hire judges and court administrators. A system of bribery within the courts will support this form of patronage, since the possibility of high incomes from bribes can lead to high payments for jobs. Patronage can also be politically motivated. In broad terms, this is manifest when government officials politicize the judicial sector with appointments. More narrowly, local officials may try to control the local judiciary through the appointment process in order to facilitate local systems of corruption that lie primarily outside the judicial sector.

5) Shirking

Shirking is costly in terms of promoting delays in the judicial process, such as when court officials do the work of private clients on public time (for example, bailiffs on enforcing judgments) or when judges do private legal work using court resources (with corresponding room for ambiguity in terms of bribes, etc.).

A proper assessment of corrupt practices and corruption vulnerabilities in the judicial sector requires the use of experienced experts familiar with the literature that describes existing efforts.

Because of the complexity of the judicial system, such experts are needed to understand the flow of documents and cases within the court system, and to be able to analyse the structures of corruption that occur. An expert analysis is required before surveys can be designed. Once this is done, survey techniques can be used to gain an overall impression about levels of corruption and its variation across different courts and different activities. If the objective of an assessment is to design programs of reform for the judicial sector, survey methods will have to be complemented by a second, follow-up expert investigation (undertaken by personnel already steeped in knowledge of processes of corruption in the judicial sector), which uses the results of the surveys.

Identifying a set of respondents who are both knowledgeable and candid about corruption is difficult. The knowledgeable often have reason to be reticent. For this reason, it is necessary to administer the survey in ways that encourage candour.

4.3. Assessing corruption in Tax Administration

The **common abuses in the tax administration** include:

- 1) The continued practice of negotiating tax liabilities between large enterprises and local (or, for the largest firms, even national) governments, which is fraught with opportunities for special deals favouring those officials and politicians with the discretion to determine those liabilities (patronage and state capture);
- 2) Barter arrangements between enterprises and local governments (the energy provider pays no taxes but provides free electricity to public housing, etc.) (patronage and state capture);
- 3) Bribes to officials dealing face-to-face with taxpayers in the tax office, in exchange for recording a lower tax liability, or for registering a legitimate tax payment made (bribery);
- 4) Many enterprises operate in the informal economy (unregistered and non-tax-paying), so in some cases local officials are bribed to look the other way (bribery).

The type of corruption involved in these arrangements arises from both a lack of transparency (records are kept at local tax offices, and are not available either to the national ministry or to the public) and consequently accountabil-

ity. Prevention is undermined by the face-to-face nature of transactions, the discretion enjoyed by tax officials, and the difficulty of enforcing penalties, when often the entire local government is implicated in special arrangements with an enterprise.

It is difficult to identify (and, of course, to measure) corrupt practices in a tax administration. While tax evasion itself is relatively easy to deduce — by calculating hypothetical tax revenue from a specific tax base and comparing this amount with the actual revenues collected — the non-payment or partial payment of taxes is not in itself *prima facie* evidence of corruption. There are various ways in which tax evasion is possible (more so in some countries than in others) without any bribes or gifts being given. In particular, tax evasion by firms in the informal sector may well involve no corruption — only a formal breaking of the law. However, where tax evasion appears to be taking place to a significant degree in the formal sector, the presence of corruption can certainly be supposed. But determining the prevalence and forms of corruption requires much more careful investigation. In this area, the most easily available approach is to assess integrity factors in the tax administration (see next sub-section).

Otherwise, direct investigation of corruption can take three forms:

1) Forensic accountants can investigate the tax records of selected firms and individuals in selected local tax offices. Forensic examinations are greatly assisted by computerized tax records, but many countries have not yet implemented such systems. Nor, of course, are computerized records invulnerable to falsification. Nevertheless, a substantial disparity between an enterprise's turnover and employment with the taxes it generates can provide strong evidence that some special arrangements have been made with local politicians and tax officials.

2) Carefully chosen and arranged conversations can sometimes reveal anecdotal evidence of corruption. The dilemma here is that those who are most willing to speak — about others, rather than themselves — may not be fully informed, and may only be passing on hearsay evidence.

3) Carefully designed surveys can be used to ferret out tax behaviour. But, as with conversations, respondents may be unwilling to reveal illegitimate dealings in which they themselves have been involved. World Bank business environment surveys contain questions about bribing government officials, and in principle such surveys could also contain questions about bribing tax officials — but businesspeople would be less willing to answer the latter type of question, because an affirmative answer implies illegal tax evasion on the part of the respondent. At best, one could survey respondents' perceptions about others' behaviour. This, however, would result in less reliable data than re-

sponses based on the interviewees' own experience. The same problem would apply to interviews of government officials with involvement in the tax administration.

4.4. Assessing corruption in the energy sector

The energy industry in each country is one of the greatest potential sources of corruption.

A single 1,000 megawatt electric generating plant can cost one billion U.S. dollars or more. The amounts for procurement of equipment and energy for electricity distribution and petroleum refining and marketing can run in multiples of billions of dollars. Purchases and sales of energy are usually on long-term contracts negotiated at a high level in an energy company, and small amounts of payoffs for each unit of energy can build up to extremely large amounts over a period of time.

In operational terms, corruption in the energy sector can include:

1) Deviating from accounting rules with the purpose of misrepresentation. Accounting rules are usually specified by an energy company in transition or less-developed countries. The rules can be local, but many countries specify or permit International Accounting Standards (IAS). The European Union and Russia, for example, also permit the use of United States Generally Accepted Accounting Principles (US GAAP). Many international petroleum companies, including several large Russian ones, use US GAAP to permit raising money in the United States and international markets, and the accounting usually is in U.S. dollars, since that is the «functional currency» of the petroleum industry.

2) Violating civil codes. If an energy company registers a security (stock or a debt instrument) and related financial information with a regulatory body like the US SEC, then the SEC equivalent can subpoena records and carry out a forensic audit. If materially false and misleading statements are used to attract lenders or investors, this may be a civil violation and civil fines can be imposed.

3) Criminal offenses through fraud, as defined by host country laws. If a reasonable probability indicates that possible misrepresentations or fraud constituting a criminal offense may have occurred, special audits can be arranged with the permission of the host government and the energy company or regulatory agency involved.

Corruption investigations establish probabilities and levels of risk of corruption. The deeper the investigation and the higher the level of documentation, the more likely that the degree of corruption can be reasonably proven. After reviewing newspaper and other publications — including Internet articles and donor reports on corruption in the energy industry and the lifestyles of the managers — the starting point for analysis is the annual reports of energy companies and regulatory agencies. The level of disclosure varies widely, but a careful reading of the reports usually provides good clues about what corruption is occurring. Follow-ups with the energy company management and staff can provide further details and explanations. Fear and dishonesty can be partially overcome by asking the same questions of many people during informal private meetings and requesting documentary evidence.

If annual reports with financial statements for at least two years (balance sheets, profit and loss statements, and cash flows) are not made or provided, and are not audited by international and inside auditors, the risk of corruption is high.

For example, financial reports audited by international auditing firms for the Romanian electric generating companies are not made available to the public, parliament, or most donors — even though the transmission and distribution companies do provide them. The chief financial officer of the Romanian thermal power generating company was arrested for corruption in 2002 (USAID, 2005).

Modern accounting and control systems are still not well understood or used in developing countries. There are a number of reasons for this, mostly rooted in past practices (some of which continue today):

- 1) The managements and boards of directors were usually composed of engineers, along with some lawyers, and therefore accounting - a bookkeeping function - was mostly ignored.
- 2) There were few formally trained accountants, and the reporting requirements for state enterprises were minimal.
- 3) For the most part, businesses ran on a cash basis — similar to a household — with limited use of double-entry bookkeeping.

For example, a shipment to a warehouse was considered to be a sale, since meeting physical production quotas was the key measurement in evaluating a firm.

- 4) Employee salaries were not considered to be an expense, but rather a distribution of profits to workers, and therefore not deductible for income tax purposes.
- 5) The chief executive officer made major decisions without consulting or informing his staff or the board of directors.

In the energy sector, there are a number of specific factors that need to be taken into account in assessing corruption vulnerabilities:

1) Affiliated Companies. Many companies legitimately avoid consolidating affiliated companies, but by obtaining and carefully examining information on those companies it becomes clear what is hidden and suspicious.

2) Loss Control. A major problem in lesser-developed countries is theft of oil products, coal, and electricity. Usually information is readily available about physical losses, since statistics exist about production and end-user consumption. While small losses are normal, the losses from theft can be 20 to 30 percent of production. Some estimates of the theft of natural gas from pipelines in the Ukraine are 30 percent. Electricity theft in Montenegro and Serbia has tended to run around 15 percent. Many of the thieves are known, but protected by politicians.

3) Internal Audits. No modern business should function without internal audits. This is the second line of defense against corruption, after management oversight of an activity. Properly done, the internal audit reports will be sequentially numbered and kept in a file that USAID and its contractors could review. Investigation of physical losses is the job of the audit department, and carried out by specialists. These reports should show the audit date, amount of time spent, the subject or unit audited, methodology, and criticism. Management comments on the report should be included, along with follow-up action taken. The reports should have gone to the audit committee of the board of directors, to whom the chief auditor reports. A couple of hours of review can establish the thoroughness of the audit work. Naturally, corrupt managements resist putting in modern accounting and controls, or informing many people about what is happening. Until this year, the Montenegrin electricity company did not even have internal auditors — which was a license to steal. Internal audits are far more trustworthy if the auditors report to the board of directors and external directors are the only members of an audit committee of the board.

4) External Audits. Commercial international lenders, investors, and many donors require external audits of energy companies by reputable, major international accounting firms. The reports should use the full IAS or US GAAP rules and the auditors and energy companies should supply all the components of the financial reports required, including cash flows, footnotes, and the audit certification. Corruption is more probable when the information provided to bidders is not complete or is misleading, when the bidding conditions are not normal, and when bidders are limited to companies that may be politically favoured.

5) **Offshore Bribery.** An offshore company may bribe an official to get a license to do business and the transaction may not show up on the host country books.

6) **Sale of Subsidized Products.** Energy products that are produced in a host country at subsidized prices or foreign products brought in under a favourable foreign exchange rate can be illegally resold on the domestic market or exported, and public sector officials may be directly or indirectly involved in such transactions.

7) **False Allegations of Corruption.** Sometimes a host country may make unsubstantiated allegations of corruption in order to take over power plants or abrogate contracts, which is a form of corruption itself.

Any investigation of corruption is likely to meet with controversy and accusations that the investigators are biased, if it appears they are unearthing corruption. All efforts to examine corruption should be documented carefully. Even contemporaneous hand-written notes should be dated, date stamped, and carefully filed.

Because of reticence, surveys related to corruption in the energy sector are difficult to carry out. Solicitation of anonymous tips from employees and suppliers sent to international donors or an international accounting firm might be useful in identifying particular instances of theft. People should be encouraged to respond in writing by using their own paper, envelopes, and stamps to ensure anonymity. Surveys of consumers might be conducted to find out whether they have had to pay bribes for electricity and natural gas to connect their lines. But, since most people already have such connections, this information is not likely to have a significant effect.

The above discussion suggests that it is difficult to separate out assessments of corruption or corruption vulnerabilities from assessments of integrity factors — some of the items listed above, such as internal and external audits, are clearly related to transparency and accountability. Further investigation of integrity starts with a careful reading of a company's annual report. A number of matters to consider in annual reports, in follow-up interviews and questions with the financial staff and management of a company (including those who have left recently), and in the inspection of policy and procedure manuals (if any) are listed below. The goal is to establish areas with a high probability of corruption and follow up with an in-depth investigation of records and extensive interviews with management and staff.

1) **Cash Controls.** Is the company paid in cash directly rather than through a bank? If so, this is an opportunity for corruption, and the controls over accounting for the cash should be investigated. A cash payment can be pock-

eted and subsequent payments applied to prior bills. Cash payments should be made by the treasurer's department against documents from the accounts payable department, rather than the accounts payable department making the payment directly. This is done to maximize the number of people involved, which is an important safeguard. If one person is approving invoices and making payments, this is an important danger sign.

2) Receivables Aging. How much of the receivables are past due for over 90, 180, or 365 days? What customers are involved and why haven't they paid?

3) Petroleum Inventory Verification. The reasonableness of reported inventories of oil companies can be checked against inventories of international companies. Excessive recorded inventories should be verified by inspection — often they do not exist.

4) Consumable Materials & Supplies Levels. Reported excessive materials, like pipes used in the business, usually signal that the supplies may not exist. This can be verified with on-site inspections. Bidding procedures should be checked to be sure sole-source procurement is not used and the purchases are not from related companies. The costs of the individual items can be spot-checked to see whether they are excessive.

5) Plant & Equipment Costs. Purchase contracts and bidding procedures for major pieces of equipment recently procured should be examined. Normally, in the energy industry, at least three competent companies should be invited to bid, the bidding terms should not favor one company, and the method of deciding the winner should be clear and objective. The price of the equipment can be compared to international prices obtained from other companies. If political influence has been used in determining the award, this is an important warning sign. Some companies in high-inflation countries revalue their equipment — does the revaluation reflect the realistic market and economic value as required by the IAS, or is the valuation intended to mislead lenders and potential purchasers?

6) Investments & Advances. Many energy companies provide their customers and affiliates with investments or loans («advances») for building facilities to use and market the energy. This is an excellent opportunity to drain an energy company of cash through companies that have no intention of building energy-related facilities. Sometimes brokers and suppliers simply do not deliver.

7) Goodwill Realism. The rationale for a large provision for «goodwill» should be examined for reasonableness. It may be an indication that acquisition costs of companies and assets have involved excessive payments.

8) Payable Levels & Methods. Payments are normally supposed to be made for goods received or services performed, against valid original invoices. A frequent source of fraud is for phony invoices to be created against which the

accounts payable group pays. If a perusal of invoices finds companies that are not known to exist, copies of invoices rather than originals, or no proof of delivery of goods or completion of services, this is usually evidence of fraud.

9) Loan Verification. Creditors can claim that loans have been made, but then provide no documentation. If this is the case, and the lenders are related to the energy company and its management, then the chances of fraud are high.

10) Taxes Due. Many government-owned or -controlled energy companies fail to pay their taxes, especially taxes for social funds. Not only does this defraud the government and pensioners, but not booking the liability makes the net worth of the company look higher than it really is. In interviews, questions should be asked about how tax liability is calculated by the revenue service and whether the claims for taxes differ significantly from the energy company's calculations (and if so, why).

11) Pension Funds. When pension programs are set up as separately funded entities, which are not consolidated with the energy company, they are often treated as a private piggy bank of the management and politicians.

12) Equity Amounts & Reserves. Energy companies often understate reserves, such as liabilities for future taxes and pensions (which are a lessening of net worth) that should be established for environmental clean-up or law suits. General knowledge of the company, pollution in the area, and suits pending can provide a reasonable guide to the adequacy of the reserves.

13) Sales Policies. Energy companies are often forced by politicians to sell to government companies and favoured companies on loose credit terms. These can be identified fairly easily if the energy company is reasonably open, since usually the energy company would prefer not to have such terms.

14) Cost of Imported Energy. If energy is imported, the price of the imports should be examined for reasonableness. Usually these are on long-term contracts, and comparable prices are tracked by the U.S. Department of Energy.

15) Artificial Payrolls. There is a widespread practice of hiring too many people and allowing some not to work. Either the non-workers pay off the managements or the «workers» do not exist and the money is paid directly to management. This can be checked through anecdotal information and by reviewing payroll records and signatures of receipts that are in the same handwriting.

16) Fees to Outside Parties. The easiest way to pay bribes is to pay fees to friends and relatives of politicians for work that is minimal or non-existent. Documentation of work performed for large fees to people known not to be qualified should be requested. Such payments by an American firm could be an offense under the U.S. Foreign Corrupt Practices Act of 1978.

17) Tax Payments. The bank account numbers into which taxes are paid should be checked to see who owns them.

18) Derivatives & Contingent Liabilities. Information about derivative contracts should be checked. This includes future sales of energy products and currency, as well as guarantees and outstanding lawsuits. The possibility of large-scale corruption exists in executing these contracts, paying under guarantees, and settling phony lawsuits.

4.5. Establishing a baseline of corruption risks in the healthcare sector and addressing healthcare corruption risks in the medium to long run and in the context of health systems strengthening

In assessing and addressing the corruption risks, the practice usually follows a three-fold approach: **a)** a political economy analysis/mapping of the healthcare sector players; **b)** assessing corruption risks at various stages of healthcare delivery; and **c)** proposing mitigating strategy for identified risks.

4.5.1. Step Political economy analysis of the healthcare sector

In assessing the corruption risks in the healthcare sector, it is useful to get an overview of the nature of corruption in general in the country, as well as to understand corruption in the national context.

More importantly, a political economy analysis of the healthcare sector could help assess how powerful the individual players are and their specific motives (Walt and Gilson, 1994).

Mapping of the key stakeholders would allow for a better understanding of division of labour (and responsibility across different stakeholders), any bottlenecks in the decision process as well as the existence of any potential vested interests between and among different key stakeholders. To date, there have been a few instances where such political economy analysis has been conducted (e.g. Philippines, Hartigan-Go et al, 2013). It could serve as a basis for replication, while also taking into consideration some of the key players that have been omitted in this instance (e.g. the role of the healthcare providers, pharma industry representatives, the relationship between the Ministry of Finance and the Ministry of Health as well as the importance of the civil society).

4.5.2. Step Assessing corruption risks at various stages of healthcare delivery

A summary of the checklist is provided in Table 2. The assessment of corruption risks is divided into four broad categories: **a)** area – representing the segment of the healthcare sector where the corruption risk analysis/assessment should be performed (e.g. healthcare providers); **b)** issues (e.g. the extent of paying informal payments or health worker’s absenteeism in the context of healthcare providers); **c)** key indicators (e.g. fraction of the healthcare nurses and physicians not present when a random check of the healthcare facility is conducted, or the fraction of the population paying informal payments when seeking healthcare services that ought to be free); and **d)** data sources.

1) Corruption risks at policy level

In the policy area, the existence of anti-corruption legislation is crucial and, in that context, specific mention of the corruption in the healthcare sector in the context of the national anti-corruption efforts is key.

National health strategy and national anti-corruption strategy could serve as key sources in assessing the extent of corruption in this area.

High level risks of corruption (e.g. embezzling funds from national budgets) could be assessed by analysing two issues: budget process and budget leakages. Budget process is assessed using the Public Expenditure and Financial Accountability (PEFA) indicators on areas including credibility or execution of the budget. PEFA are expert ratings of budget performance and are designed to track budget credibility, transparency, and the performance of key institutions involved in the budget cycle. In the case where PEFA and budget rating performance assessment are not available, national audits and audit reports could also be used.

2) Corruption risks at budget and resources management

Budget leakages, on the other hand represent the discrepancy between the authorized budget for health and the amount of funds received by intended recipients. Sometimes leakages are reported for broad expenditure categories, e.g. total public health expenditure, sometimes for specific expenditure areas, e.g. payments to providers in a particular local district. PETS (Public Expenditure Tracking Surveys) coupled with interviews with key stakeholders could be instrumental in assessing this type of corruption risk.

3) Corruption risks at the level of individual providers

Two most common corruption risks emerge in the area of health services provision: **a)** absenteeism of health workers; and **b)** the extent of informal payments when accessing healthcare service. Health worker absenteeism captures the absence of providers at their location of employment during contracted hours. It can be defined as the proportion of physicians or nurses who are contracted to be working on site during the period(s) of observation but who are not present. Physician and nurse absentee data can be collected by various means: unannounced visits, direct observation at health clinics or hospitals, attendance records kept by health facility administrators, or other methods that document actual and expected attendance (see Chaudhury et al. 2006; Lewis 2006; and Halsey and Vegas 2008 for overviews).

Informal (also known as under-the-table payments) to individuals are charges for health services or supplies meant to be provided free of charge, or that are paid informally to public health care providers to obtain specific favours or even basic services. Informal payments are often measured as the fraction of survey respondents reporting that they made payments to a public health entity for services intended to be free of charge. Household surveys, health facility exit surveys, and perception surveys of citizens and public officials are the most common sources of this information. More detailed evidence can be collected on the average value of payments made, who requested/received them, and for what specific service. Data on informal payments in health are relatively scarce but are increasingly being added to household surveys.

4) Corruption risks at procurement and storage of medicines and medicinal products

There are three main issues in the area of procurement and storage of medicines and medicinal products: **a)** procurement of medicines; **b)** distribution of medicines – embezzlement; and **c)** distribution of medicines – penetration of substandard medicines. First, lack of training, weak national procurement systems and lack of transparency and accountability of national procurement legislation, have been documented as the main deficiencies that increase the risk of corruption. The checklist includes two indicators for assessing corruption risk in the procurement of medicines: transparency of regulatory functions and bidding requirements; and public information on medicine policy and governance. The sources for assessing these corruption risks include: bidding procedures and documents from the Ministry of Health and the Ministry of Finance as well as interviews with key stakeholders. Second, the checklist includes an indicator capturing the fraction of the total medicines that are stolen. Similar procedures should be followed when assessing the issue of penetration of sub-standard medicines in the market.

Finally and given the gap in existing corruption toolkits, in assessing corruption risks, the toolkit also encompasses an area called ‘voice and accountability’ which measures the strength of civil society when addressing some of the

key corruption issues in the healthcare sector. Reports from relevant civil society organizations as well as consultations with key community stakeholders could be particularly useful in this instance.

Table 2. Checklist of key issues/indicators when assessing, tracking and measuring corruption risks in the healthcare sector as well as key measures and strategies to address them

Area	Issue	Key Indicators	Data sources	Key measure/strategy	Examples of successful implementation of some of the proposed measures/strategies
Policy	Anti-corruption legislation	Corruption in healthcare included in the national anti-corruption effort.	Health strategy, National anti-corruption strategy, UN-CAC review reports for UN-CAC States-Parties.	Increase transparency and access to timely, accurate and relevant information on preparation and draft of policies and laws. CSOs participate with inputs in the process of draft of policies and laws.	Anti-corruption strategy in Moldova 2007-2009 provides a good example/guidance of integrating healthcare in national anti-corruption efforts.
Budget and resource management	Budget processes	PEFA indicators track budget credibility, comprehensiveness, transparency, execution, recording, reporting, and external audits and scrutiny	Public Expenditure and Financial Accountability indicators; Focus groups with public officials, recipient institutions, and civil society; Interviews with public officials, recipient institutions, and civil society	Develop accessible and comprehensive financial management/financial procedures manual for the Ministry of Health. Achieve as much as possible a full automation of the FMS (at national as well as on sub-national, district level). Develop and use consistently Public Expenditure and Financial Accountability (PEFA) indicators. Track resource flows. Increase internal transparency. Strengthen external audit. CSOs participate in the process of preparation of health budget. CSOs also monitor the process of budget execution.	PETS (Public expenditure tracking surveys) implemented in some of the countries of Sub Saharan Africa.
	Budget leakages	Discrepancy between public budgeted health funds and the amounts received by health providers	Public Expenditure Tracking Surveys; Public Expenditure Reviews; Focus groups with public officials, recipient institutions, and civil society; Interviews with public officials, Audit, reports, recipient institutions, and civil society		

Area	Issue	Key Indicators	Data sources	Key measure/strategy	Examples of successful implementation of some of the proposed measures/strategies
Individual Providers	Health workers absenteeism	Fraction of physicians or nurses contracted for service but not on site during the period(s) of observation	Quantitative Service Delivery Surveys; Surprise visits; Direct observation; Facility records; Focus groups with facility heads and patients; Interviews with facility heads and patients	Frequent inspections and peer supervision Appropriate sanction (% of monthly salary reduction) for workers who are absent without authorisation Incentives for improving health providers performance (e.g. pay for performance) Strengthen self-regulation and oversight of professional health worker association. Strengthen the oversight of CSOs. Incentives for improving health providers performance (e.g. pay for performance)	Financial and non-financial incentives for workers. Good examples have been documented in Albania, Mongolia, Dominican Republic. Use of community scorecards to improve delivery of healthcare services (e.g. Ghana). Improvement of working conditions (e.g. various donor funded projects in Sub-Saharan Africa) Use of IT in monitoring and reducing corruption, particularly when it comes to workers absenteeism.
	Informal payments	Frequency of illegal charges for publicly provided health services	Household surveys; Facility exit surveys; Focus groups with providers/patients and health workers; Interviews with providers/patients and health workers; Governance and Anti-Corruption Country Diagnostic surveys		

Source: Author building on Lewis and Patterson (2009), WHO (2008a), WHO (2008b), WHO (2008c), Hussmann (2011), WHO (2008d), WHO (2008e).

Area	Issue	Key Indicators	Data sources	Key measure/strategy	Examples of successful implementation of some of the proposed measures/strategies
Procurement/storage of medicines and medical products	Procurement of medicines	Transparency or regulatory functions and bidding requirements	Ministry of Health, Ministry of Finance bidding procedures; Interview with key informants	Assure transparent procurement procedures, written procedures and explicit criteria for contract awards with strict adherence to announced closing dates Monitor supplier selection and keep written records for all bids received; make adjudication available to all participating bidders and the public Report regularly on key procurement performance indicators Ensure maximum publication of information Using e-procurement platforms to improve efficiency and discourage corruption Establish procurement databases Use fraud detection software Undertake equipment audits and reviews of maintenance contracts Empower CSOs and media to scrutinise the public procurement including finding new ways to monitor the procurement process Train CSOs to devise alternative methods to make procurement information accessible and usable when strong open data principles are not adopted by government Foster external audits, including equipment audits	Transparency of information. Management and information system improvement (e.g. Cambodia). Electronic procurement (e.g. Chile). Implementation of integrity pacts (e.g. Peru).

Source: Author building on Lewis and Patterson (2009), WHO (2008a), WHO (2008b), WHO (2008c), Hussmann (2011), WHO (2008d), WHO (2008e).

Area	Issue	Key Indicators	Data sources	Key measure/strategy	Examples of successful implementation of some of the proposed measures/strategies
		Public information on medicine policy and governance	Ministry of Health, Ministry of Finance bidding procedures; Interview with key informants	<p>Develop information systems to ensure drugs are allocated, transported and stored appropriately;</p> <p>Assure regular communication between every level of the system to control inventory and deliveries. There are systems for inventory control with acceptable level of compliance</p> <p>Secure appropriate storage facilities and transport. There is a Logistic management information system (LMIS) with requisition and stock reporting tools</p> <p>Establish electronic monitoring of stock and distribution and check delivery orders against inventories of products delivered to identify theft</p> <p>Empower local communities and CSO to play a watchdog role in preventing drug diversion by establishment of effective complaints mechanisms to report wrongdoings and malpractice</p> <p>Put storage capacity plans in place to manage and upgrade storage, to meet requirements in storage conditions (including ventilation) and equipment needed for the type and quantity of the products to be stored</p> <p>Develop and engage professional associations to improve adherence to professional codes of conduct</p>	

Area	Issue	Key Indicators	Data sources	Key measure/strategy	Examples of successful implementation of some of the proposed measures/strategies
	Distribution/theft of medicines	% of medicines that are stolen	National pharma reports, interviews with stakeholders		
	Distribution/falsified medicines	% of medicines in the market that are falsified or of sub-standard quality	National pharma reports, interviews with stakeholders		
Voice and accountability	Strength of civil society	Existence and strength of effective civil society organizations in countries with mechanisms in place for citizens to express views to government bodies	Reports from donors and Ministry of Health; Reports from relevant civil society organizations; Interviews with key stakeholders		The examples of how the civil society could mitigate corruption risks in the healthcare sector are provided in Box 1.

Source: Author building on Lewis and Patterson (2009), WHO (2008a), WHO (2008b), WHO (2008c), Hussmann (2011), WHO (2008d), WHO (2008e).

4.5.3. Step Devising corruption mitigating strategies

The final step in addressing corruption risks is devising **mitigating actions/strategies** whilst also placing the issue of healthcare corruption in the broader context of health systems strengthening. The last column in Table 2 provides a list of mitigating strategies that corresponds to the main identified corruption risks.

1) Policy, regulation and budget and resource management

Health systems require a legal and institutional framework that provides clear and simple accounting and procurement standards based on transparency, comprehensiveness and timeliness. They should also have effective supervision and auditing systems to improve fiscal oversight and ensure effective enforcement of rules and sanctions for financial misconduct. Tracking the resource information and making them publicly available can increase the visibility of corrupt practices, as well as the ability of the public to monitor and challenge abuses and help combat the general culture of impunity.

For example, following a PETS (Public Expenditure Tracking Survey) Uganda started to publish monthly intergovernmental fund transfers in the local media, dramatically reducing the capture and leakage of funds by 78 % (Grey-Molina et al, 2001).

2) Providers – informal payments and absenteeism

There have been a few strategies for reducing the extent of making informal payments as well as absenteeism among health workers.

First, strengthening of the social accountability by implementing community monitoring could significantly reduce the extent of informal payments.

Ghana is a good example, where monitoring has been strengthened by using community scorecards based on qualitative information gathered in participating village surveys, and meetings between service users and providers regarding service delivery problems. The scorecard is designed to empower citizens to report issues, as well as provide immediate feedback to providers on how service delivery could be improved (Camargo, 2013). The Ghanaian example underlines the importance of communication of essential information on patient rights and entitlements (Camargo, 2013).

Second, informal payments could be further reduced by increasing individual provider incentives as well as providing organizational incentives for performance.

Examples of individual provider incentives have already been used in countries like Albania (Miller and Vian, 2010). In Mongolia, a doubling of the salary of health sector employees reportedly resulted in «less interest in receiving under-the-table payments» (UNDP, 2009). Staff reported high satisfaction with the pay increases and asserted that fair compensation had directly improved the integrity of the health sector. This was also coupled with a cash award for the best employee (UNDP, 2009). Financial and nonfinancial incentives have also been used in reducing the extent of absenteeism in Dominican Republic (Vujacic, 2010).

Third, the improvement of working conditions could significantly reduce worker absenteeism. In Kenya, facility-based teams assessed their own working conditions and implemented action plans to improve their environment and job satisfaction.

These included, as listed by the project, some low-cost interventions making waste disposal safer, improving inventory management, creating staff lounges with free tea, painting and refurbishing facilities, posting facility signage, cleaning yards, and offering continuing education opportunities, all of which motivated health workers to come to work and perform well (Capacity Project 2009).

Fourth, there is some nascent evidence that usage of IT could significantly reduce absenteeism.

For example, health workers or communities can use mobile phones with SMS texting capabilities to encourage reporting the presence or absence of health workers, in addition to facility standards, patient waiting times, availability of medicines, and other quality or productivity indicators. Such crowdsourcing applications have the potential to provide managers and health workers with quantitative and qualitative information to develop action plans to address productivity (and/or quality) issues, such as absenteeism (USAID, 2012).

3) Medicines – procurement and distribution. Procurement

Preventing corruption in the drug procurement process involves defining clear and transparent procurement rules to increase the probability for corrupt practices to be detected and sanctioning and implementing guidelines that reduce discretionary powers where they are likely to be abused. Advances in information technology offer promising opportunities to increase the transparency and accountability of drug procurement.

In Chile, for example, an electronic bidding system has been introduced for drug procurement that uses internet for publishing the lists of supplies offered in tenders with the view to providing public access to prices, products and quantities as well as bidding results. It was estimated that hospitals have saved from 5 to 7% by using this electronic

bidding system. Such an approach also allows civil society involvement and oversight at all stages of the procurement process (Cohen and Montoya 2001).

Access to information is also crucial when reducing the risks of corruption. Establishing and maintaining information systems on prices, quality, volumes, performance of suppliers, etc., that are simple and easy to use would all reduce the risk of corruption.

For example, establishing lists of reliable and well-performing suppliers, such as the list of pre-qualified products and manufacturers meeting WHO norms and standards, as well as making price information widely available, and the use of existing tools such as the WHO International price guide can help reduce prices and opportunities for corruption. Establishing price-reporting systems can allow comparisons for basic medical goods and services and result in a decrease in input prices, as demonstrated in an anti-corruption crackdown in Argentina (Di Tella and Shargrotsky, 2002).

Developing monitoring systems that are transparent, accountable, and independent, and a system that operates at all stages, from contracting decisions and drug selection, to contract implementation (including distribution when applicable), will allow for civil society participation. A reliable information-management system is one of the most important elements in planning and managing procurement. Monitoring systems should also include an annual external audit to verify the procurement office's accounting records. An evaluation of public contracting for health services in Cambodia noted that monitoring was essential to assure quality when contractual payments are linked to performance, and that auditing skills are very important to detect such problems as «ghost patients», excessive charges, and reporting fraud (Soeters and Griffith, 2003).

Corruption risks in the procurement of pharmaceutical products can be mitigated by the implementation of an integrity pact, which is a binding agreement by both bidders and contracting agencies not to offer or accept bribes in public contracting.

For example, integrity pacts have been promoted by Transparency International Peru (Proética) for the purchase of medication for the National Police, or by Transparency Colombia and the National Social Security Institute for the purchase of medicines and dialyses services.

4) Distribution

Some commercial best practices can be applied to public sector's supply chain management to mitigate drug diversion risks along the supply chain, as illustrated by the President's Emergency Plan for AIDS Relief (US PEPFAR initiative) and the related Supply Chain Management System. In South Africa, Pharmaceutical Healthcare Distributors managed to reduce stock loss to less than 0.1% by using such an approach (Vian 2006; USAID, 2014). Such practices include: **a)** open, transparent and competitive procurement system that includes measures taken to promote price transparency; **b)** reinforced physical protection and security of warehouses including gated facilities, security guards, controlled access, etc; **c)** segregation of workforce and duties to prevent internal risks of collusion and limit discretion; **d)** risks analysis of routes and shipments

with higher levels of control and security on high risks routes (such as satellite tracking and monitoring); e) information management, batch monitoring or specific packaging to avoid drug diversion of products intended for the public sector to private markets; f) better quantification, forecasting and supply planning for medicines.

One of the key features of this toolkit is the role that civil society could play as one of the main actors in the process of mitigation of the identified corruption risks.

Box 1 provides a summary of initiative across different parts of the healthcare sector, where the civil society's role has been pivotal in curbing the identified corruption risks.

Box 1. The role of civil society in reducing/mitigating corruption risks

Participatory budgeting initiatives encourage a wide range of stakeholders to have a voice in allocating budgets according to their community's priorities, monitoring budgets to assure that spending is in accordance with those priorities, and monitoring the quality of goods and services purchased with budgets. Successful initiatives to expand participatory budgeting have been documented in Ireland; Porto Alegre, Brazil; and South Africa (Narayan, 2002). The example of Porto Alegre, Brazil, has been used as a prime example for giving the less powerful a chance to develop their agendas and create solidarity without control from power holders.

The involvement of civil society at all stages of the procurement processes is a key dimension of promoting transparency and accountability in procurement processes. In Bolivia, following the devolution of health care facilities to municipalities, a study found that hospitals that were supervised by active «Local Health Directorates» involving citizen representatives paid up to 40% less on average for 5% dextrose solution (Sayedoff, 2008).

Local communities and beneficiaries can also play a crucial role in preventing drug diversion along the supply chain by monitoring and overseeing drug delivery and stock-outs at facility level. In Zambia (MeTA 2009), for example, theft was cut by providing information on the delivery of medicines in rural health centres to local health committees made up of members of the local community. In Kenya, Malawi, Uganda and Zambia (PlusNews 2009), Stop the Stock-Outs campaign activists used text messaging to report stock-outs of essential medicines at public health facilities and put pressure on governments to address the issue. The establishment of effective complaints mechanisms can also empower beneficiaries to report wrongdoings and malpractice. In Uganda, for example, activists used text messaging to report stock-outs of essential medicines at public health facilities and put pressure on governments to address the issue. HEPS-Uganda- a health consumer organisation- collects complaints through stakeholders' meetings, complaints boxes installed at health facilities, and questionnaires filled out by health consumers and observations. These complaints are analysed and reports are written which are then discussed with health facility management to agree on the needed improvements and/or redress.

4.6. Fighting corruption in the political system

In this section, we will cover some of the actions geared towards **fighting corruption in the political system**, most notably electoral integrity and conflict of interest. Among those aspects of the functioning of political institutions that deserve particular attention are electoral integrity and the regulation of political finance, i.e., the funding and spending of resources by political par-

ties and candidates in the context of election campaigns as well as in non-electoral times. While the indispensable role of money in democratic elections and the dangers that come with it have long been the subject of considerable controversy, dating back more than a century in the United Kingdom and the United States, the intensity of the discussion has increased substantially in the past few decades. This is as much a result of the expansion of democratic rule as of the growing complexity of electoral processes that are highly dependent today on the role of television and marketing techniques in many countries.

Still, old-fashioned electioneering revolves around vote-buying, gift-giving (sometimes called 'humanitarian aid'), and labour-intensive techniques of reaching individual electors, all of which tend to be very expensive, although not transparent, and lead to a growing level of political corruption. A particularly dangerous form of political corruption occurs when politicians bribe the voters in an organized manner. Studies of Uganda and of Antigua and Barbuda conducted by Michael Pinto-Duschinsky indicate that traditional patronage politics imposes far greater financial burdens than television-based campaigning. The «mass distribution of imported hams, turkeys and other giveaways» in the 1999 elections in Antigua and Barbuda meant that the cost-per-vote amounted to at least US\$60 (the estimate offered by the ruling Antigua Labour Party) and may have been as high as US\$300 (the opposition's preferred figure) (Pinto-Duschinsky, 2002). Taking differences in income levels into account, these elections cost between nine and 44 times more per capita than all the elections - state, local, and federal - that took place in the United States in 1996.

Uncontrolled and systemic vote-buying leads to a point where voters approve even illegal contributions and massive abuse of state resources as long as they can benefit personally from the 'charity' of corrupt politicians.

The importance of vote-buying should not be underestimated, as it is clearly a potential source of a grand political corruption.

Vote buying is a major problem in many democracies around the world; new cases are even being observed in the United Kingdom, United States, and Italy. Electioneering in Southern Italy in the late 1970's was described as «a cynical buying and selling of votes in return for a kilo of pasta, bills of 5,000 or 10,000 lire (\$5-10), or coupons for gasoline, for the cinema and, in one classic case, even for prostitutes.» (Chubb, 1982) Vote buying in East Asia is still a systemic problem rather than an individual corruption, touching even the established democracy of Japan. In the Philippines during the 2002 local elections, for example, about seven per cent of all voting-aged adults nationwide received some form of payment. In Thailand, 30% of household heads surveyed in a national sample said that they were offered money during the 1996 general election (Pasuk et al, 2000).

The signs of the prominence of the issue of political finance are also unmistakable. In October 2000, a public statement by the anti-corruption organization Transparency International (TI) singled out questionable political finance practices as a growing threat to democracy. TI's then-Chair, Peter Eigen, noted that

«the current wave of corruption scandals we are witnessing across Europe is not about personal enrichment – it's about the purchase of access to policy-makers, and political parties are the prime target in this game.» (Transparency International, 2000).

In a similar vein, the Inter-American Democratic Charter, adopted by the Organization of American States (OAS) in 2001, pledged that

«special attention will be paid to the problems associated with the high cost of election campaigns and the establishment of a balanced and transparent system for their financing.»

Analogous pronouncements have been forthcoming from organizations as diverse as the African Union (AU), Inter-Parliamentary Union (IPU), the International Organization of the Francophonie (OIF), the Council of Europe (COE), and the European Union (EU). The pace and depth of political finance legislation has markedly increased at the national level as well. In March 2002, lawmakers in the United States approved the most comprehensive package of political finance regulation in a generation, claiming that it would "help untangle the web of money and influence that has made the Congress and the White House so vulnerable to the appearance of corruption." In the course of the past decade or so, far-reaching political finance reforms have also been enacted in Canada, Colombia, Costa Rica, Guatemala, Mexico, Panama, France, Germany, Japan and the United Kingdom, to name but a few cases (Pinto-Duschinsky, 2002).

1) Conflicts of interest and corruption

Another aspect of the functioning of political institutions that deserves particular attention concerns managing conflicts of interest, i.e., conflicts between private and public interests of political power-holders, in which these power-holders have private-capacity interests which could improperly influence the performance of their official duties and responsibilities (OECD, 2003). With the emergence of the modern industrial state and the notion of political accountability at the ballot box, political power-holders became expected to serve the governments and the citizens they represent as opposed to their private interests. More recently, the notion of managing conflicts of interest, whether they are real or perceived, has become a priority in many countries.

In response to the growing demand to address this issue, the Organization for Economic Co-operation and Development (OECD) issued **Guidelines for Managing Conflict of Interest in the Public Sector** in 2003. The philosophy behind the Guidelines rests in the recognition that «conflicts of interest cannot be eliminated and therefore public officials' private interests need to be

properly identified and managed in an appropriate manner.» (OECD, 2003) The opportunities created for corruption by unmanaged conflicts of interest can have serious economic ramifications, especially given the increasing level of transactions between the public and private sectors. (OECD, 2003) And indeed, as noted earlier, the relationships between corruption and poverty are also becoming evident. In 2007, TI's Chair, Huguette Labelle, noted that «Despite some gains, corruption remains an enormous drain on resources sorely needed for education, health and infrastructure.» (Transparency International, 2007) At the same time, an increase in awareness about corrupt activities and conflicts of interest are contributing to a decline in confidence in political institutions. Since its inception in 2003, Transparency International's Global Corruption Barometer has identified political parties and parliaments as the institutions most commonly viewed by the citizens as the most affected by corruption. (Transparency International, 2007).

The tools for managing conflicts of interests such as the enactment of laws and regulations, establishment and strengthening of institutions, development of clear rules and guidelines, and assets disclosure are all discussed in this compilation.

Addressing the issue of conflicts of interest can contribute to the reduction of corrupt practices on one level, while increasing overall confidence in the political power-holders and the institutions that they serve.

2) Media, civil society, and corruption

Transparency and public scrutiny have proven to be one of the most powerful forms of monitoring public officials and maintaining their high integrity. A free and vibrant media is one of the necessary factors in making transparency work.

Thus, the role of the media and civil society groups in monitoring the functioning of political institutions and political power-holders deserves particular attention. By acting effectively, responsibly, and constructively, journalists and civil society actors compliment official mechanisms for addressing issues such as controlling electoral fraud, regulating political finance, managing conflicts of interest, and preventing illicit gain. But, in order to be effective, they must not themselves be corrupt. Such corruption undermines the confidence in these institutions as unbiased and neutral providers of information.

Through monitoring and oversight efforts, media and civil society groups can identify and uncover improprieties and transgressions of the law. Such improprieties and transgressions are made public through objective news stories,

press releases, and reports that can then be used by official bodies to take appropriate action. Formal channels also exist. In some countries, journalists, civil society actors, and citizens can and are encouraged to make formal complaints of identified wrongdoing. Such complaint mechanisms provide the regulator with an added level of information that makes their job easier, while at the same time discourages non-compliance with a country's laws and regulations. Overall, effective monitoring and oversight by the media and civil society can add another important layer of transparency and accountability in promoting political integrity.

Summary

This narrative provided a compilation of the best ways of, first of all, assessing and measuring, and then, secondly, fighting corruption in various parts of the system (e.g. political system, tax administration, education and health, business environment etc). As it was argued, first the level of corruption should be established, which, as discussed above, starts with assessing the broader corruption context in the country. Then, various instances/checklists for assessing how corrupt each sector is was provided. In addition, this narrative also provided the best ways of addressing and preventing corruption in various sectors. As we have seen throughout the various cases, media and, in particular, civil society has a significant role to play in preventing corruption. Through monitoring and oversight efforts, media and civil society groups can identify and uncover improprieties and transgressions of the law. Such improprieties and transgressions are made public through objective news stories, press releases, and reports that can then be used by official bodies to take appropriate action.

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Additional reading materials

Caiden, G (2001). «Dealing with administrative corruption» In Handbook of administrative ethics.

Similar to the two books above, it further provides essential readings on some very useful case studies on how to prevent and reduce corruption in various aspects of administration.

Hors, I (2001). «Fighting corruption in the tax administration», OECD Working Paper No. 175.

Consists of case studies that have helped identify some powerful elements for successful implementation — political will, at the highest level, a strategic approach to reform, a careful assessment of the institutional scene and balance of powers, with sensitive management of opposing and supportive forces, the selection and sequencing of practical remedial measures and the professional improvement of individual procedures.

Mungiu-Pippidi, Alina. Contextual Choices in Fighting Corruption: Lessons Learned (July 1, 2011). Norwegian Agency for Development Cooperation, 2011. Available at SSRN: <https://ssrn.com/abstract=2042021>.

This paper, inter alia, offers a great insight into some of the successful and not so successful practices of fighting corruption, particularly in developing countries. It further provides the reasons as to why some of the corruption prevention efforts have failed.

Thampi, G (2012). «Diagnosing Public Sector Corruption & Implementing Anti Corruption Programs: A Framework for Practitioners».

It further builds on some of the strategies we explored above (i.e. on how to deal with corruption in the public sector), by inter alia giving bigger role to the watchdogs (NGOs, civil society, media, etc).

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