U4 Expert Answer

Anti-Corruption Resource Centre www.U4.no

TRANSPARENCY INTERNATIONAL the global coalition against corruption
www.transparency.org

CMI CHR. MICHELSEN INSTITUTE
www.cmi.no

Measuring International Trends in Corruption

Query:

We would like information on annual publications/statistical information on international trends in corruption. What information is currently being collected and published on international corruption trends? Are there any gaps in information that a new publication could cover? What are the challenges involved?

Purpose:

Our agency is exploring the opportunity of producing an annual publication on international trends in corruption.

Content:

Summary:

Measuring trends over time – whether at the national or international level - remains one of the most critical challenges facing corruption research. Due to cost and logistical constraints, governance indicators are often either limited in their geographic or time-period coverage, which makes it difficult to track change. Current corruption indicators gather the various stakeholders' views of levels of corruption in a given country or assess the state of the anti-corruption legal and institutional frameworks in place. Tracking international trends would involve either repeating worldwide surveys on a regular basis using aggregated indicators or generating comparable country level data, with major resource implications to ensure global coverage.

While global comparative indices have proved to be powerful awareness raising tools, there is growing demand for more disaggregated and actionable data to inform anti-corruption reforms and track progress over time. Promising new research directions include analysing the underlying factors that affect the outcome of reforms, driving or inhibiting change both at the country or global level. Further knowledge gaps that could be addressed include: 1) actionable indicators

Authored by: Marie Chêne, U4 Helpdesk, Transparency International, mchene@transparency.org
Reviewed by: Christiaan Poortman, Transparency International, cpoortman@transparency.org

Date: 20 April 2009

assessed comparatively; 2) studies that evaluate what reforms have worked to combat corruption, their context, sequencing and success factors; and 3) research into the supply side of corruption and how industrialised countries and financial centres contribute to fuelling corruption.

Part 1: Challenges Involved in Monitoring International Trends in Corruption

Is corruption becoming worse? If it is, where and why is the situation deteriorating? Although a number of country level surveys indicate positive trends in the fight against corruption at the national level - suggesting that corruption can indeed be reduced - there is little evidence that governance has improved in global or absolute terms.

There has been a growing demand in recent years for measuring corruption trends, tracking change over time, and the impact of reforms. Yet, while the political benefits of corruption measurement tools such as TI's Corruption Perceptions Index (CPI) have been considerable in terms of putting corruption on the international agenda and advocating for change, there are not many instruments that currently and provide appropriate benchmarks for progress in the fight against corruption (or lack of thereof).

The challenge remains therefore to identify appropriate methodologies to track change and measure impact of anti-corruption efforts over time both at the national and international level. While corruption trends up and down can be tracked with instruments such as the CPI or WGI data, they offer little insight into the why's, when's and how's of change, giving policy makers little to start with – except more research.

Methodological Challenges

General Challenges Involved in Measuring Corruption

Measuring international trends in corruption faces challenges of definition and quantification that have been documented in various papers looking at the difficulty to measure actual levels of corruption. These papers include a recent UN review of public governance indicators. (Please see: http://unpan1.un.org/intradoc/groups/public/documents/un/unpan027075.pdf).

Can corruption be measured?

By definition, given the secretive nature of corrupt practices, it is virtually impossible to come up with precise and objective measures of the phenomenon. 'Hard' and objective data on corruption is difficult to obtain and there is still no measurement system constructed that accurately accounts for actual levels of corruption within a country and, by extension, at the global level. This is because specific measures of corruption are imperfectly related to overall levels of corruption. In other words, current indicators are imperfect proxies for actual levels of corruption. Key issues in this regard relate to single versus aggregated indicators, subjective versus objective data, rule-based versus outcome-based indicators of governance and corruption. A good overview of the state of research and various methodological issues related to the various indicators currently in use can be found in "Governance indicators: Where are we, where should we be going ?" (Please see: http://ideas.repec.org/p/wbk/wbrwps/4370.html).

However, in spite of the challenges involved, one of the major contributions of corruption research in recent years has been to challenge the assumption that corruption cannot be measured in a reliable and methodologically sound manner. Corruption has been measured at the national, regional and global levels, mostly using perception surveys as the data collection method. Global measurement tools, international datasets and corruption indices such as the Corruption Perception Index, the Bribe Payer Index, the Global Corruption Barometer, the Business Environment and Enterprise Performance Surveys (BEEPS) or other aggregate indicators such as the WBI Governance Indicators have proved very useful in raising awareness, making cross country comparisons and conducting statistical analysis, helping establish correlations between corruption and a wide range of variables.

What are we measuring?

There are many forms of corrupt behaviour, including nepotism, extortion, patronage, facilitation payments, collusive networks, state capture, and petty, grand, administrative and political forms of corruption. No single indicator can pretend to capture the multidimensional aspect of corruption in a reliable and objective manner. All indicators of corruption and measurement techniques are necessarily biased towards a specific dimension of corruption and, by their

nature, are partial, targeted and refer to an underlying implicit definition of corruption. As a result, no single indicator can capture the full complexity of the phenomenon and the golden rule in this regard is to use a combination of tools rather than single indicators.

Methodological Challenges Involved in Measuring Corruption Trends

Tracking changes over time at the global level usually involves repeating worldwide surveys periodically using consistent methodologies and aggregated indicators. Generally, while global comparative indices remain powerful advocacy tools, there is growing demand for more policy-oriented measurements, using more disaggregated and actionable[1] data. Global corruption indicators currently in use have often been criticised for being too broad and difficult to translate into concrete anti-corruption interventions. Aggregated indicators have a limited explanatory value beyond providing a snapshot of the state of corruption worldwide at a given point in time. They seldom provide contextual information on the political economy causes of corruption.

Methodological approach

There are two major ways of compiling survey-based trend information. One can ask survey respondents retrospective questions on whether corruption has increased or decreased over time (such as in the World Economic Forum's Global Competitiveness Report)[2]. Alternatively, one can try to assess levels of corruption at different points in time.

In the first case, the experience voiced by respondents may be influenced by factors other than knowledge, experience or incidence of the various forms of corruption. Experience may also be modified by other influences, such as the media, personal incentives, levels of information or general public attitudes with regard to the government in place.

The second approach - assessments of levels of corruption at different points in time – faces challenges of different nature. Given the costs involved, there are very few measurement instruments using a consistent methodology to assess corruption trends over time. Year to year changes can and have reflected changes in the methodology, as well as actual changes in perceived levels of corruption.

Ensuring Global Coverage

Another challenge involved in assessing international trends over time is ensuring the global coverage of measurement tools, which has major resource, capacity, political and logistical implications. Meaningful country comparisons suppose that enough countries, both in the developed and developing worlds, are covered by similar methodologies allowing comparisons. Due to cost and logistical constraints, many governance indicators such as the Global Integrity Index are limited in their geographic scope and do not cover a sufficient number of countries to allow meaningful worldwide comparisons.

In addition, different countries are affected by different forms of corruption, and so it is very difficult to develop a generic method of measuring corruption that allows meaningful comparisons worldwide. As already mentioned, indicators are biased towards a specific form of corruption that may not be comparable on the global level. While comparability across countries is important, measurement tools need to be flexible to account for local context and domestic needs.

Ensuring the Periodicity of Data Collection

Monitoring trends also involves repeating the measurement exercise at national or international level, using a consistent methodology on a regular basis to monitor trends over time in a sustained manner. This is the only way to provide scope for benchmarking and monitoring progress against set targets. But this approach has major resources implications. Currently, very few instruments have been repeated consistently with the same methodology to allow meaningful comparisons over time at the global level. The Global Corruption Barometer or the World Bank's World Governance Indicators are one of the very few studies allowing meaningful comparisons over time.

[1] Actionable indicators refer to measures of specific features of corruption that are directly linked to policy decisions.

[2] For example, the WEF asks: "In the past three years, the frequency and extent of additional payments or bribes … 1=has increased significantly, 7=has decreased significantly.

Defining the Scope of Research

As in measuring overall levels of corruption, one of the major challenges consists in determining what trends to measure at the international level and identifying the right measurement tool for the intended purpose. The choice of the measurement tool or set of indicators depends on the overall goal of the measurement exercise. Some tools are especially efficient for advocacy and awareness raising purposes, while others are better for making in-depth diagnosis, identifying priority areas for reform, establishing benchmarks and monitoring progress.

In view of the limited explanatory value of single number indicators, the focus of corruption research is increasingly moving from the meta to the macro level. There is a shift from broad international surveys to more nuanced, refined and detailed assessments conducted at the national or even sectoral level, using both quantitative and qualitative methodologies. Such tools have a greater focus on analysing the causes, dynamics and consequences of corruption and provide scope for benchmarking through the collection of more nuanced and detailed data on corruption.

These general considerations should be taken into consideration when identifying the relevant indicators of international trends in corruption. As there is no single valid and reliable indicator of progress in the fight against corruption, the alternative is to generate comparable country or sector level actionable data through in-depth, detailed and specific corruption assessments. While this approach is likely to have major resource implications to ensure global coverage, only careful and comprehensive studies, reviewing all data sources including qualitative studies may provide a realistic picture of corruption trends over time and help understand the reasons for progress or lack of progress both at the national and international levels. It could also be interesting to consider establishing cross-country comparisons of corruption levels in different spheres of government to map corruption risks at the global level and sequence reforms accordingly.

Political Challenges

There are a number of political challenges involved in assessing international trends in corruption. A 2005 paper by Fredrick Galtung highlights some of these challenges in connection with the CPI. (http://www.integridadepublica.org.mz/tools/Criticando%20o%20CPI.pdf).

Firstly, experience has shown that even in developed countries, it takes considerable time for anti-corruption reforms to have an impact, as behavioural change involves a major shift in the legislation, culture and the mentality of institutions. As a result of this lag between policy implementation and policy impact, there are no valid and reliable indicators that can indicate year-to-year progress in the fight against corruption. Furthermore, even if changes have occurred, they may not be instantaneously reflected by indicators based on perceptions as there may be a time lag before the public notices progress made. This apparent lack of progress may undermine the political capital and long term public support for reform, as current measurement tools cannot reward genuine reformers in the short or in the mid term. Reforming countries often argue that anti-corruption drives may bring corruption into the open and tarnish a country's reputation (and subsequently the country's performance in terms of perceived levels of corruption) at the very time where genuine reforms are introduced[3].

A further challenge is that corruption measurement tools are usually one sided and designed to capture a specific dimension of corruption. As already mentioned, every country or region of the world is affected by different patterns of corruption. As most instruments are focused on a specific form of corruption, they are likely to discriminate against countries where this particular form of corruption is more prevalent. The CPI for example casts light on the demand side of corruption, while ignoring the major bribe givers of the world. It has often been criticised for pointing blame at developing countries, imposing on them the burden for reform. Similarly, industrialised countries are likely to rank better than developing countries on indicators measuring bureaucratic or petty forms of corruption. TI's Bribe Payers Index (BPI) was developed as a response to this criticism. However, there are no instruments that measure or rank the propensity of industrialised countries such as Switzerland to provide banking services or safe havens for the proceeds of corruption.

[3] This argument could be challenged by empirical research that demonstrates that countries that enjoy greater freedom of speech experience better transparency and lower levels of perceived corruption.

In a time of financial crisis where donor resources are becoming scarcer, governance indictors are also susceptible to be misused by donors in association with aid conditionality within the context of bilateral negotiations. This use (or misuse) of governance indicators may have serious political implications, potentially alienating badly needed investors and developing partners, as well as undermining trust and legitimacy of local governments.

Finally, there is growing demand for locally generated measurement tools to promote ownership, legitimacy and acceptability of results. Poorly performing countries often resent being assessed on what they consider to be culturally biased criteria, using a Northern-influenced definition of corruption. Anti-corruption targets and standards of government performance should ideally be set through nationally driven processes to ensure engagement and commitment of local stakeholders. For ownership and sustainability purposes, they should also ideally be assessed and monitored through nationally owned processes, as with aid delivery modalities.

Operational Challenges

Monitoring international trends also faces major challenges of resources and capacity and efforts in this area are necessarily limited by the need to be realistic on what data can systematically be collected and compared over time.

Resources and capacity

As country level data collection requires a considerable investment of financial resources, global coverage is necessarily limited by the amount of resources available for the exercise. Adequate resources must be secured to repeat the exercise using a consistent methodology on a regular basis.

In addition, corruption assessments are complex exercises that require sufficient technical expertise to address the above-mentioned methodological challenges. In many cases, such projects require major capacity building efforts to support local data gathering institutions, whether government statistics offices, private survey companies or local NGOs and research institutions.

Availability and quality of data

Another challenge relates to the accessibility, availability and quality of data from reliable sources at the local level. Looking at international trends also involves addressing issues of access and quality of data generated at the national level. Comparable data must be compiled on a regular basis from countries that don't necessarily have the capacity, resources and political will to generate reliable data on corruption. Not all countries are covered by existing measurement tools and the nature and quality of generated data may also greatly vary from country to country. While accuracy should not be compromised by material considerations, there should be an appropriate balance between the need for reliable data sources and the cost of data collection. Sufficient time and resources would need to be allocated to quality control and fact checking to validate and ensure the quality of the data collected.

Coordination

Such an exercise would also involve major coordination challenges. Compiling and synthesising in a meaningful way data from various sources and countries, all with a different periodicity, substantive focus and constituency, requires sophisticated coordination.

Who should collect the data?

It is also important to identify the right institution to collect the data and make the assessment, with the view to ensuring the quality, integrity, credibility, ownership and usability of the findings. Various actors have their comparative advantages in this process. Primary collection of data should ideally be collected by credible and independent institutions that enjoy public trust and visibility. Further factors to consider in this regard are the level of expertise and technical capacity, method and access to data, credibility, territorial focus and desired impact of the exercise. (Please see: http://www.oecd.org/dataoecd/62/50/37330934.pdf).

Part 2: Existing Sources of Data on International Corruption Trends

A review of the major governance indicators currently in use confirms that very few instruments allow meaningful and rigorous comparisons over time.

Worldwide Comparisons of Country Generated Data

The most commonly used approach to identify international trends is to generate and compare country level data on domestic forms of corruption. In such an approach, corruption data is collected in two broad ways: by collecting informed views on perceived levels of corruption of different stakeholders through surveys or interviews; and/or by tracking the countries' institutional features against corruption.

Cross Country Indicators of Levels of Corruption[4]

The Corruption Perceptions Index (CPI), TI's best known measurement tool, assesses and compares each year levels of corruption among public officials and politicians in a wide range of countries around the world, as perceived by business people and country analysts. The CPI is a composite index, drawing on multiple expert opinion surveys from independent institutions that poll perceptions of public sector corruption worldwide. However, year-to-year comparisons of a country's score do not only result from a changing perception of a country's performance but also from a changing sample and methodology. As a result, the CPI provides a snapshot of the extent of corruption worldwide, allowing cross country comparisons and stimulating further complementary research. It is not, however, a diagnostic tool that provides an in-depth analysis of causes, dynamics and impact of corruption. Further, it does not allow tracking of changes overtime. (http://www.transparency.org/policy_research/surveys_indices/cpi)

TI's Global Corruption Barometer captures views on corruption from members of the public. It asks about their experience with petty bribery and how it affects their daily lives, based on an international public opinion survey. It has been published annually since 2003 and provides comparative transversal results of countries, regions and institutions as well as information on trends in public perceptions of corruption. Contrary to the CPI and the BPI, the Barometer is not a ranking of countries, based on experts' perceptions. It is one of the only sources of data that reveals the experience of ordinary people with bribery and allows comparisons over time. The country coverage of the Barometer is constrained by challenges of resources and capacity of local data gathering institutions. (http://www.transparency.org/policy_research/surveys_indices/gcb).

The World Bank Institute's Worldwide Governance Indicators (WGI) assess six dimensions of governance using aggregate indicators, including Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. The WGI cover more than 200 countries, combining cross-country data from 30 survey institutes, think tanks, non-governmental organisations, and international organisations. Data is generated by aggregating third party surveys and expert assessments. Country scores are recalculated to account for changes in methodologies over time. It is one of the only aggregated measurement tools that allows for comparisons over time. (http://info.worldbank.org/governance/wgi/sc_country.asp).

The World Bank's Enterprise Surveys collect data from key manufacturing and service sectors in every region of the world to provide feedback from enterprises on the state of the private sector in countries of operation. This is done by assessing the constraints to private sector growth and creating statistically significant business environment indicators that are comparable across countries through interviews with firms in the manufacturing and service sectors. These surveys use standardised survey instruments and a uniform sampling methodology to minimise measurement error and to yield data that are comparable across countries. They include questions specifically related to corruption.

The Afrobarometer is a comparative series of national public attitude surveys on democracy, markets, and civil society in Africa, including some governance and corruption-related issues. It measures the social, political and economic climate in Africa based on original household surveys that are conducted in more than a dozen African countries and are repeated periodically. The fourth round of the exercise will be conducted during the course of 2009.

[4] This section does not pretend to provide a comprehensive overview of all existing indicators, but attempts to present the major corruption and governance indices.

(http://www.afrobarometer.org/). Similar partner projects are carried out in Asia, the Arab region and Latin America, with the Asian Barometer, the Latinobarometro, and the Arab Barometer.

The Global Competitiveness Report is based on a comprehensive annual survey conducted by the World Economic Forum. It measures a nation's economic environment and its ability to achieve sustained growth. For the survey, information is gathered on a broad range of variables for which hard data sources are either scarce or nonexistent. The recently launched Global Competitiveness Report 2008-2009 polled over 12,000 business executives worldwide. (http://www.weforum.org/en/initiatives/gcp/index.htm)

Cross Country Assessments of Anti-Corruption Frameworks

Transparency International's Global Corruption Report provides an annual systematic evaluation of the state of corruption around the world. It includes an in-depth analysis of a focal theme, a series of country reports that document major corruption related events and developments from all continents and an overview of the latest research findings on anti-corruption diagnostics and tools. The 2009 edition of the GCR will cover the private sector. (http://www.transparency.org/publications/gcr)

Transparency International's National Integrity System country studies are qualitative reports that provide a detailed, in-depth and nuanced assessment of the institutions and practices that prevent and combat corruption at country level. NIS country studies diagnose the strengths and weaknesses of a particular integrity system with the view to identifying reform needs and opportunities as well as promoting greater integrity, transparency and accountability in a country. NIS studies provide both benchmarks for measuring further developments in these countries and a basis for comparison among countries. A new scoring system to allow for cross-country comparisons and better capture changes over time has been piloted and will be applied in Bolivia, Armenia, Georgia, Sri Lanka, Ethiopia, and Niger. Cross country comparison depends on the resources available to ensure both global coverage of the studies and periodic iterations of the exercise at country level. (http://www.transparency.org/policy_research/nis)

The Global Integrity Scorecard periodically assesses the existence, effectiveness and citizen access to key governance and anti-corruption mechanisms through more than 300 actionable indicators. It examines issues such as transparency of the public procurement process, media freedom, asset disclosure requirements, and conflicts of interest regulations. Scorecards take into account both existing legal measures on the books and *de facto* realities of practical implementation in each country. Given logistical and resource constraints, the report covers around 90 countries. (http://report.globalintegrity.org/)

The annual Freedom in the World Survey evaluates the state of global freedom as experienced by individuals in various countries. It provides an annual rating of political rights and civil liberties in 192 countries and has been published annually since 1972, with the view to monitoring trends in democracy and tracking improvements and setbacks in freedom worldwide. (http://www.freedomhouse.org/template.cfm?page=15)

Another Freedom House publication entitled *Countries at the Crossroads* is an annual survey of government performance in 60 strategically important countries worldwide that are at a critical crossroads in determining their political future. The report provides in-depth comparative analyses and quantitative ratings – examining government accountability, civil liberties, rule of law, anticorruption efforts and transparency. (http://www.freedomhouse.org/template.cfm?page=139&edition=8)

The Bertelsmann Transformation Index (BTI) is a global ranking of transition processes, looking at the state of democracy and market economic systems, as well as the quality of political management, in 125 transformation and developing countries. Within this framework, the BTI publishes two rankings, the Status Index - which ranks countries according to their state of democracy and market economy - and the Management Index – which ranks them according to their leadership's management performance - both of which are based on in-depth assessments of 125 countries. These rankings are accompanied by country reports that provide an in-depth analysis of each country's political and economic performance as well as the quality of its political management. (http://www.bertelsmann-transformation-index.de/)

The Open Budget Index rates countries on how open their budgets are to citizens. The International Budget Partnership (IBP) launched this initiative with the Open Budget Survey — which evaluates whether governments give the public access to budget information as well as opportunities to participate in the budget process at the national level. To measure the overall commitment of the countries surveyed to transparency and to allow for comparisons among countries, IBP created the Open Budget Index (OBI) from the survey. The OBI assigns a score to each country based on the information it makes available to the public throughout the budget process. (http://www.openbudgetindex.org/countryData/)

The Opacity Index published by the Milken Institute, an independent economic think tank, looks at corruption by way of correlations and consequences. It measures the degree to which countries lack clear, accurate, easily discernible and widely known practices governing relationships among business investors and government. The statistical model used incorporates indicators of corruption, legal systems, enforcement policies, accounting and disclosure standards, and regulatory quality. It also estimates the net effect of such factors. The economic and financial model underlying the index draws on data from forty-one sources, including the World Bank, the International Monetary Fund, the International Securities Service Association, the Political Risk Services Group, IAS Plus, and the regulators and exchanges of individual countries. The index covered 48 countries in 2008. (http://www.milkeninstitute.org/pdf/2008OpacityIndex.pdf).

There are also a number of mechanisms in place to monitor countries' compliance with anti-corruption conventions. (For an overview of the various mechanisms in place, please see: http://www.transparency.org/global_priorities/international_conventions/advocacy/monitoring). The UNCAC is, to date, the most promising anti-corruption instrument at the international level, comprehensive in its coverage and detailed in its measures. As an almost universal framework setting international anti-corruption standards and benchmarks, it provides a consensual institutional and organisational framework. It can be used as a common reference in policy dialogue both in the industrialised and developing worlds.

Yet, in the absence of an effective review mechanism for the UNCAC, there is no systematic framework in place to date to monitor and assess implementation progress worldwide and the level of compliance of the countries that have ratified the convention. UNODC is currently developing software to support government compliance efforts. The generated country reports will most probably not be publicly accessible. There are also efforts underway to develop monitoring methodologies for CSOs willing to engage in UNCAC monitoring - so called 'shadow reporting' and compliance reviews. A comparative assessment of progress made towards UNCAC implementation worldwide would constitute a major contribution in this area.

Transnational corruption

When looking at international trends in corruption, another approach consists of focusing on transnational forms of corruption. This involves looking at the type of corruption that crosses borders, usually involving both corporate and state actors, and generating cross-border financial flows.

Illicit Financial Flows, Organised Crime and Corruption

There are very few studies or indicators specifically looking at these forms of corruption worldwide.

TI's Bribe Payers Index (BPI) constitutes the first major attempt to look at cross border forms of corruption and to investigate the supply side of corruption. The BPI ranks leading exporting countries according to the propensity of their firms to bribe when operating abroad. It is based on a world-wide comprehensive private sector opinion survey that captures the views of business executives on the business practices of foreign firms operating in their countries. The 2008 BPI was derived from a survey of senior business executives in 26 countries selected on the basis of their trade and Foreign Direct Investment flows. It is one of the only instruments that evaluate the supply side of corruption. It has been conducted in 1999, 2002, 2006 and 2008. However, the questions asked, the sample and the method of calculation have changed over time, making it difficult to compare the 2008 BPI directly with earlier editions of the index. The BPI cannot be used to track changes over time. (http://www.transparency.org/policy_research/surveys_indices/bpi).

The other major – and almost only - attempt to date to look at these forms of corruption at the global level is the work of Global Financial Integrity (GFI) on illicit

financial flows. (Please see: Illicit Financial Flows from Developing Countries: 2002-2006: http://www.gfip.org/storage/gfip/executive%20-%20final%20version%201-5-09.pdf).

The GFI study estimates the annual value of illicit financial flows from developing countries at approximately USD 900 million, using macroeconomic trade data from the IMF and the World Bank. These estimates are based on several economic models commonly used for such assessments, including the World Bank Residual Model, Hot Money and Trade Mispricing. They look at statistical discrepancies between foreign capital inflows and domestic use of that capital as well as between a country's exports and imports and the world's exports and imports to and from the country.

The major critique of the commonly used estimates of illicit financial flows using this methodology is that they do not include many forms of illicit transfers, such as the effects of smuggling or commercial fraud involving two developing countries. In terms of corruption trends, this methodology does not provide a direct estimate of the proceeds of corruption as common estimates of illicit flows also include tax evasion or criminal activities[5].

Moreover, official statistics and research in this area do not link official statistics to the underlying activities - whether legal or illegal - that generate the illicit flows. More specific data would be needed in this area to design policy. Aside from corruption and tax evasion, illicit flows cover a wide range of sectors and activities, including illicit trade of medicines, weapons, luxury goods, endangered species, drugs, small arms, and human trafficking, that involve very different actors, incentives, moral underpinnings and practical remedies. Research in this area increasingly tends to focus on the specificities of the various kinds of trade, looking at sector specific activities, actors, markets and the logic that sustains them, rather than adopting an all-encompassing approach that would be unlikely to provide a nuanced and differentiated analysis of very different phenomena.

Stolen Assets

As noted by the UNCAC Working Group on Asset Recovery, estimating the total sum of stolen assets poses numerous methodological challenges (http://www.unodc.org/pdf/crime/convention_corruption/cosp/WGs/WG2/V0785464e.pdf). Quantification of stolen assets thus far has been primarily approached from two different angles - approximating global amounts from total cross border flows of illicit funds and focusing on cases of corrupt dictators. The nature of stolen assets, however, makes accurate measurement of the size of the problem at either the global or country-level infeasible. Experts have noted that another source of ambiguity stems from differing definitions of corruption and the scope of activities included in calculating the flow of illegal funds (http://siteresources.worldbank.org/NEWS/Resources/Star-rep-full.pdf).

The World Bank, in its 2007 report on the Stolen Asset Recovery (StAR) initiative, noted that most global estimates of stolen assets are derived from estimates of money laundered worldwide. Leaving aside the challenges of estimation techniques, this method is problematic because the volume of laundered money is not restricted to assets corruptly acquired by political leaders.
(http://siteresources.worldbank.org/NEWS/Resources/Star-rep-full.pdf).

In its 2004 Global Corruption Report, TI compiled estimates of funds allegedly embezzled by 10 notorious corrupt leaders, based mostly on journalistic sources. The amounts stolen ranged from USD 80 million (Joseph Estrada) to USD 35 billion (Mohammed Suharto) and comprised on average 1.8% (upper boundary estimate) of annual GDP of the countries involved. (Please see: http://www.transparency.org/publications/gcr/gcr_2004)

The Nyanga Declaration of 2001 posited that the estimated stock of assets acquired by corrupt leaders of developing countries (mostly in Africa) amounted to

[5] Within the framework of this study, illicit flows refer to "*the proceeds from both illicit activities such as corruption (bribery and embezzlement of national wealth), criminal activity, and the proceeds of licit business that become illicit when transported across borders in contravention of applicable laws and regulatory frameworks (most commonly in order to evade payment of taxes)*". The cross border component of bribery and theft by government officials is the smallest, amounting about 3% of the global total, while the criminal component constitutes about 30 to 35 % of the total.

between USD 20 billion and USD 40 billion (http://siteresources.worldbank.org/NEWS/Resources/Star-rep-full.pdf).

Among the international knowledge generating initiatives on asset recovery, the efforts of the International Centre on Asset Recovery (ICAR) at the Basel Institute on Governance is notable. ICAR currently maintains an online database of small and large precedent-setting asset recovery cases which includes information such as the amount of assets found, legal documents, analysis by lawyers, newspaper reports on the cases, etc.

Emerging Research Directions

Actionable Indicators of Anti-Corruption Reforms

As mentioned above, aggregated indicators are not likely to capture corruption processes that occur in different segments of society or levels of government. As such, they are not the most suitable instruments to help reformers address corruption in a focused and targeted way. Neither do they allow monitoring of the progress and impact of reforms over time. As a result, the emerging challenge to track corruption trends over time is less to measure corruption across whole societies than produce "actionable" indicators that capture specific processes, incentives and risks of corruption that can be acted upon. There is growing interest in shifting the focus of governance indicators towards specific agencies and levels of government, official processes and segments of societies in order to inform and assess the progress of anti-corruption efforts, using actionable indicators of reforms. Although it is likely to be resource intensive, only such approaches can produce findings that are detailed and nuanced enough to guide reformers and track changes in levels of corruption.

As country data and statistics on governance and corruption are usually scattered across the various institutions producing them, a first step could consist in mapping country level data, studies and indicators available worldwide. The compilation of comprehensive country profiles, gathering and regularly updating all indicators and surveys available – including on specific institutions, sectors or processes - on the various countries of the world as well as monitoring the steps taken against corruption and enforcement of measures would contribute to identify knowledge gaps. It would also help generate more detailed, nuanced and disaggregated assessments of the state of corruption and anti-corruption worldwide.

Exploring Further the Supply Side of Corruption

From the above overview of existing indicators, it emerges that research on transnational forms of corruption, especially when it comes to specifically looking at the supply side of corruption and how industrialised countries and financial centres contribute to fuel worldwide corruption, is still in its infancy. By indicating which countries are paying bribes and where, TI's BPI constitutes one of the only attempts to date of exploring the role of companies - and their home governments - in exporting corruption when they operate abroad. As such, it represents a notable innovation that could be worth sustaining over time.

A similar methodology could be used to capture the corruption component of financial flows more systematically and specifically. The concept would be to conduct a systematic assessment of corruption trends in international financial flows by conducting a multinational survey of experts' perceptions of corruption risks in international financial centres/countries. Such instruments could also look at specific corruption risks in the international banking system or in markets such as those that will serve as the basis of funding climate change initiatives.

Further research needs have also been identified in the literature with the view to unpacking the various dimensions of illicit financial flows. For example, the Task Force on the Development Impact of Illicit Financial Flows recommends developing an internationally recognised methodology for measuring illicit financial flows as a first step. (http://altermonde.jp/pdf/081107.pdf). The Task Force further recommends compiling existing estimates, including countries' own estimates on tax evasion, developing a database of a comprehensive global, regional and national level range of estimates of annual illicit financial flows. Other research needs mentioned in the literature include assessing the volume and origins of funds held offshore, the extent to which exchange of information is taking place between the various countries and stakeholders, and the role of intermediaries and professionals in facilitating illicit financial flows.

The Tax Justice Network is currently working with Transparency International on developing a new index to address some of these issues. The upcoming

Financial Transparency Index (FTI) will aim at highlighting how secrecy jurisdictions furnish a supply side environment which induces illicit financial flows and related tax evasion. The FTI will rank jurisdictions according to their usefulness to the perpetrators of illicit financial flows and abusive tax practices. This is a large project requiring significant research resources. A first version of the index is expected to be published in 2009. (http://www.taxjustice.net/cms/front_content.php?idcat=96).

While there are various efforts underway, absolute precision in estimating economic flows that are, by their nature, hidden, is unrealistic. As the figure of more than USD 1 trillion has already been firmly established in the debate, some argue that more research to establish the scale of the problem by using refined methodologies is unlikely to add anything substantial to the current debate. Instead, it is suggested to focus resources and efforts on research on data that can help inform policy development and targeted responses. Since the added value of adopting an all-encompassing approach to assessing the scale of illicit financial flows for policy formulation is not entirely clear, research in this area could primarily focus on corruption risk mapping by looking at the accountability breakdowns that allow illicit financial flows to occur, on the side of both the companies and the governments.

Given the financial crisis and the growing interest in the integrity of the international financial system, some research on international trade and finance and its links to corruption such as the work undertaken by TI, GFI or TJN could cover important aspects of the supply side of corruption, leading donors to focus on the behaviour of companies at home and enforcement issues within their own judicial and legal institutions.

Part 3: Further Reading

A User's Guide to Measuring Corruption (2008)
This guide explains the strengths and weaknesses of different measurement approaches and provides practical guidance for how to use the indicators and data generated.
http://commons.globalintegrity.org/2008/09/users-guide-to-measuring-corruption.html

Governance Indicators: Where are we and where should we be going? (2007) In this paper, Daniel Kaufmann reviews progress to date in the area of measuring governance using a simple framework focusing on two questions: I) what do we measure? And ii) whose views do we rely on?
http://siteresources.worldbank.org/INTWBIGOVANTCOR/Resources/wps4370.pdf

Use and Abuse of Governance Indicators (2006)
This study helps both users and producers of governance indicators to understand the strengths and weaknesses of the best and most widely used indicators, helps them find their way through the jungle of the hundreds of existing governance indicator datasets, and shows how governance indicators tend to be widely misused both in international comparisons and in tracking changes in the quality of governance in individual countries.
http://www.oecd.org/document/25/0,3343,en_2649_33935_37081881_1_1_1_1,00.html

Assessing the Progress of Anti-Corruption Efforts: "Actionable" Indicators of Reform (2006)
This paper suggests that the challenge is not to measure corruption across whole societies, but rather to develop transparent indicators of specific effects of corruption and incentives that sustain them. These should be far more focused on specific agencies and levels of government, official processes and segments of societies that are better suited to tracking change over time.
http://www.sdnpbd.org/sdi/issues/governance/governance/johnston_dhaka_paper.pdf

Measuring Corruption in Eastern Europe and Central Asia: A Critique of the Cross-Country Indicators (2006)
This paper discusses definitional and methodological differences among data sources and concludes that, depending on one's purpose, it may be more appropriate to use data from a single source rather than a composite index because of the loss of conceptual precision in aggregation.
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=923275
(Please also see: http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2006/07/13/000016406_20060713140304/Rendered/PDF/wps3968.pdf).