

Transparency International Anti-Corruption Helpdesk Answer

The relationship between anti-corruption agencies, robust enforcement and economic development

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To understand the potential impact of anti-corruption agencies (ACAs) and robust enforcement of anti-corruption rules on economic development, this paper adopts a two-step approach. First, it considers whether anti-corruption agencies and the enforcement of anti-corruption rules are associated with lower levels of corruption in practice. Second, it assesses the relationship between levels of corruption and key markers of economic development, such as GDP growth and foreign direct investment.

There is little evidence of a clear-cut link between anti-corruption agencies and levels of corruption, with some cross-country studies finding that, at an aggregate level, there is “no significant association between the existence of an ACA and lower corruption risk” (Mungiu-Pippidi et al. 2011: 52). However, the experience of several countries suggests that, under certain conditions, anti-corruption agencies can have a significant impact on levels of corruption. To unlock this potential, anti-corruption agencies need to enjoy high levels of operational autonomy, strong legal powers, adequate resources and broad public support. They also need to carefully navigate the dilemmas that can arise where their mandate leads to confrontations with those who stand to lose from increased anti-corruption enforcement.

The evidence base is much clearer on the link between levels of corruption and economic development. A sizeable and growing body of evidence has provided clear indication that, at the aggregate level, corruption is bad for business. There is a symbiotic relationship between market and firm performance: aggregate growth and firm performance is lower in highly corrupt settings, while markets perform poorly where corruption is commonplace compared to markets in which firms typically refrain from corrupt behaviour.

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Query

Please provide an overview of evidence on the effectiveness of anti-corruption agencies and/or strength of enforcement of anti-corruption laws on economic development and foreign investment.

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Caveat

As far back as 2002, Meagher observed the difficulty in assessing the effectiveness and added value of anti-corruption agencies, noting the “problem of identifying a flow of causality from anti-corruption agencies to macro-level outcomes” such as lower levels of corruption (Meagher 2002: 8). Other more recent studies of anti-corruption agencies have also pointed to the challenges of measuring changes in corruption levels and attributing them to specific interventions by ACAs (David-Barret et al. 2020).

To the extent that statistical evidence on the effectiveness of ACAs exists, it is largely based on comparative studies that seek to judge the success of ACAs based on changes in global corruption indices.

As such, these appraisals are arguably limited by the fact that these measures (such as the World Bank’s control of corruption indicator) have remained stubbornly consistent over time (Kukutschka 2020: 137).

Main points

- The impact of anti-corruption agencies (ACAs) on levels of corruption is highly context specific and dependent on a number of factors, including the autonomy and mandate the ACA wields.
- At a global level, the evidence suggests that, in settings with poor rule of law and a weak judiciary, ACAs are unlikely to be effective.
- Nonetheless, case studies indicate that an ACA can contribute to reduced corruption in settings where it enjoys operational autonomy, legal powers, adequate human and financial resources and political independence.
- Yet as ACAs become more active in investigating and prosecuting corruption cases, they can experience increased resistance from those that benefit from the status-quo. Managing the dilemmas that emerge in such a situation is critical to their success.

Anti-corruption agencies and overall levels of corruption

Different countries have very diverse institutional setups to counter corruption (see Agence française anticorruption 2020) and there is no universally agreed definition on what constitutes an ACA and what remit it should have (Schöberlein 2020: 12).

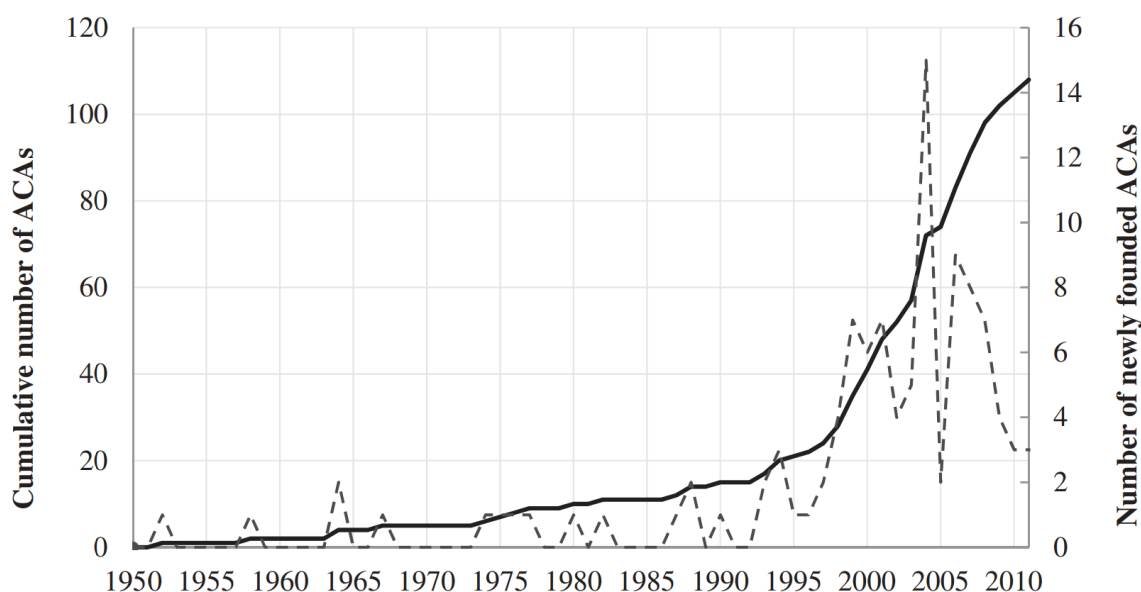
Broadly speaking, however, anti-corruption agencies (ACAs) are a form of specialised body tasked with “detecting, preventing (through public education and/or diagnostic work across public sector agencies), and prosecuting (either under its own authority or by referring cases to public prosecutors) corrupt activities” (Johnston and Fritzen 2020: 70).

In many countries where an ACA has been established, it was encouraged by international donors

in the aftermath of corruption crises or where traditional institutions tasked with countering corruption proved ineffective or complicit (de Sousa 2009).

Johnston and Fritzen (2020: 71) point to a potential explanation for this enthusiasm for establishing ACAs, namely that establishing a dedicated anti-corruption agency is a high-profile signifier of “ostensible or real commitment” to tackle corruption, while being a relatively low-cost, straightforward gesture for governments to make. As a consequence, in the two decades between 1990 and 2010, the establishment of an ACA came to be seen as the “ultimate institutional response to corruption” (de Sousa 2009: 2).

Promoted by multiple anti-corruption conventions,¹ the number of ACAs increased rapidly in this period, and by 2015 more than 150 countries had set up at least one dedicated anti-corruption agency (Messick 2015).



Source: Gemperle (2018: 2)

¹ Including in the UN Convention against Corruption in Articles 6 and 36, which reference specialised anti-corruption bodies. Article 6 proposes a corruption-

prevention body, while UNCAC chapter II article 36 specifies a law enforcement body with a specialised anti-corruption mandate.

Despite their prevalence around the world, their ability in practice to reduce levels of corruption is uncertain. Through the use of cross-country datasets, some scholars have sought to interrogate whether the existence of an ACA has any statistical significance on a country's level of corruption.

In their 2017 paper, for instance, Mungiu-Pippidi and Dadasov assessed the level of corruption as indicated by the International Country Risk Guide for the 10 years before and after the introduction of an ACA in 99 countries. As indicated in the table below, they report “no significant improvement in averaged corruption risk estimates after the introduction of an ACA” (Mungiu-Pippidi and Dadasov 2017: 6).

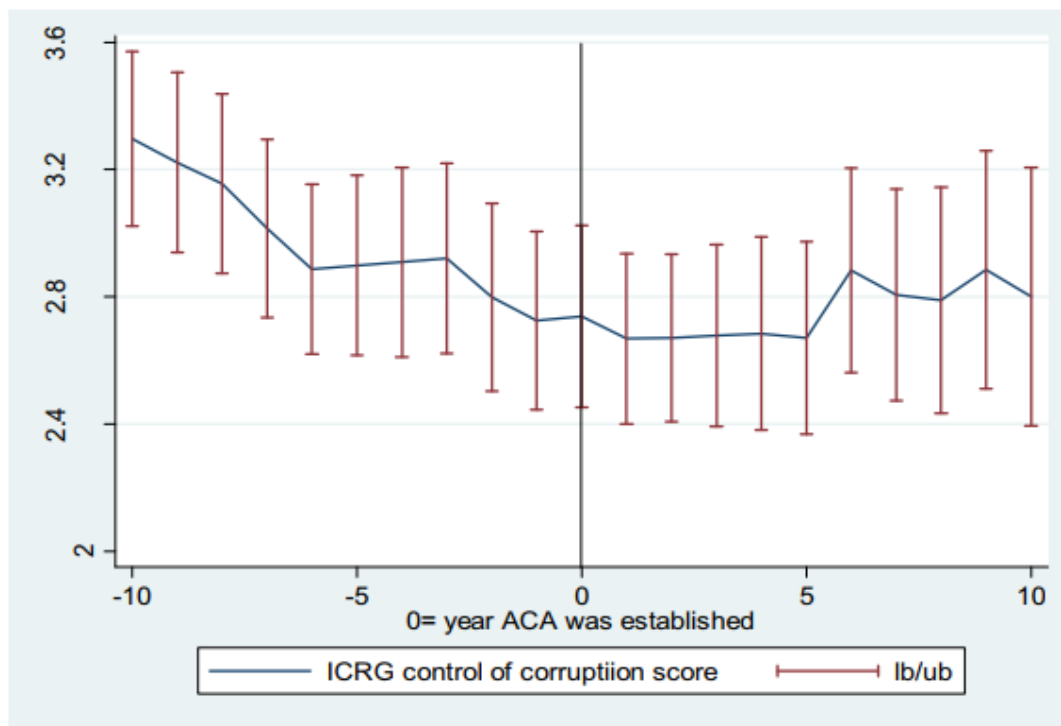


Fig. 2 Corruption control before and after the introduction of ACA. Source: Own calculation on the basis of ICRG corruption risk scores and ANTICORRP data. Legend: ICRG score from 1 to 6, with 6 best control of corruption. Vertical bars show confidence error interval. If they overlap, the change is not significant. $N = 99$

Source: Mungiu-Pippidi and Dadasov (2017: 5)

Other academic work paints a similarly sober picture of the success of ACAs around the world in curbing corruption (see Heilbrunn 2004; Doig et al. 2005; Meagher 2005; de Sousa 2009; de Jaegere 2012; Johnsen et al. 2012; Quah 2018; Krambia-Kapardis 2019; Ishikawa 2019; Fonseca 2019; Johnston and Fritzen 2020; Doig and Recanatini 2021).

The core lesson these scholars draw is that legal and institutional reforms to reduce corruption, such as the establishment of an ACA, are highly dependent on

the effectiveness of the rule of law to have any meaningful impact.

As such, expecting ACAs to function as a silver bullet capable of eradicating corruption is clearly misguided. The reported reasons for failures of ACAs around the world are many and varied. They include “ineffective institutional designs and lack of independence from the executive, dubious budgetary support from the legislature, poorly installed planning/management structures, lack of procedures

for forwarding corruption cases for prosecution by the relevant judicial authorities [and] political manipulation against government opponents” (Mungiu-Pippidi 2011: 52). Doig and Recanatini (2021: 291) also point to weak problem diagnosis as a leading cause of poor ACA performance.

Part of the reason that ACAs are sometimes dismissed as having largely failed to curb corruption is because they have frequently been introduced in countries in which institutionally focused anti-corruption reforms are unlikely to have much of an effect, due to underlying political economy challenges related to state capture and the weak rule of law. Indeed, in conditions of systemic corruption, ACAs are unlikely to be able to “rely on the integrity of all members of their own institution, nor members of other organisations in the accountability ecosystem” (David-Barret et al. 2020: 3).

In such settings, the establishment of an ACA is an inappropriate policy response to the contextual governance challenges a country faces. As Mungiu-Pippidi et al. (2011: 32) point out, for instance, in the absence of an independent judiciary, “there is no point in having an anti-corruption agency”.

Despite justified reservations about the capacity of ACAs to single-handedly reduce corruption, the underwhelming global impact of ACAs should not detract from the potential of certain ACAs at the national level to be effective where conditions are favourable.

In their recent work, *The Conundrum of Corruption*, Johnston and Fritzen (2020: 72-74) set out four conditions that in their view need to be fulfilled for an ACA to be effective:

- First, the ACA needs to have sufficient power, understood in terms of mandate, investigative powers and resources.
- Second, ACAs, especially in endemically corrupt environments, need to have both the internal capacity and “operational

independence from political interference” to become a so-called island of integrity.

- Third, ACAs need to be “sufficiently integrated with other parts of the criminal justice system” to significantly raise the potential costs of corrupt behaviour by increasing the risk of detection and sanctioning (see also Doig and Recanatini 2021: 292).
- Fourth, ACAs should eventually expand their remit and the scale of their operations to be able to address structural challenges and “shift public norms” through preventive strategies.

Quah (2017) sets out similar success factors for effective ACAs, including:

- adequate resources (budget and personnel)
- legal powers, independence and autonomy
- public support to provide protection from attacks from enemies
- political will by leaders

These elements are also reflected in [The Jakarta Statement on Principles for Anti-Corruption Agencies](#), which were developed by officials of anti-corruption agencies as well as independent anti-corruption practitioners and experts in 2012. Drawing on the experiences and challenges faced by ACAs across the world, the Jakarta Principles emphasise the need for stability and permanence, financial autonomy operational independence and visibility in the society in which they operate.

Gemperle (2018) conducted a survey of the literature on the conditions an ACA needs to succeed. He found that while almost all studies underscore the importance of mandate, independence and sufficient resourcing, many of the studies neglected to mention the need for ACAs to have robust accountability mechanisms, such as “regular reporting, expenditure disclosure, and complaint systems or public hearings” (Gemperle 2018: 5).

Table 1. Institutional components in comparative studies of ACAs.

	Mandate	Independence	Accountability	Resources
Quah (2015)	●	●	●	●
Kuris (2015)	●	●	●	●
Batory (2012)	●	●		●
Quah (2010)	●			●
Quah (2009)		●		●
De Maria (2008)		●		●
Doig et al. (2006)	●	●		●
Doig et al. (2005)	●	●		●
Meagher (2005)	●	●	●	●
	7	8	3	9

Source: Gemperle (2018: 5)

Successful examples of ACAs

Much of the impetus for establishing ACAs around the world dates back to the successes enjoyed by some of the first such bodies, notably the Corrupt Practice Investigation Bureau in Singapore and the Independent Commission against Corruption in Hong Kong (Quah 2017: 5). The ACAs in these two countries were seen to have contributed to “transformative and sustained changes in the predictability and integrity of basic public services, as well as periods of rapid and sustained economic growth” (Johnston and Fritzen 2020: 70-71; see also Lee and Haque 2006). Today, with a score of 85, Singapore ranks third on the Corruptions Perceptions Index (CPI), while Hong Kong ranks 11, with a score of 77 (Transparency International 2020).

Spurred by these successes and encouraging results in other countries including Chile and Australia (Mungiu-Pippidi et al. 2011: 32), ACAs became more widespread globally throughout the 1990s and 2000s (Kuris 2015a). While evidence suggests that the overall effectiveness of ACAs has been limited, several relatively successful cases have also emerged.

One of these is Latvia’s Corruption Prevention and Combating Bureau (KNAB). The KNAB has been regarded as a relatively effective anti-corruption mechanism and a critical component in Latvia’s transition towards free-market capitalism and

democracy, following the country’s secession from the Soviet Union (Schöberlein 2020: 22). The KNAB has the ability to investigate, assist in policy and strategy, and conduct preventive activities. It also monitors other public bodies and has the power to enforce sanctions on public servants engaged in corruption (Schöberlein 2020: 25-26). Overall, the KNAB has proven capable and willing to investigate high-level perpetrators, and enjoys high levels of public support in Latvia, particularly after the turmoil that affected the country in the immediate aftermath of the Global Financial Crisis. Latvia ranks 42 in the 2020 edition of the CPI with a score of 57, an eight-point improvement since 2012 (Transparency International 2020).

Another ACA which has been regarded as an effective anti-corruption body has been the Croatian Bureau for the Suppression of Corruption and Organized Crime (USKOK) (Kuris 2015b). Set up in the early 2000s as Croatia was negotiating entering the EU (and strengthened substantially after Croatia signed UNCAC), USKOK has earned a reputation for focussing heavily on investigation and prosecution and has been able to secure thousands of convictions on corruption charges, including in high-profile bribery cases and against a former prime minister (Kuris 2015b).

The case of Botswana’s Directorate on Corruption and Economic Crime (DCEC), which was established in 1994, also warrants mention. The DCEC is a multi-purpose agency working towards investigating and

preventing corruption through risk assessments, as well as training and education, though it still relies on the public prosecutor to actually prosecute those individuals it investigates (Centre for Public Impact 2018). Arguably, part of Botswana’s relative success in countering corruption stems from the fact that individual ministries had their own anti-corruption units and that the country has enjoyed sustained political will to support measures to curb corruption. However, the active deliberations and successful execution of the country’s ACA’s mandate have been a significant contributor to this relative success (Centre for Public Impact 2018). Botswana currently has the best score in mainland Africa on the Corruptions Perceptions Index (Transparency International 2020).

Indonesia’s Corruption Eradication Commission, the KPK, has also been widely credited in the past as an effective island of integrity. In a study from 2010, Bolongaita notes that the “extraordinary” performance of the agency in its early years, during which time it was able to secure a 100 per cent conviction rate against leading officials in all branches of government. Bolongaita (2010: 4) attributed this to the “considerable investigative powers” the KPK enjoyed, as well as the efficient adjudication of the TIPIKOR (the anti-corruption court) and the Mahkamah Agung (supreme court).

In fact, an index of ACA capacity constructed by Gemperle (2018: 19) found the KPK to be the ACA with the highest degree of both functional and institutional capacity anywhere in the world.

Table A1. ACA Index scores (latest available year per country).

Country	Year	AIW	AIW rank	AIU	AIU rank	AIE	AIE rank
Indonesia	2011	9.99	1	9.99	1	9.83	1
Sierra Leone	2011	9.67	2	9.79	2	9.63	2
Nepal	2009	6.89	3	7.99	5	7.88	10
Argentina	2010	6.83	4	8.13	3	7.26	14
Kenya	2011	6.74	5	8.05	4	9.17	3
Moldova	2010	6.65	6	7.98	6	9.10	5
Ethiopia	2010	6.53	7	7.76	8	7.65	13
Malawi	2011	5.82	8	7.27	9	8.40	7
Uganda	2011	5.64	9	7.12	10	8.25	9
Benin	2006	5.46	10	7.95	7	8.31	8
Nigeria	2010	5.14	11	6.69	13	7.84	11
Jordan	2011	5.03	12	6.60	14	7.74	12
Mongolia	2011	4.82	13	6.42	15	5.59	24
Poland	2010	4.53	14	6.78	11	9.15	4
Romania	2010	4.52	15	6.77	12	7.16	15
Tanzania	2010	4.28	16	5.96	20	7.12	16
Kosovo	2011	4.16	17	6.32	16	6.72	17
Lithuania	2008	4.15	18	6.30	17	6.70	18
Serbia	2011	4.08	19	6.21	18	4.64	35
Tajikistan	2011	3.97	20	6.08	19	6.48	19
Liberia	2009	3.96	21	5.68	22	4.87	29
Bolivia	2010	3.72	22	5.76	21	4.19	39
Ecuador	2008	3.52	23	5.51	23	5.93	22
Peru	2010	3.48	24	5.46	24	3.90	41
Algeria	2011	3.43	25	5.23	28	4.43	36
Morocco	2010	3.43	26	5.39	26	3.83	42
Thailand	2007	3.30	27	5.24	27	5.66	23
Bangladesh	2010	3.14	28	4.99	30	6.17	21
Mexico	2011	2.97	29	4.81	32	3.27	48
Yemen	2010	2.90	30	5.42	25	5.37	26
Malaysia	2010	2.78	31	4.58	33	5.02	28

Source: Gemperle (2018: 19)

Overall, therefore, despite the widely documented failings of ACAs in many countries around the world, there is some evidence at the country level that, in the right circumstances, a specialised anti-corruption agency can contribute to lower levels of corruption (see Quah 2017: 3).

Research into prosecutorial agencies has demonstrated the ability of robust enforcement actions to reduce levels of corruption, which could be a valuable lesson for ACAs. In an empirical study across 78 countries, van Aaken et al. (2010) found that de facto independence of prosecutorial functions from the executive is strongly correlated with lower levels of perceived corruption.

Van Aaken et al. (2010) explain this with reference to the fact that, where the ability to prosecute corruption committed by members of the government is dependent on the executive branch, prosecutors rationally fear reprisals. In turn, this reduces prosecutors' incentives to prosecute acts of corruption, which reduces constraints on corrupt behaviour and ultimately leads to higher levels of corruption.

A study from the United States considered the effect of prosecutorial capacity rather than independence. Based on historical court data from 1977 to 2003, the authors found that, where prosecutorial agencies possessed greater resources, there were more convictions for corruption, which appeared to have a deterrent effect on other would-be offenders (Alt and Lassen 2012).

Characteristics of effective ACAs

Kuris (2015) argues that there are two broad types of ACAs. First, guard dog agencies, which have powers to investigate and sometimes prosecute corruption. Second, watchdog agencies which simply identify corruption and typically have a mandate that is focused on prevention.

Guard dog agencies include ACAs such as Hong Kong's Independent Commission Against Corruption, Indonesia's Corruption Eradication Commission and Latvia's KNAB (Kuris 2015a). Most notably, the way Hong Kong, Singapore, New York, Sydney and other

cities and city states drastically improved the quality of governance in a short amount of time is argued by Kuris (2015a) to demonstrate the high potential of guard dog ACAs.

Similarly, in his study of 42 ACAs across the Asia-Pacific region, Quah (2017: 3) contends that ACAs with robust mandates to investigate and enforce anti-corruption regulations tend to be much more effective in reducing levels of corruption than watchdog ACAs.

This is not to say that ACAs cannot contribute to curbing corruption in other ways than through investigation and prosecution. A number of ACAs have enjoyed relative success by pushing through more systemic preventive activities. These have included sectoral risk assessments and integrity plans for public institutions and ministries (Kuris 2014: 14). Indeed, one area where ACAs can always add value, regardless of their legal or investigative powers is in strengthening the vision, rationale and execution of national anti-corruption strategies (AFA 2020: 18). ACAs have a great deal of expertise in identifying the nature of corruption risks in their jurisdictions and in-depth knowledge of the governance context. ACAs are well-placed to produce evidence-based analysis, identify strategic priorities, as well as monitor and evaluate the rollout of such anti-corruption strategies (AFA 2020: 18).

Effective ACAs can use their achievements in securing convictions and enforcing anti-corruption legislation to build further momentum that can be used to build broader support for anti-corruption measures (Kuris 2014: 19) and, in the longer run, perhaps contribute to shifting norms from particularistic forms of governance to what Mungiu-Pippidi (2021) calls "ethical universalism".

However, an ACA can expect pushback when it challenges the impunity of high-level corrupt individuals as those who stand to lose from increased anti-corruption enforcement may often seek to weaken the agencies (Kuris 2014). This creates a dilemma for many ACAs: they can continue their efforts to pursue grand and political corruption, which may generate substantial resistance, or they lower their ambition and pursue lower level, bureaucratic forms of corruption,

which may lower the legitimacy of the agency in the eyes of the public (Kuris 2014: 3).

Indonesia's KPK is a good example of the tensions that arise when an ACA becomes so effective that it provokes a backlash. Widely regarded as a successful ACA, the KPK has become a source of resilience to corruption in a context which is otherwise characterised by systemic corruption (Centre for Public Impact 2016).

However, recent years have shown that the KPK may have become "too good at its job", with politically motivated attempts to weaken its operational independence (Massola 2019). For instance, in 2019 the People's Representative Council revised the law on the KPK to reduce its capacity, threatening the KPK's independence (IACC Monitor 2020). In 2021, several investigators and commissioners were sacked after failing an examination that appeared as little else than a loyalty test (Transparency International 2021).

If an ACA is to have a long-term impact on levels of corruption, it has to be able to withstand political interference. In the past, effective ACAs (including KNAB, KPK and USKOK) have survived political pressure by drawing on the support of a broad swathe of the population and allies in the media and civil society, as well as by cultivating a well-balanced and visible public profile (Kuris 2014: 9). Heilbrunn (2004: 2) likewise points to the need of ACAs to build resilience by embodying a national anti-corruption consensus and enjoy the backing of a broad domestic coalition.

The relationship between levels of corruption and economic development

While ACAs have not had a universally robust effect in reducing levels of corruption, the case studies described above provide some good circumstantial evidence that effective ACAs can help to increase constraints on corrupt behaviour, even if this is not well reflected in international corruption indices.

This section considers the evidence on whether lower levels of corruption are associated with positive economic development.

Over the past two decades, the claim that corruption acts to "grease in the wheels" to contribute to a country's economic development has been comprehensively laid to rest. One of the most recent studies into the relationship between corruption and growth was published by Gründler and Potrafke in 2019. They find that, across 175 countries in the period 2012-2018, "the cumulative long-run effect of corruption on growth is that real per capita GDP decreased by around 17 per cent when the reversed CPI increased by one standard deviation. The effect of corruption on economic growth is especially pronounced in autocracies and transmits to growth by decreasing FDI and increasing inflation".

Likewise, another 2019 paper by Sharma and Mitra that used country level panel data found that greater control of corruption has positive effects on growth, implying that corruption rather acts as "sand in the wheels" of commerce. The authors conclude that, in developing countries, effective anti-corruption enforcement would "contribute to economic growth significantly" (Sharma and Mitra 2019: 23).

Indeed, there is now an overwhelming consensus among academics that high levels of background corruption in a given country or market are harmful to economic performance.

Corruption has adverse effects on a country's economic performance by reducing institutional quality, undermining competitiveness and entrepreneurship, distorting the allocation of credit and acting as a barrier to trade (Ali and Mdhilat 2015; De Jong and Udo 2006; Horsewood and Voicu 2012; Musila and Sigue 2010; Rodrik, Subramanian & Trebbi 2004; Zelekha and Sharabi 2012). A study conducted by OECD (2015) on behalf of the G20 found that political corruption is particularly pernicious in terms of economic damage as it leads to "budget allocations, sector regulation and trade barriers contrary to the public interest, and eventually losses of revenue for the state".

The OECD (2015) noted that these deleterious economic effects are particularly severe “where governance institutions and integrity systems are weak”, which implies that an effective anti-corruption agency could help to mitigate these undesirable economic outcomes.

Corruption is also positively and significantly correlated with lower GDP per capita, less foreign investment and slower growth (Ades and Di Tella 1999; Anoruo and Braha 2005; Kaufmann et al. 1999; Knack and Keefer 1995; Hall and Jones 1999; Javorcik and Wei 2009; Méndez and Sepúlveda 2006; Méon and Sekkat 2005; Rock and Bonnett 2004). In fact, some studies have argued that, in transition economies, corruption is the single most important determinant of investment growth, ahead of firm size, ownership, trade orientation, industry, GDP growth, inflation and the host country’s openness to trade (Asiedu and Freeman 2009; Batra, Kaufmann and Stone 2003).

Moreover, on average, enterprises operating in countries with high levels of background corruption have relatively poorer firm performance than those operating in markets with lower risks of corruption (Donadelli and Persha 2014; Doh et al. 2003; Faruq and Webb 2013; Gray et al., 2004; Mauro 1995; Wieneke and Gries 2011). Recent empirical research has, for instance, found a significant negative correlation between background levels of corruption in US states and the value of firms located in that state (Dass, Nanda and Xiao 2014). The OECD (2015) emphasises that corruption acts as a form of “unpredictable tax” on companies’ operations, restricting market entry to newcomers and throttling investment.

Overall, therefore, aggregate growth and firm performance is lower in highly corrupt settings, while markets perform poorly when corporate corruption becomes commonplace compared to markets in which firms typically refrain from corrupt behaviour. The fact that, at an aggregate level, corruption is detrimental to firm performance is implicitly acknowledged by business leaders who, surveys

show, almost unanimously agree that corruption undermines a level playing field to the benefit of less competitive firms (KPMG 2011).²

Finally, corruption can facilitate other forms of economic crime, such as money laundering, illicit trade, tax evasion and tax avoidance, all of which are antithetical to sustainable economic development (Duri 2021).

² 51 per cent of business people felt corruption makes an economy less attractive to foreign investors, 90 per cent felt it increases stock market volatility and discourages long-

term investment, and 99 per cent agree corruption undermines the level playing field to the benefit of corrupt competitors.

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