Does Transparency Promote Less Corruption? Evidence From Around The World

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Peer Reviewed

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Abstract

Transparency seems to be widely accepted as crucial to reduce government corruption. However, such a relationship, which has been endorsed by some of the most recognized international organizations like the World Bank and IMF, is not too clear. The purpose of this paper is to empirically analyze the relationship between those two variables and demonstrate that higher transparency may not lead to lower levels of corruption. Specifically, it identifies, and ranks, countries that contradict such an assumed relationship, and it identifies possible reasons for its occurrence.

Introduction

Government corruption is a problem that leads to inefficient allocation of resources and income inequality. Most researchers have found that corruption leads to lower private investment and lower economic growth. Mauro (1995, 1998) provides a good review of this research and adds more evidence from around the world. It is not pretended to list here all the consequences of corruption, but more corrupt governments tend to over spend in projects of infrastructure, inflate the cost of those projects, create an unethical business environment and culture, redistribute wealth in favor of government officials and their associates, reduce private investment and economic growth, increase black markets, reduce tax revenues, and perpetuate the ones in power who seek the protection of their own assets and safety. Such consequences are alarming, and international organizations are always looking for ways to reduce corruption and promote ideas and values that are more consistent with democracy and free markets.

In 1999, James Wolfensohn, then president of the World Bank, delivered an important speech in which he called on the world to fight against the "cancer of corruption." More recently, in 2016, Jim Yong Kim, the current president of the World Bank, declared at the anti-corruption summit celebrated in London, that "It is now time to go further. I join Prime Minister Cameron, President Buhari and Secretary Kerry in a call to action to governments, civil society, the private sector and international organizations on a new agenda that draws on citizens' demands for transparency and accountability, an agenda that draws on all partners and available tools. It's an agenda that builds on what we at the World Bank are calling 'radical transparency' which is both a recognition of the inevitable global acceleration of a transparency that is being forced upon us and our own commitment to use this transparency to fight corruption more effectively."[1] Clearly, his words imply that, to the extent that transparency and accountability are met, corruption would not have any fertile ground for growth.

Some researchers have supported that argument. Ferry and Eckersley (2014) write that "transparency initiatives are helping to reduce corruption in non-Western jurisdictions because they represent an important mechanism through which citizens can access information that has not been edited or shaped by powerful political actors (p. 11)." Bastida and Benito (2009) suggest that "from an international perspective, a relationship between public sector transparency and better economic and social outcomes is something that is increasingly acknowledged (p. 667)." Their research found a negative relationship between budget transparency and the use of fiscal deficits to achieve opportunistic goals and a positive relationship with electoral turnout. Ionescu (2013) concentrates her research on the role of Information and Communication Technologies (ICTs), reviews the literature, and concludes that ICTs promote transparency and reduce corruption. Peisakhin and Pinto (2010) did a specific study in India and found that transparency is an effective anti-corruption strategy.

In contrast, other researchers have also investigated the limitations of transparency to combat corruption. Koldstad and Wiig (2009), concentrated their analysis on resource-rich countries and concluded that transparency is not a good deterrence of corruption, and that it needs to be accompanied by other types of policies. An earlier work by Back (2001) suggested that transparency may even promote more corruption due to the "connections" effect, which may outweigh the "detection" effect. He demonstrated that more transparency may reveal the identity of government officials who are then offered bribes by individuals seeking special treatment from the government. On the other hand, Lindstedt and Naurin (2010) argue that higher levels of transparency do not necessarily lead to less corruption, especially if publication of budget numbers are not accompanied by public empowerment and access to free media and fair elections.

[1] His complete speech may be found at the following website: http://www.worldbank.org/en/news/speech/2016/05/12/remarks-by-world-bank-group-president-jim-yong-kim-at-anti-corruption-summit-2016

Method

Given the different views stated above, it is the purpose of this paper to investigate the extent to which more transparency promotes less corruption. To that end, it is first necessary to define each concept and, second, to find an appropriate measure of each variable. According to the Organization for Economic Cooperation and Development (OECD), budget transparency is defined as the "full disclosure of all relevant fiscal information in a timely and systematic manner (2002)." The World Bank's published measure of transparency is the Country Policy and Institutional Assessment (CPIA) transparency, accountability, and corruption in the public-sector rating. However, due to data limitations and availability for recent periods, I decided not to use it. So, I investigated different measures and decided to use one of the most reliable indexes, the Open Budget Index (OBI), which is published by the International Budget Transparency[2] and it is also used by the World Bank to support Development Policy Lending operations. Such an index contains more countries, and it was available for 2015 at the time I started writing this paper. The OBI publication has a very distinct characteristic. It includes the individual scores of every country assigned to one hundred and thirty-three questions of the questionnaire.

On the other hand, corruption, defined by transparency international as "the abuse of entrusted power for private gain," is also measured by different indexes. However, I use the widely-known Corruption Perception Index (CPI), which is published by Transparency International.[3] Both indexes were published in 2015, the latest year available at the time the research for this paper started.

Results

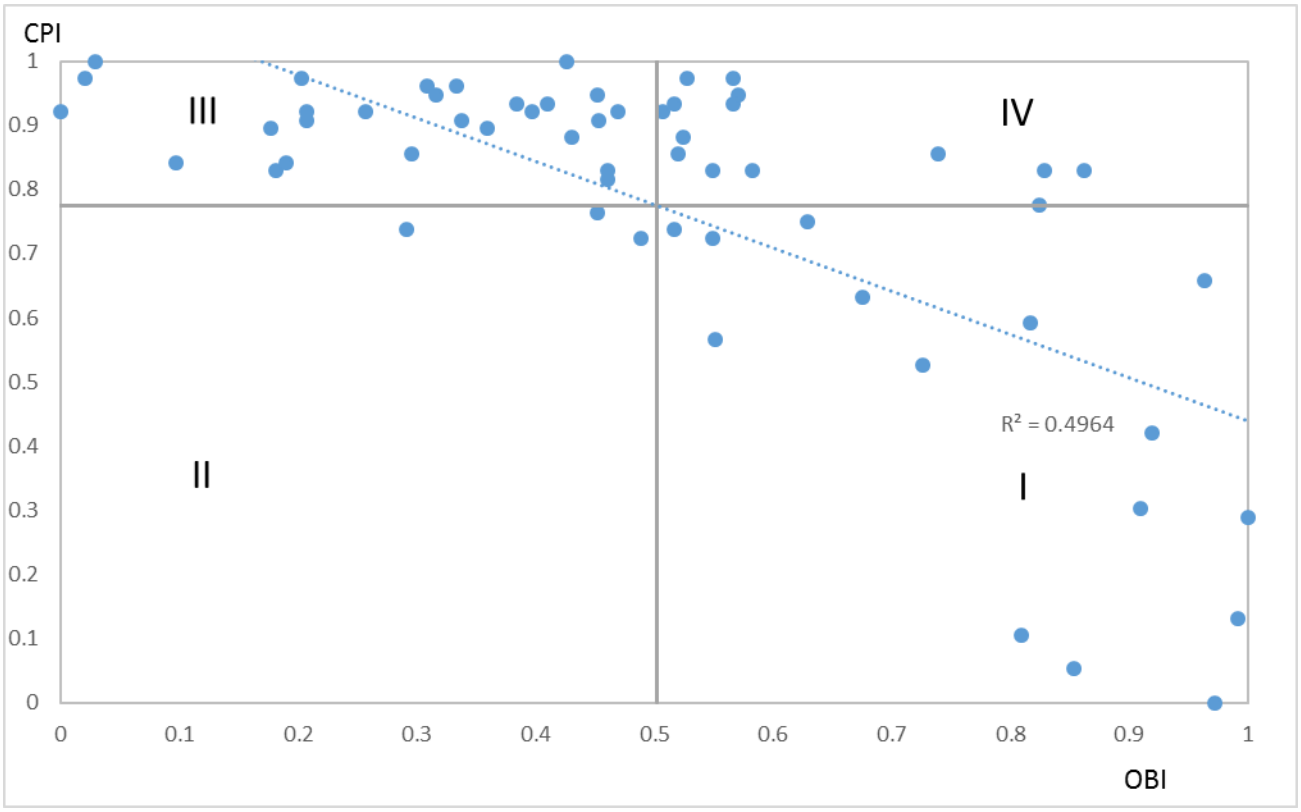
Since the methods used to calculate both the OBI and the CPI have been modified from one period to the next, their publishers warn at their respective websites that it is not possible to make comparisons through time. Due to this restriction, I show next the corresponding graphs depicting the relationship between the two indexes for every year the OBI has been published (2006, 2008, 2010, 2012, and 2015). To facilitate the analysis, both indexes have been standardized by calculating the difference between each index value and its minimum, divided by the range, obtaining then only values between 0 and 1. On the other hand, since higher values of the CPI normally indicate less corruption, its values were inverted, so higher values would indicate more corruption instead. After such adjustments were made, the relationship between the two indexes, as expected, is negative: higher values of OBI (more transparency) are associated with lower values of CPI (less corruption) and vice versa.

Graphs 1 through 5 shown below show a trend (dotted line) along with an R^2 and two lines crossing at the trend line where the two averages are located. The two lines divide each graph into four quadrants. Quadrants I and III are expected to contain most observations since they are consistent with a negative relationship. The second quadrant contains very few observations of countries with below-average transparency values associated with below-average corruption values. Quadrant IV, on the other hand, is the one I concentrated my research on. It shows significant number of countries with higher than average values of both OBI and CPI. In other words, countries with relatively high transparency that also score relatively high in corruption.

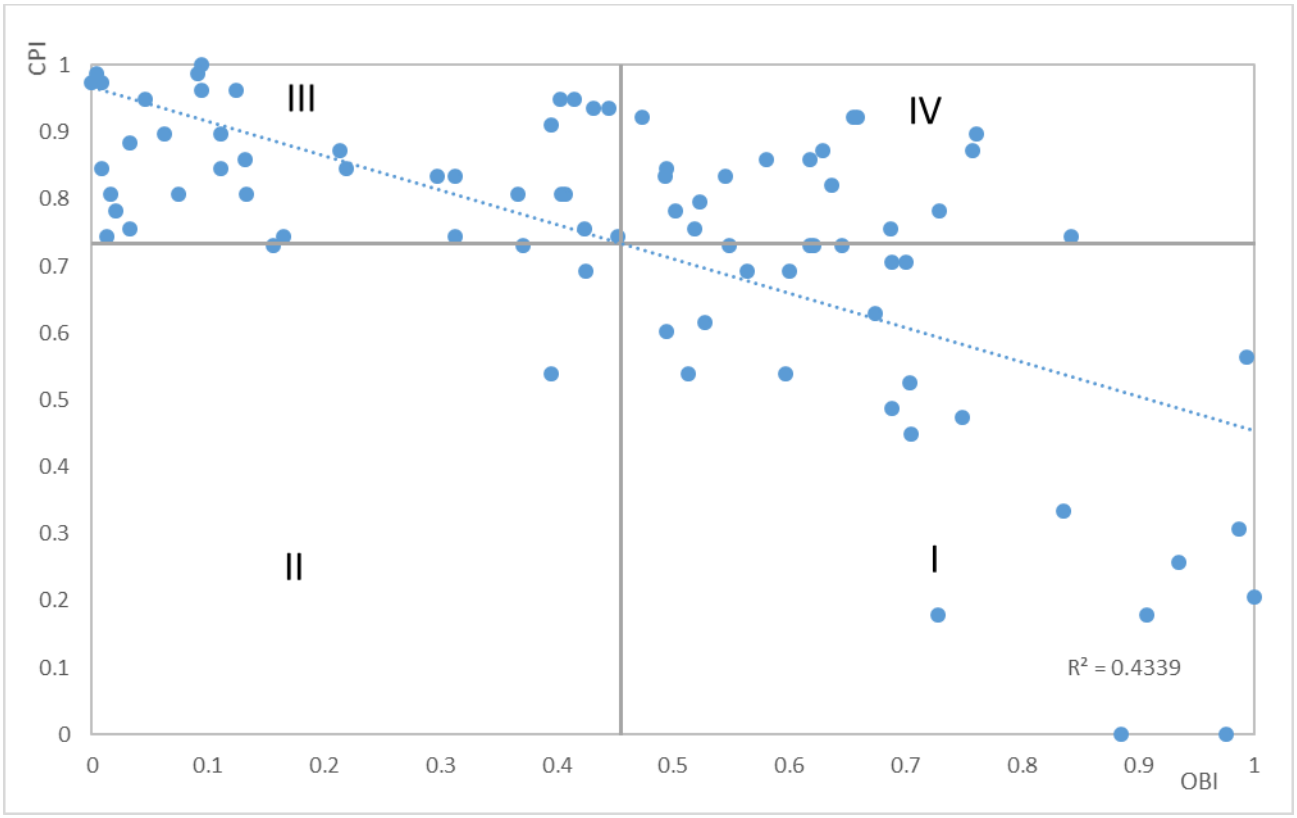
Graph 1: OBI and CPI, 2006

[2] http: //www.internationalbudget.org

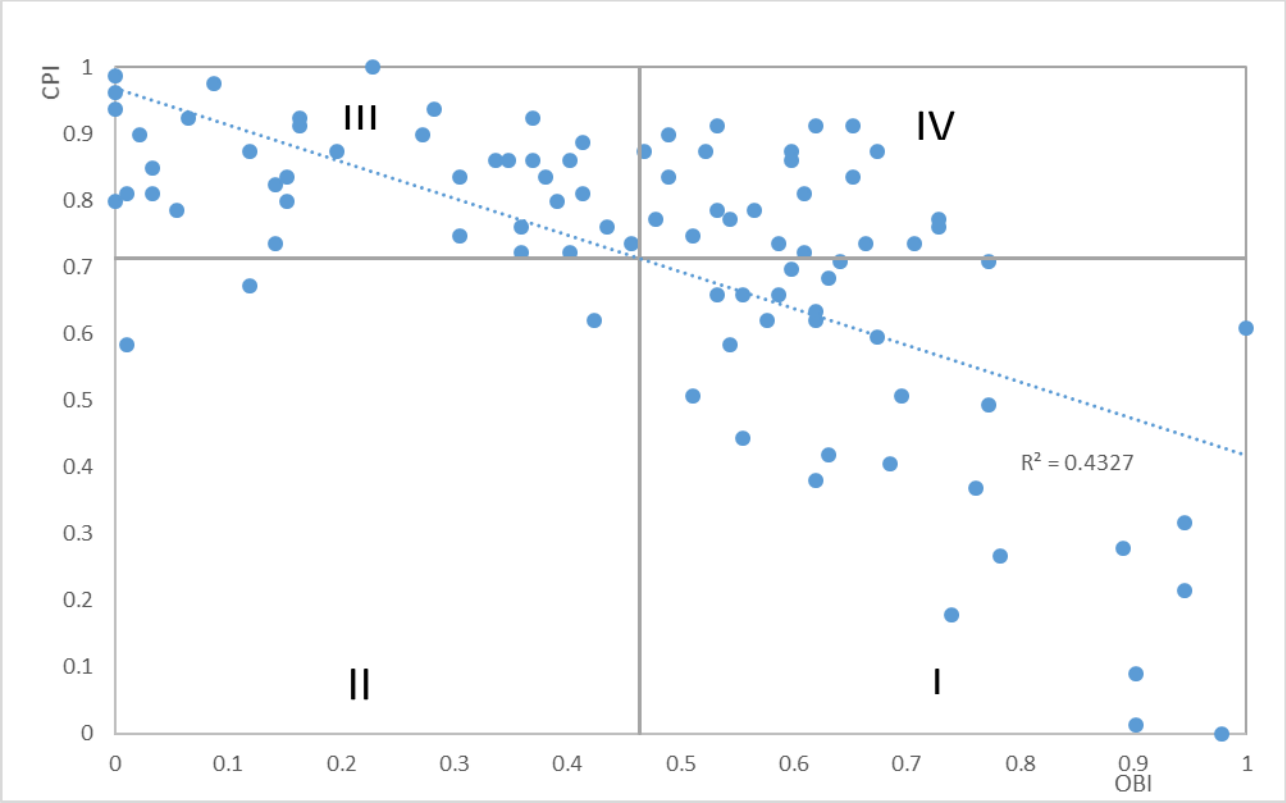
[3] https://www.transparency.org



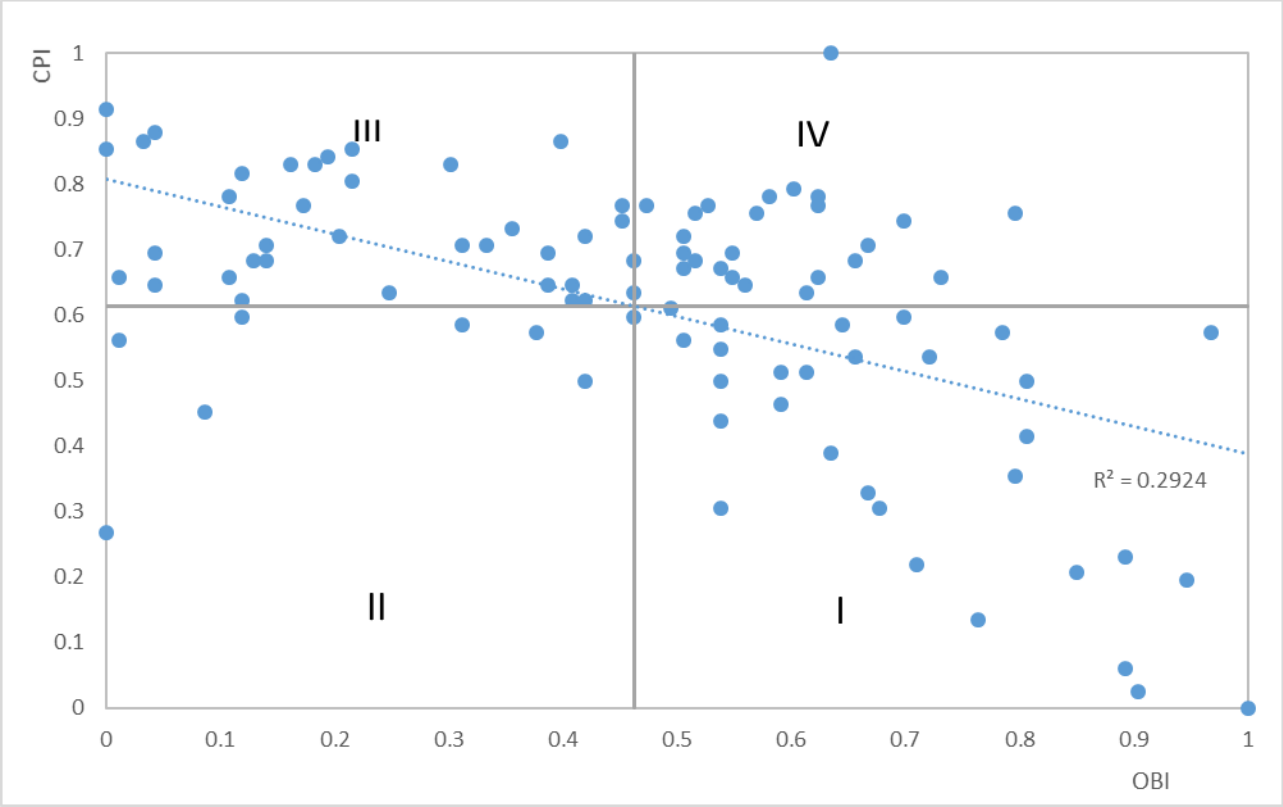
Graph 2: OBI and CPI, 2008



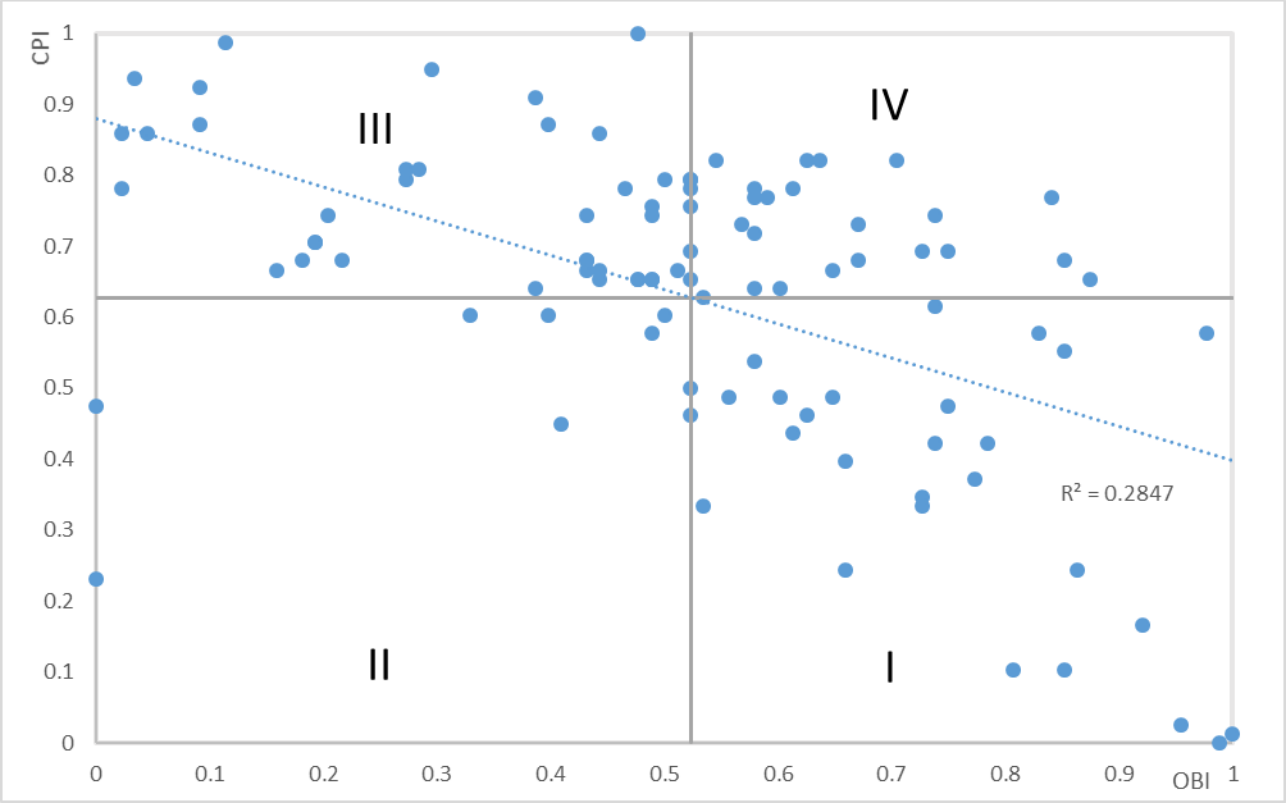
Graph 3: OBI and CPI, 2010



Graph 4: OBI and CPI, 2012



Graph 5: OBI and CPI, 2015



As indicated by Table 1 below, the percent of countries found in quadrant IV is at, or just below, twenty-five percent, which is a significantly high number. For the latest year, 2015, twenty-two out of one hundred countries in the data set fall into the category of high transparency and high corruption. Table 2 below shows the list of countries and their corresponding regions of the world that are found in such quadrant. Also, there is an index value for each country. This index is calculated by adding both the CPI and OBI normalized scores and then normalized again to obtain values between 0 and 1. Since quadrant IV contains only positive values of both indexes, the summation of the two yields the highest possible values, with Russia on top with a maximum value of 1.

Table 1. Percent distribution of countries per year and quadrant

Year	Quadrant I	Quadrant II	Quadrant III	Quadrant IV
2006	27	5	44	24
2008	31	5	43	21
2010	31	3	41	25
2012	31	8	38	23
2015	26	9	43	22
Average	29.2	6	41.8	23

Table 2. Countries that scored relatively high in both transparency and corruption in 2015

Country	**Region of the World**	**Index score**
Russia	Central Asia	1
Peru	Latin America	0.943
Brazil	Latin America	0.941
Uganda	Sub-Saharan Africa	0.938

Bangladesh	South Asia	0.889
Papua New Guinea	East Asia & Pacific	0.881
Mexico	Latin America	0.878
Philippines	East Asia & Pacific	0.862
Argentina	Latin America	0.849
Kyrgyz Republic	Central Asia	0.845
Kenya	Sub-Saharan Africa	0.823
Kazakhstan	Central Asia	0.820
Sierra Leone	Sub-Saharan Africa	0.819
Indonesia	East Asia & Pacific	0.811
Azerbaijan	Central Asia	0.810
Colombia	Latin America	0.786
Ecuador	Latin America	0.774
Dominican Republic	Latin America	0.773
El Salvador	Latin America	0.734
Mongolia	East Asia & Pacific	0.718
Serbia	Eastern Europe	0.675

Table 3. Regions that scored relatively high in both transparency and corruption in 2015

Region	**Frequency**
Latin America	8
Central Asia	4
East Asia & Pacific	4
South Asia	1
Sub-Saharan Africa	4
Eastern Europe	1

Table 3 summarizes the results by regions of the world. As you can see, Latin America and Asia have the highest frequencies with eight and nine countries respectively, followed by Sub-Saharan Africa with four countries and Eastern Europe with one.

The obvious question to ask is, why does that happen? Is the CPI or the OBI a biased index, or is at least one of them using an inappropriate method? The answer to that question is almost impossible to obtain since it would require a painstaking evaluation of every question being asked, method being used, and every evaluation being submitted by each member of the group of experts. Such assignment is assumed to be done continuously by both organizations to make them more reliable and accurate. Assuming there is nothing significantly wrong with both indexes, one thing I was able to do was to investigate why these countries, despite being relatively more corrupt, can obtain relatively high transparency scores. To that end, I obtained correlation coefficients between the CPI and every question found in the OBI survey using the quadrant IV countries.

To put things into perspective, the overall correlation coefficient between CPI and OBI for all countries is, as expected, negative, and its value is equal to -0.5336. The correlation coefficient between the same two indexes using only the quadrant IV countries is -0.24, less than half as small. It is the result of 67 positive correlations and 66 negatives. Table 4 below shows the top positive correlations for the quadrant IV countries. In other words, the questions in which these countries were able to get more “favorable” correlations with the CPI.

As you may notice, questions 8, 7, 11, 44, 79, 12, and 78, are related to whether the government presents estimates of revenues or expenditures for the current or future budget. Compliance with such questions is relatively easy. It's just a matter of putting some numbers in those categories. What matters is not that the numbers are real, but that they are included in the budget. Question 48 asks whether the budget is linked to government's policy goals for at least two years beyond the budget year. Question 124 asks whether the executive has a mechanism to identify the public's perspective on budget execution, and finally, question 82 asks whether the mid-year review of the budget presents individual sources of revenue. The latter, in my opinion, is the only question from this group that really challenges these countries to reveal important information.

Table 4: Top ten OBI questions with the highest positive correlation coefficients for countries in quadrant IV

Correlation	Question number and description
0.697	8: Does the Executive's Budget Proposal or any supporting budget documentation present expenditure estimates for a multi-year period (at least two-years beyond the budget year) by program?
0.600	7: Does the Executive's Budget Proposal or any supporting budget documentation present expenditure estimates for a multi-year period (at least two-years beyond the budget year) by any of the three expenditure classifications (by administrative, economic, or functional classification)?
0.444	11: Does the Executive's Budget Proposal or any supporting budget documentation present revenue estimates by category (such as tax and non-tax) for a multi-year period (at least two-years beyond the budget year)?
0.441	48: Does the Executive's Budget Proposal or any supporting budget documentation present information on how the proposed budget (both new proposals and existing policies) is linked to government's policy goals for a multi-year period (for at least two years beyond the budget year)?
0.421	44: Does the Executive's Budget Proposal or any supporting budget documentation present estimates of the sources of donor assistance, both financial and in-kind?
0.408	79: Does the Mid-Year Review of the budget present expenditure estimates for individual programs?
0.391	124: Has the executive established mechanisms to identify the public's perspective on budget execution?
0.391	12: Does the Executive's Budget Proposal or any supporting budget documentation present estimates for individual sources of revenue presented for a multi-year period (at least two-years beyond the budget year)?
0.390	82: Does the Mid-Year Review of the budget present individual sources of revenue?
0.376	78: Does the Mid-Year Review of the budget present expenditure estimates by any of the three expenditure classifications (by administrative, economic, or functional classification)?

Table 5 below, on the other hand, shows the top ten questions in which these countries obtained negative correlations or the most "unfavorable" results. Now the top ten questions are related to more specific details and not just to whether there are numbers assigned to the future. For example, question 96 asks whether there is a financial statement at the end of the year. Question 99 refers to a specific percent of extra-budgetary funds being audited. Question 101 asks whether the public is aware of steps taken to respond to audit recommendations. Question 97 asks whether a

specific kind of audit is available to the public. Question 24 asks for the more recent year for which all expenditures reflect actual outcomes. Question 98 asks the same question as 99, but applied to expenditures.

Table 5: Top ten OBI questions with the most negative correlation coefficients for countries in quadrant IV

Correlation	Question number and description
-0.578	96: Is a financial statement included as part of the Year-End Report or released as a separate report?
-0.509	99: What percentage of extra-budgetary funds within the mandate of the Supreme Audit Institution (SAI) has been audited?
-0.494	101: Does the executive make available to the public a report on what steps it has taken to address audit recommendations or findings that indicate a need for remedial action?
-0.459	86: Does the Year-End Report present expenditure estimates for individual programs?
-0.441	97: What type of audits (compliance, financial, or performance) has the Supreme Audit Institution (SAI) conducted and made available to the public?
-0.411	118: Who determines the budget of the Supreme Audit Institution (SAI)?
-0.387	24: In the Executive's Budget Proposal or any supporting budget documentation, what is the most recent year presented for which all expenditures reflect actual outcomes?
-0.360	102: Does either the Supreme Audit Institution (SAI) or legislature release to the public a report that tracks actions taken by the executive to address audit recommendations?
-0.334	106: How far in advance of the start of the budget year does the legislature receive the Executive's Budget Proposal?
-0.333	98: What percentage of expenditures within the mandate of the Supreme Audit Institution (SAI) has been audited?

Conclusion and Recommendations

Government corruption is one of the most important problems the world faces these days since its consequences may range from reduction of trust and investment, to tyrannies and dictatorships. Due to issues of sovereignty and independence, international organizations such as the IMF and the World Bank, cannot instruct governments to be less corrupt. Instead, they have promoted, through incentives and penalties, budget transparency, which in turn is expected to lead to less corruption. However, this paper demonstrates first, that a significantly high percent of countries in the world are given relatively good transparency scores despite being more corrupt. Second, by analyzing simple correlation coefficients, it shows that those countries obtain good transparency overall index scores by getting good evaluations in certain types of questions included in its construction. Those questions tend to concentrate on whether the government includes in its budget estimates of future revenues or expenditures. In contrast, the same countries tend to score low, as expected, in questions that ask more specific and current issues such as the existence of a financial statement at the end of the current year, percent of extra-budgetary funds that have been audited, specific steps taken to address audit recommendations, and other similar questions.
Consequently, the results obtained in this paper lead to the recommendation that the construction of indexes of transparency should not include questions that are too broad or unspecific, which may lead to biased scores in favor of corrupt governments.

My recommendation seems to be consistent with the most recently updated homepage of Transparency International, which has added that the 2017 index "only consider documents that are

published on a relevant government website as being publicly available," and that they "have strengthened the indicators on public participation and oversight to underscore the importance of all three pillars of a well-functioning accountability ecosystem: budget transparency, public transportation, and the effectiveness of oversight institutions."

Finally, this paper demonstrates how more corrupt governments may be able to get good transparency scores not by publishing lies but by providing answers to unspecific and insubstantial questions. Researchers should be aware of the limitations and bias that may be introduced in the construction of indexes that use similar methods.

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