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Making Anti-Corruption Real

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Making anti-corruption real: using a 'Power Capabilities and Interest Approach' to stop wasting money and start making progress

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Executive summary

Anti-corruption needs a radical rethink. After decades of effort, the massive costs of corruption continue to harm many countries, and corruption appears to be increasing in some. Even worse, anti-corruption efforts have often themselves been corrupted, with anti-corruption and enforcement agencies extracting from citizens or using their powers to harass and pick up the opposition. Why have anti-corruption efforts not delivered stronger results everywhere, particularly as they seem to be effective in some countries? We make the following suggestions as part of this radical rethink.

1 Evidence of violations is likely to trigger action for accountability only if there are actors with the power, capabilities and interests to make sure this happens. Anti-corruption is costly and takes on powerful interests. To make anti-corruption 'real' we have to look for opportunities where actors have, or are likely to have, the power, capabilities and interests to act against particular types of corruption. Anti-corruption can be effective if it supports and strengthens these activities, as well as supporting transparency and accountability. We call this the power–capabilities–interests (or PCI) approach to anti-corruption.

2 Transparency and accountability measures are effective on their own in some countries, but only because a large number of organisations already exist across these societies with the power, capabilities and interests to ensure that rules are enforced. These are countries that already have, or are close to having, a 'rule of law'. Here, when transparency improvements reveal violations, interested actors are likely to take action to ensure that violators are punished, and accountability processes are therefore likely to work. But a rule of law is rare. Anti-corruption has to be designed to be effective in the general case where there is, at best, a rule *by* law; rules are enforced in some areas, but violations and informality persist in many others.

3 In the general case, where the existing configuration of power and capabilities does not support a rule of law, anti-corruption that immediately targets all types of corruption is likely to yield limited or even negative results. Failures in many areas can undermine the effort as a whole. Instead, anti-corruption should focus on areas where it is feasible and can have impact. Feasibility means having a strategy that is implementable, and this is only likely in these contexts if we can identify actors connected to that activity who can and will ensure that it is implemented. Impact means that reducing that corruption is not just useful for the actors involved but has wider social benefits. Successful anti-corruption of this type can create the conditions for anti-corruption in other areas.

4 The most promising areas of feasible and high-impact anti-corruption are usually to be found at the sectoral level, where developmental policies and service delivery are often affected by damaging variants of corruption. These are often also areas where we are likely to find actors with the power and capabilities to support the enforcement of rules in their own interest, particularly if we can identify feasible policies to strengthen and support their activities.

5 The political settlements framework shows that the implementation of any policy depends not only on the power and capabilities of the actors directly involved as enforcers (principals) and potential violators (agents), but also of other actors they have transactions with. The activities and responses of these 'horizontal actors' can change the calculations of both principals and agents. When self-interested horizontal actors act against principals and agents who violate rules, transparency and accountability measures become effective. We describe such horizontal relationships as effective horizontal checks. However, horizontal relationships can also support collusion and prevent enforcement, so it is important to identify the types of relationships that dominate in specific sectoral contexts.

6 Our research shows that there are many opportunities to enhance and create effective horizontal checks in sectors where anti-corruption can also improve development and welfare. The latter is important because anti-corruption cannot just be about enforcing rules without investigating what those rules are. The rules must support developmental outcomes, and actors in that activity must be able to follow these rules. In contexts where actors have very different capabilities, this condition is often not met. As a result, many actors involved in an activity may be violating rules, but for different reasons. Some may be deliberately violating rules, despite being able to follow them, because they are extractors (thieves) or free-riders. But others may be violating rules because they could not follow them even if they tried. The second type of violation is quite different and is happening for 'reasonable' reasons. Unless we address this, the true free-riders and extractors cannot be identified and isolated.

7 We identify three anti-corruption strategies that meet these conditions, based on the presence and strength of already existing horizontal checks:

a) Enhancing effective checks is a feasible strategy when some actors are already checking violations in ways that support development. Here, anti-corruption should support and enhance these activities with policy, together with continuing support for transparency and accountability measures.

b) Creating effective checks is necessary when such checks are not already in evidence, but where the numbers of rule-followers can be feasibly increased by addressing reasonable reasons for some violations. This directly reduces corruption but, more importantly, allows the emergence of the horizontal checks that can then be supported by the first strategy.

c) Mitigation and transformation strategies are necessary when neither of the first two strategies are immediately feasible. This is the case in activities where many actors have low productive capabilities and corrupt activities are the only feasible way of making a decent living. Take the example of poor people engaging in poppy farming. Horizontal actors, both rich and poor, are likely to collude in networked corruption, making anti-corruption very difficult in this context. If anti-corruption is supposed to help poor and vulnerable people, a longer-term strategy is needed to first develop their capabilities and opportunities for engaging in other activities, while mitigating the immediate negative effects of the corruption. Only then can the second and, eventually, the first strategy become feasible. We illustrate these strategies with findings from the SOAS-ACE research programme.

8 Anti-corruption cannot therefore only be isolated transparency and accountability pillars. Instead, anti-corruption has to be built into the design of all policies, programmes and institutions that we are targeting. An effective policy must itself trigger activity by interested parties with sufficient power and capabilities to ensure that the relevant rules are enforced. When this is the case, our evidence shows that existing transparency and accountability processes work quite well.

1. Introduction

The violation of rules by powerful actors – usually public officials like bureaucrats and politicians, often in collusion with private actors – is defined as corruption. Corruption can inflict massive costs on societies by diverting and misallocating resources and affecting the implementation of vital policies and programmes. In early 2022, Transparency International reported that 'corruption levels remain at a standstill worldwide, with 86 per cent of countries making little to no progress in the last 10 years' (Transparency International, 2022). The entrenched and often growing levels of corruption in many countries demonstrate the limits of current anti-corruption strategies and the theories that inform them. The results of anti-corruption have also been poor, and much of the money spent on anti-corruption has been wasted, largely because standard anti-corruption approaches ignore the problem of *implementation*. If a policy adversely affects powerful individuals and organisations, we can expect them to try and block or distort its implementation. Not surprisingly, in contexts where rules are often violated, anti-corruption policies may themselves be subject to corruption and other types of informal blocking. Making anti-corruption real means understanding these processes and ensuring that anti-corruption strategies also identify actors who have the power and capabilities to implement that strategy in their own interest (Khan, 2019; 2018a).

An implementable anti-corruption strategy must therefore identify actors who, in their own *interest,* will engage in activity to reduce a specific type of corruption. To be effective, these actors must have the *capabilities* to want to engage in the required activity, and sufficient *power* to check those who are involved in that corruption. We describe this as a *power, capabilities and interests-driven approach to anti-corruption,* or the *PCI approach* for short. Incentivising a coalition with sufficient power, capabilities and interests is at the heart of making *any* policy implementable, particularly in countries where the rule of law is weak. Here, more than in other contexts, outcomes will not necessarily be achieved by simply passing new laws to strengthen anti-corruption and expecting that *these laws* will be implemented when others are not.

We argue that there is a need to radically rethink anti-corruption by putting implementation and enforcement at the centre, and asking if there are clearly identified actors with the power, capabilities and interests to use anti-corruption instruments and act on them. An important implication is that anti-corruption cannot simply mean 'adding on' transparency and accountability components to policies whose design already allows powerful actors to misuse or misappropriate resources. Instead, anti-corruption has to be seen as a *strategy combination* that combines policies that maximise the internal support for enforcement with standard transparency and accountability measures. The latter, without the former, is likely to fail where the rule of law is weak, and the evidence tells us that this is exactly what happens.

The *feasibility* of an anti-corruption strategy is a measure of the likelihood of its implementation. The more the policy incentivises support for implementation from within the groups supplying or demanding the policy outcomes, the more feasible the anti-

corruption strategy becomes. In countries where the rule of law is weak, not all activities subject to corruption will satisfy this requirement. We identify three strategies to take anti-corruption forward, depending on the strength and likelihood of sufficiently effective internal support for implementation. And since anti-corruption in every activity may not be immediately feasible in many countries where the rule of law is weak, anti-corruption should also prioritise areas where it can have a significant developmental *impact*. Anti-corruption should therefore start by looking for opportunities at the intersection of high feasibility and impact. Many conventional anti-corruption approaches fail at the very first hurdle because they do not meet the feasibility requirement. They do not explicitly identify, let alone incentivise, a group of actors with the power, capabilities and interests to implement the anti-corruption policy and, in many contexts, actors with these characteristics may not even exist.

To understand why these requirements are necessary and how to meet them, we need to understand the role of a 'rule of law'. A rule of law means that violations have an equally high probability of being punished once detected, regardless of the power or identity of the violator. In countries where most rules are already followed and a rule of law is established or close to being established, the detection of a violation is likely to lead to corrective action. By contrast, in countries where the rule of law is weak, violations are likely to be punished or not depending on the relative power and connections of the violator and the violated. In these more common cases, detecting corruption and putting formal accountability processes in train are not sufficient to ensure that a good outcome will eventually emerge. We also have to ensure that there are interested actors involved who have the power to push for and ensure specific types of implementation, and that enforcement will actually be developmental and welfare-enhancing. As we show in this paper, neither can be taken for granted. Corruption is likely to be extensive and damaging precisely in places where the rule of law is weak. Indeed, a weak rule of law is one of the strongest predictors of high levels of corruption (Jetter and Parmeter, 2018).

Underpinning both a weak rule of law and high levels of corruption are adverse configurations of power, capabilities and interests that allow extensive rule violations (Mungiu-Pippidi, 2020: 35–48; Khan, 2007; 2006; 2002). In these contexts, neither the rule of law nor overall levels of corruption are likely to be reduced very quickly. Both require the emergence of dense checks and balances in society that can ensure rule enforcement and make it more difficult for the corrupt to go unpunished. These configurations of organisational power and capabilities change only gradually, typically over decades or longer (Khan, 2018a; North et al., 2013; Carothers, 2003). Gordon Brown, a former UK prime minister, once famously quipped that in achieving a rule of law, the first five centuries are always the hardest (World Bank, 2017: 14). It may not always take so long, but Brown was provocatively making an important point. For similar reasons, overall levels of corruption in a country also change relatively slowly (Mungiu-Pippidi, 2020: 35).

While overall improvements in the rule of law and levels of corruption take a considerable amount of time, developing countries need to continuously address *specific* governance and corruption problems to sustain their development. Anti-corruption strategies that attempt to achieve quick reductions in overall corruption are likely to fail, but equally, development

may stall unless critical corruption problems affecting significant activities or sectors are effectively targeted. These sectoral strategies are only likely to be implementable if they understand and exploit existing configurations of power, capabilities and interests to create or deepen splits within the coalitions that are corrupt. Our research shows that these opportunities are more widespread than may be thought, and designing appropriate policies can greatly increase the chances of anti-corruption succeeding. If these anti-corruption strategies enable or accelerate broad-based development, capable productive organisations begin to emerge and become more powerful, and, with that, the effective demand for a rule of law becomes stronger.

The historical evidence of gradual progress towards a rule of law supports our theory of change: anti-corruption that is effective at a sectoral level can accelerate or unblock the development of productive organisations in that sector and beyond. A rule of law becomes more and more likely as the distribution of productive capabilities across society improves. This increases the number of powerful organisations that require rule enforcement for their productive activities, strengthening the effective demand for a rule of law. The powerful begin to check each other, not only in their sector but more generally, to ensure that rules are enforced. This is a critical requirement for achieving a rule of law. Strategies that promise quick transitions to a rule of law implicitly assume that governance and anti-corruption are not constrained by the distribution of power and capabilities in a society or that the appropriate configuration of organisations already exists. As the first assumption is false, and the second is usually not the case, standard approaches to anti-corruption often perform poorly (though occasionally after producing some tantalising short-term results). They also waste vast amounts of money. Even worse, repeated failures demoralise ordinary citizens and give the corrupt and the powerful even more confidence to act with impunity.

Conventional anti-corruption approaches are not necessarily wrong; they do work in contexts where a rule of law already operates, but they do not work everywhere. In particular, they often assume that a ‘principal’ with the legal responsibility to enforce a ‘contract’ will always act when violations are detected, and corrections will always follow. These assumptions can be best understood by looking at the principal–agent model that has significantly influenced anti-corruption policy. The model has well-known limitations, but many of the responses to its weaknesses lack an explicit analysis of the power, capabilities and interests that would make alternative approaches work.

The principal–agent model has three elements. First, there are ‘principals’ – actors who want to achieve an outcome by implementing a policy or contract. Second, there are ‘agents’, who agree to deliver the outcomes. Finally, there are rules set out in an explicit or implicit ‘contract’ between the principals and agents to allocate resources, and set incentives, monitoring arrangements and sanctions, so that agents are likely to deliver the outcomes desired by the principal. In this relationship, the principals monitor progress and enforce the rules. The agents have incentives under the contract to deliver the outcomes, but they can do even better for themselves by cheating in different ways. The model is very general, because principals in one contract may themselves be agents of other principals in other contracts. For instance, the principal at one level may be the Ministry of Health, and its agents may be public hospitals delivering specific health services. The contract in this case is

the policy that sets out the resource flows, the hospitals' responsibilities, the expected outcomes, the monitoring arrangements, and so on. But the Ministry of Health could itself be the agent of politicians who, as principals under another contract, want health services delivered as part of their manifesto commitments, which they have to deliver to get re-elected. And these politicians could, in turn, be agents of voters who elect politicians to deliver health services for which they pay taxes. As principals, voters monitor and vote out politicians if they fail to deliver. The final delivery of health services to citizens can therefore be disrupted by a series of nested principal–agent problems and associated corruptions at different levels.

Each contract between a principal and their agents can be viewed as a vertical relationship defining a line of *vertical monitoring and enforcement* from the principal to the agent. The principal–agent model points out that violations by agents are more likely if there is asymmetric information (the agent can hide information) or if the contract has not set the right incentives and punishments, or set adequate processes for principals to rapidly respond to information about violations. These insights explain why so much attention has been given to improving transparency and accountability in anti-corruption (and in policy implementation more generally). While this focus clearly makes sense, it has not been sufficient in practice. Reductions in corruption have not kept pace with improvements in transparency and accountability. This has generated a large literature on the problem of 'unprincipled principals', where principals do not act even when they have information about violations and procedures for taking action. This has directed attention to other factors that may be blocking the achievement of anti-corruption results. Principals often turn out to be colluding with agents and sharing the benefits of violations or in other cases, principals may lack the power to enforce the contract. The puzzle is that unprincipled principals appear to be quite rare in some societies but very widespread in others.

Our response to this puzzle draws on our analysis of political settlements (Khan, 2019; 2018a). The behaviour of a particular principal and agents cannot be understood without looking at all the other actors with whom they have relationships and transactions. These relationships help explain why principals in some contexts are much more likely to enforce rules when violations are discovered, and what can be done when that is not the case. To distinguish the particular principal–agent relationship that we are interested in from other relationships, we describe it as the *vertical relationship,* and the other relationships actors have with *other individuals and organisations* as their *horizontal relationships*. The term 'horizontal' is used simply to distinguish these other relationships from the vertical relationship of interest. The horizontal relationships may be of different types. Some may also be principal–agent ones, while others may be simple transactions like buying and selling, which do not involve long-term contracts with ongoing monitoring. These other relationships constrain or empower our two actors in different ways. The horizontal relationships can sometimes *enable* rule-violating behaviour by empowering or constraining either the principal or the agent, or both. But sometimes, horizontal relationships can play a *checking function,* ensuring that both principals and agents are empowered and constrained in ways that compel them to follow rules.

The political settlements approach says that principal–agent relationships – or indeed any policy enforcement problem – cannot be looked at in isolation but has to be seen in the context of a cluster of relationships that affect the behaviour of those directly involved. Some horizontal relationships have the desirable characteristic that they involve actors checking the behaviour of those they are interacting with and limiting their rule violations out of self-interest. When the horizontal transactions of a principal or an agent effectively limit their incentives to violate rules, we describe these as *effective horizontal checks*. In countries with a strong rule of law, dense networks of effective horizontal checks are working all the time in almost every activity and every sector. This supports the rule of law and ensures that principal–agent relationships work as the textbook says they should: principals are both compelled and empowered to enforce rules, and agents are compelled to accept penalties if violations are detected. We do not need to look for effective horizontal checking in particular applications because it is already happening all the time and across activities and sectors. Like gravity on our planet, we can take for granted that it is there, everywhere, and we can ignore it as a background assumption. In such a world, if we design machines that work with gravity in one place, they can be expected to work in other places because gravitational forces will not have changed much.

The problem in countries with a weak rule of law is that the effectiveness of self-interested horizontal checking cannot be taken for granted. It may be embryonic in some sectors and activities, and entirely absent in others. Indeed, many horizontal relationships may involve the opposite of checking – they may be supporting rule-violating behaviour. Here, we have to take a great deal of care to measure the 'gravity' in different places to make sure our 'machines' are fit for purpose for different applications. Anti-corruption strategies based on vertical enforcement relationships that work where horizontal checks are highly effective may not work at all when the horizontal relationships are weak or block rule enforcement. In these contexts, anti-corruption has to include a combination of vertical and horizontal strategies. In particular, anti-corruption efforts may also have to create or enhance horizontal checking activities where they are weak or non-existent. Simply ramping up the vertical enforcement arm with more transparency and enforcement procedures may only lead to costly failures. Principals with the power, capabilities and interests to ensure that the anti-corruption measures are implemented may not exist.

Some useful rules are so dependent on horizontal checks that they operate largely informally. Queues are a good example, but even queues have a vertical enforcement component because people using force to push ahead can expect the police to take over. They are therefore useful for understanding the interdependence of horizontal and vertical checks. Queues work well when there are strong effective checks *within* the queue – that is, if everyone understands that violations will not be accepted by others. When these horizontal checks are working, vertical enforcement in the form of policing is only required on rare occasions. But queues fail in many contexts, and when they do, it is rarely because of weaknesses of policing or for cultural reasons. Indeed, with the same policing and culture, queues may operate effectively in pockets where people in the queue have comparable power – say within a bank in the capital city. But they may fail to operate in other places in the same country where there are significant differences in power – say in less developed areas where poor people have few options apart from dependence on the powerful.

Horizontal checking fails in these contexts, and queue-jumpers are not pulled back. And if the police are unwise enough to intervene, they may be reprimanded back at the station for upsetting important locals.

Fortunately, we find many opportunities for enhancing and creating effective horizontal checks, even in adverse contexts, and in activities where anti-corruption will have significant positive impact even on people who are poor and vulnerable. Identifying these opportunities is an important research frontier, and one that can help us stop wasting money and start making a difference. Activities where corruption is very damaging, and yet could be controlled if policies were to create and enhance horizontal checks, are much more likely to be feasible anti-corruption strategies. The PCI analysis and approach not only highlights the importance of horizontal checks, but also explains why these have to be endogenous – based on the self-interest of the parties and their power to impose costs on their horizontal partners.

We identify three types of anti-corruption strategy based on the strength of effective horizontal checks that already exist, or the feasibility of developing them in the activity of interest if they do not currently exist. The first strategy is effective when some horizontal checks are already working to constrain corruption with improved social outcomes. Here, it may be possible to identify interventions that can *enhance already operating horizontal checks*. If a greater number of horizontal actors can be brought into play to exercise horizontal checks in the sector, vertical enforcement is likely to become even more effective. In these cases, formal transparency and accountability mechanisms are already partially working, but occasionally these may also need to be strengthened.

A different approach is required if effective horizontal checks are weak or absent. The level of violations in these sectors is likely to be high. But in the more promising cases, evidence may show that feasible interventions could bring down the level of violations and create effective horizontal checks. If this is feasible, we have a second strategy: to *create effective horizontal checks*. This is likely to be the first step in a two-step process: first, reducing the level of violations by creating some effective horizontal checks, and second, investigating if these can be further enhanced using elements of the first strategy. In both the first and second strategies, the idea is to create or deepen splits within the pool of violators. In the first case, the splits already exist, and the strategy is to enhance them. In the second, we assess whether appropriate splits can be created with feasible interventions. In both cases, strengthening effective horizontal checks is critical for a feasible anti-corruption strategy.

However, there may also be many sectors where effective horizontal checks are not only missing, but it may not be feasible to create them in the medium term. For instance, corruption can sometimes be ‘networked’, with the benefits widely distributed across different segments of the population. Even if there are large differences in the gains from corruption across different actors, it may still not be easy to split the group engaged in corruption. Drugs production in war zones or oil theft from pipelines in remote areas are dramatic examples, but less intractable variants are also common. Here, the only feasible response may be *mitigation and transformation.* Mitigation is necessary to address the negative effects of the corruption, while transformation is a longer-term strategy to create

alternative opportunities that may make other types of anti-corruption feasible later. This third strategy would therefore be the first in a possible three-step process in really difficult sectors, with the creation and deepening of horizontal checks following later.

In the next section, we explain why effective horizontal checks have to be built into the design of feasible and effective anti-corruption strategies when background horizontal checks are weak. Section 3 describes the three anti-corruption strategies based on these insights and gives examples of each from SOAS-ACE (Anti-Corruption Evidence) research. In Section 4, we compare our approach with others and explore differences in policy implications. Section 5 presents our conclusions.

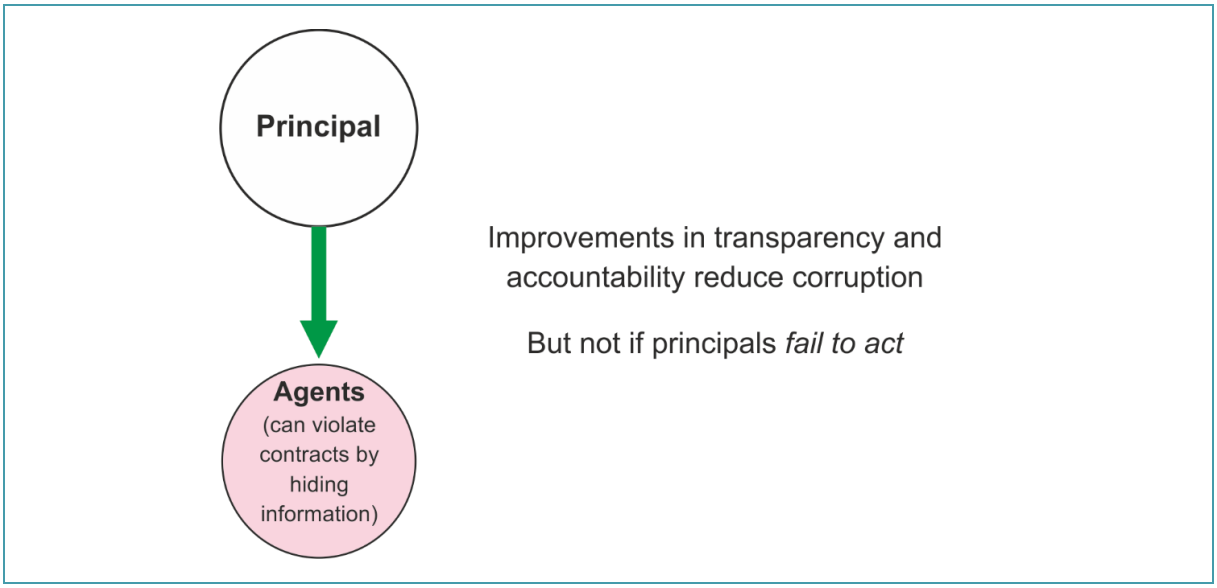
2. Anti-corruption and effective horizontal checks

The theory and policy of anti-corruption has been hugely influenced by variants of the principal–agent model (Figure 1). While the model is known to have weaknesses, it is still useful to lay out its components as well as how it has influenced policy and how to respond when it fails. Indeed, while the limitations in its applications are well-known, some of the problems that affect it also affect other strategies that have been suggested in response to its limitations, which we discuss in Section 4.

Principals and agents are defined by legal relationships that set out their rights, obligations or responsibilities and associated payments. If all contracts could be fully and completely specified and violations could be immediately detected, principal–agent problems would disappear. Agents would never try to cheat because they would be immediately detected, and the contract would set sufficiently high penalties to make cheating unattractive. In reality, it is possible for one or more parties to cheat in most contractual relationships. The principal–agent problem and its many variants identify different ways in which improvements in information, and in the incentives and processes of responding to information, can improve the outcomes that principals are trying to achieve.

The model identifies a line of enforcement (the vertical green arrow in Figure 1) based on the contractual obligations of the monitors (the principals) and the monitored (the agents). If the principal detects a violation by the agent(s), there are legal processes through which action can be taken to enforce the contract and, if necessary, punish or remove the agent. In reality, the line of enforcement can operate in both directions because the principal also has legal obligations to the agent, and violations of these can lead to actions by the agent. The model is therefore a simplification that focuses attention on the enforcement problem.

Figure 1 The principal–agent model



Source: Authors.

An important characteristic of the model is that the individual power of principals and agents does not matter, as enforcement is based on legal contracts and not directly on the exercise of power. The power of the principal comes from the *legal authority* conferred by the contract to impose penalties of different sorts (which can include firing the agent, imposing fines, prosecution, and so on). Enforcement does *not* require that principals as individuals have to be more powerful than the agent. Power in bargaining and conflict games is usually understood as *holding power*, which is a measure of how long the parties could hold out in a conflict. This, in turn, depends on their relative ability to absorb the costs of the conflict while imposing costs on the other side. If the parties were acting in isolation, the principal would in general only be able to enforce a 'contract' if they had greater holding power (Knight, 1992). In a rule-of-law context, we can ignore the relative holding power of the principal and the agent because background conditions ensure that legal authority is always converted into appropriate forms of power regardless of the power of the individual actors involved.

Under rule-of-law conditions, principals have the power to enforce even if they are not powerful themselves. This is because they can implicitly rely on the support of other organisations, including other enforcement agencies, if their attempts to enforce legal commitments are resisted. Equally, even powerful agents are unable to find allies to protect themselves against these coalitions if their legal violations are detected. As a result, the power that matters is only the legal authority conferred on the principal to enforce a contract. In addition, under rule-of-law conditions, principals generally enforce when violations are detected, and they usually do not collude with agents. This is because principals who fail to enforce, either deliberately or otherwise, themselves come under scrutiny and face sanctions from other organisations. Thus, in rule-of-law contexts, the activities of other organisations ensure that legal contracts appear to confer power on principals to enforce contracts, and they generally act to enforce. This does not mean that violations are always investigated and corrected. It simply means there is a *much* higher probability that this happens. When the rule of law is weak, legal authority does not necessarily have this effect. Contract enforcement can fail even if principals have information about violations and can access formal enforcement procedures.

The principal–agent model suggests that corruption can be reduced if principals have better information about violations, can set better incentives for agents to follow rules, including sufficiently high levels of punishments, and if the processes of taking corrective action are improved (Jackson, 2020; Tacconi and Williams, 2020; Olken and Pande, 2012). The two pillars of standard anti-corruption strategies follow: *transparency reforms* to improve the information available to principals; and *accountability reforms* to change the incentives of agents and to improve processes of detection and punishment. However, these measures alone only work well if the country is already operating under a rule of law or is close to establishing a rule of law.

Transparency reforms include support for the media, for investigative journalism, watchdogs, civil society monitoring, whistle-blowers, digitisation and digitalisation of delivery systems, improved statistical and data systems, and transparent merit-based

systems for the recruitment of bureaucrats. Anything that makes the actions of agents easier to observe, record and measure, contributes to transparency. Reducing agent discretion can also improve transparency if principals do not have to second-guess why agents made a particular decision (but this may also reduce the agent's capacity to make good decisions). Accountability reforms include improvements in the processes for taking action against corrupt agents, and better incentives for compliance. These include improved electoral processes for voting out corrupt politicians, stronger anti-corruption commissions, improved police and courts to prosecute and punish, more severe punishments to deter corruption, and higher civil servant salaries to raise the costs of getting fired.

Transparency and accountability improvements generally have a positive effect when there is a rule of law, because in these contexts, principals can and will enforce rules, and better information and procedures will help. But if the rule of law is weak, transparency and accountability reforms may not have the expected effects. Principals may collude with corrupt agents or they may not have the power to act against them, even if violations are revealed and procedures for corrective actions exist. For instance, some voters (as principals) may deliberately support and keep in power corrupt politicians as their agents because they provide patronage. Other voters and organisations may lack the money or the power to check them. Elections may then drive corruption rather than help achieve accountability. Similarly, some politicians or bureaucrats acting as principals may collude with other politicians, bureaucrats or businesses to fix prices or allocate contracts to cronies to share rents. Or anti-corruption commissions, judges or the police – acting as principals – may collude with corrupt politicians and bureaucrats to ignore their violations while selectively targeting opposition parties. As a result, strengthening these agencies may do little to reduce corruption and may sometimes make it worse by enabling ruling parties to lock up the opposition more effectively. It is not surprising that transparency and accountability improvements on their own have achieved poor anti-corruption results in developing countries (Department for International Development (DFID), 2015; Johnsøn et al., 2012; Lawson, 2009; Fjeldstad and Isaksen, 2008; Johnston, 2005; Svensson, 2005; Sung, 2004; Montinola and Jackman, 2002; Brinkerhoff, 2000; Doig and Riley, 1998). All countries have instances where a rule of law is violated or there is selective enforcement, but these are much more widespread in developing and emerging countries for structural reasons (Khan, 2018a).

Yet while all rules are not equally applied in countries where the rule of law is weak, these countries are not necessarily in a state of anarchy either. Some rules are enforced while others are not. These countries are ruled *by* law, distinguishing them from those with a rule *of* law (Khan, 2018a). When there is a rule of law, rules have an equally high probability of being enforced regardless of the identity of the violator. By contrast, when there is rule *by* law, rules are enforced to varying extents depending on the identities of the violator and those affected by the violation. Enforcement is more explicitly linked to the relative power of the parties affected. These countries can differ greatly from each other because what is enforceable and on whom may vary significantly. Even within the same country, our research (referred to later) shows that the *same* principal may sometimes limit corruption for some agents but not others that appear otherwise identical. Sometimes the *same* agent operating under the *same* principal may engage in high corruption in some projects but be

limited to low corruption in others. The *same* principal may collude in some contracts while not colluding in other apparently identical contracts. Understanding the reasons behind these variations is the starting point for improving policy and anti-corruption implementation in contexts with a weak rule of law.

The analysis of political settlements explains differential implementation by looking at the wider context of organisational power and capabilities in which policies or contracts are embedded (Khan, 2019; 2018a; 2018b). The effectiveness of implementation of any policy or contract depends on the power and capabilities not only of the actors directly involved as enforcers and rule-followers, but also of other actors in the networks in which those actors are embedded. All actors are always trying to influence the behaviour of others, and enforcement outcomes in specific cases therefore depend on the actions – both supportive and obstructive – of a broader range of organisations. The distinctive feature of rule-of-law societies is that most powerful actors in these societies are productive (value-creating) organisations that require contract enforcement within and across organisations to perform, even if they may also have incentives to free-ride themselves. More importantly, they are also embedded in dense networks of horizontal relationships with large numbers of other actors who each have an interest in ensuring that their transacting partners are rule-following. This is a feature of societies where complex productive capabilities are widely dispersed. This ensures that a large number of actors engage in what we describe as self-interested 'horizontal checking' that limits violations by imposing costs on violators. This radically enhances the enforcement powers of enforcers and also compels them to act, while constraining the options of the most powerful agents once their violations are detected.

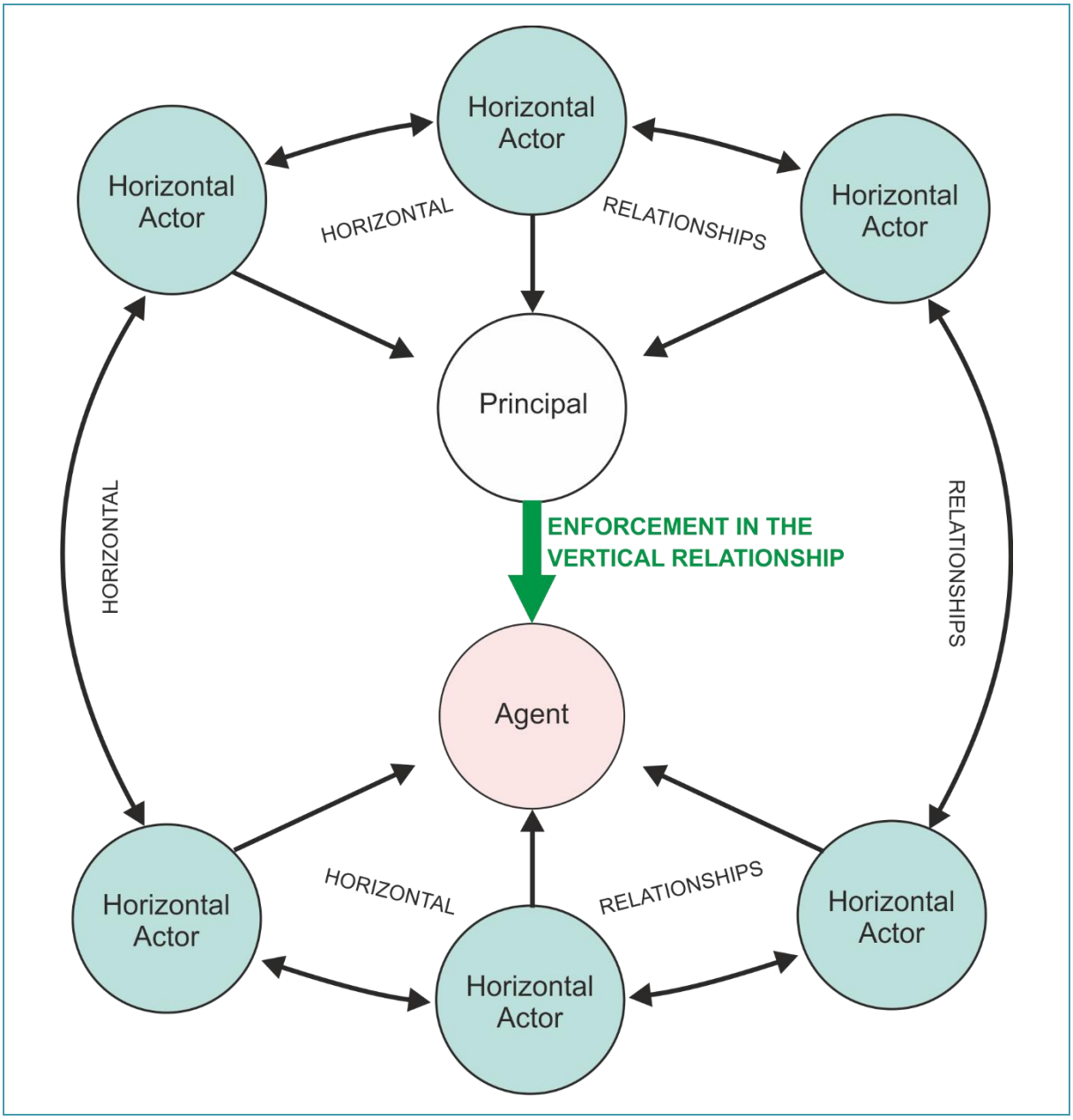
Horizontal checks are *effective* when their intensity and regularity are sufficient to make horizontal partners follow rules. Initially, productive organisations may only want to protect particular rules that they need for their own activity, but ultimately, as their transactions become more complex, they may also act to defend a rules-based system in general. Actors can inflict costs on their transacting partners in a variety of ways. They can withdraw from transactions with violators (even if they have violated in a transaction with another party); they can share information about violations with others to magnify the cost on the violator; they can put pressure on enforcement agencies to impose penalties on violators, and so on. The rules that are enforced in any context depend very much on these types of self-interested checking actions by what we describe as horizontal actors (Greif, 2006).

For all, or almost all, of the powerful to begin to follow rules most of the time, this network of horizontal checks supporting rule enforcement has to become extensive and dense. These conditions are demanding, and societies where rules are generally enforced regardless of the identity of the violator are therefore relatively rare. We describe these societies as 'rule-of-law' societies, while North, Wallis and Weingast (2009) describe them as 'open access orders' (Khan, 2018a; 2018b; North et al., 2013; Khan, 2010; North et al., 2009; North et al., 2007). Most societies do not (yet) have these conditions and therefore policies that assume that a rule of law exists are unlikely to work in the general case. The special conditions under which the principal–agent model works are exactly the same conditions that ensure a rule of law.

A simplified picture of the network of horizontal checks that supports enforcement in rule-of-law societies is shown in Figure 2. The police, judges, journalists, teachers, businesses, politicians, voting constituencies and other principals in these societies not only enforce rules when violations are detected, but they also follow rules themselves. This is not (just) because they are normatively so inclined. They are each engaged with many other comparably powerful horizontal actors who are checking them and who are expected to impose costs on them if they violate rules. Principals know they can rely on support from other horizontal actors (including a variety of enforcement agencies) if they need assistance in enforcing rules in a particular case. Similarly, agents, regardless of their power, are likely to accept penalties once detected and to work to restore their reputation. A business, a politician or a bureaucrat identified as having violated rules can expect other actors to stop transacting with them until they can show they have accepted responsibility and paid any penalties. The important point is that this is not just for normative reasons but because all these horizontal actors really do have material interests in not transacting with violators.

The characteristics of these network effects determine the likelihood of legal contracts being enforced or implemented. The probability that lawful contracts or policies will be implemented and penalties for violations enforced is high if there is a dense network of effective horizontal checks operating in the background, supporting and demanding adherence to the rules. If these exist, implementation and enforcement along any specific contractual line (the vertical green arrow in Figure 2) happens smoothly at a micro level, just as lawful rules will generally be enforced at the macro level. Greater transparency, and improved contract design strengthening the incentives of agents to follow rules, should further reduce violations in this context. And because both sides know and expect that horizontal pressures and responses will make it very costly for violators to avoid penalties with impunity, violations, once detected, are usually followed by the violator accepting penalties and making amends according to the contract, though sometimes with some pressure having to be applied.

Figure 2 Why principals are 'principled' in rule-of-law societies



Source: Authors.

Without a network of effective horizontal checks supporting rule enforcement, some violations may persist even after being detected. Without pressure from other powerful actors, some principals may find it feasible and profitable to collude with agents on some violations. Other principals may fail to find sufficient support to enforce rules on powerful agents. To make matters worse, some horizontal relationships may *support* rule violations. This can happen if powerful actors violate rules and can impose costs on other actors if they do not support or participate in their violations. Thus, some violations may not be corrected because horizontal checks supporting enforcement are weak, and other violations may be actively *driven* by adverse horizontal relationships.

Thus, horizontal relationships are not always 'formal' nor do they always support the enforcement of formal rules. Some horizontal checking that is *informal* can support formal rules. The informal checking in queues is the simplest example. Other horizontal checks are based on formal trading or contractual relationships. The joint effect of formal and informal checking activities can be insufficiently strong to support formal rules in some contexts. Moreover, some informal horizontal relationships can *support* rule violations by creating powerful networks that can collectively resist attempts at enforcement. These informal coalitions can also coerce other organisations to violate rules. Transparency and accountability improvements may have limited effects in these contexts. What is to be done in these more typical cases where the rule of law is missing or weak? To answer this question, we need to describe some of the features of actors who are likely to engage in checking activities that limit violations.

A. The feasibility of anti-corruption

An anti-corruption strategy is feasible if it is both implementable and if it remains so over time. As Figure 2 suggests, corruption-driven violations are more likely to be corrected if formal enforcement mechanisms based on transparency and accountability are backed by horizontal relationships (both formal and informal) constraining principals and agents. For this to be the case, horizontal checking activities supporting rule enforcement have to emerge and persist over time, at least around the policy of interest. As these activities have costs, sustained checking by actors is only likely if they act out of self-interest. Persistent checking is very different from angry outbursts where thousands of people may come out on the streets to protest against corruption. This may result in a change of government but is unlikely to be persistent enough to ensure that the next government does not engage in corruption.

By contrast, the ongoing horizontal checking of related parties involves the continuous seeking out of information, passing on information to others, avoiding transactions with rule-violators, and so on. These activities are costly and unlikely to be sustained without strong material interests. Some actors are more likely to have such material interests. Productive organisations, and particularly complex ones, need internal rules to operate, and have a strong interest in ensuring that rules are adhered to. Their profitability may also depend on enforceable contracts with other actors, including ones they do not know well. They are then also likely to care about the rule-following reputations of other actors. But productive organisations are not the only ones who may be interested in enforcing rules. Political organisations or even informal networks may benefit from productive outcomes and engage in supporting relevant rules. However, they also have to have the power to constrain the behaviour of others. The *feasibility* of anti-corruption therefore requires us to look at the configuration of power, capabilities and interests across organisations to assess the opportunities for generating the appropriate horizontal checking activities.

Power is important because if violators are more powerful, checking is unlikely to be effective. The relevant definition of power here is 'holding power'. The longer an actor can hold out in contests relative to others, the more likely they are to win (Knight, 1992). Holding out is costly because it may involve spending – for instance, to influence others, to engage in

strikes, incur expenditures in lobbying, and so on – and it may also involve absorbing costs that others may inflict during contests. Holding power therefore depends on the ability to organise and mobilise resources. It can be based on organisational ability, financial resources, the ability to mobilise around legitimising ideologies (and this highlights the importance of ideas and beliefs, and how these can shape and affect the distribution of power), and so on. The decision to contest is based on assessments by actors of the power of others, and how they may respond. Attempts at violations usually happen when an actor is weak, and conflicts break out if that assessment was wrong. The presence of a large number of organisations with comparable levels of power makes it unlikely that any actor will openly violate collectively agreed rules. The broader the distribution of power across organisations, the more likely it is that rule-following behaviour will be sustained (and free-riding will be limited), provided the rules serve the interests of the actors.

Capabilities describes the ways in which organisations make a living. An organisation with *productive capabilities* generates income by creating value. Such organisations are not necessarily commercial organisations like firms. Any organisation whose products or services are of value to others, whether paid for in the market or out of taxes, has productive capabilities. Organisations can be productive delivering sports, culture, health and education, as well as goods and services in the market. Organisations that add value are likely to be internally well-organised and require predictable and enforceable internal and external rules to operate. Even though productive organisations may also often have incentives to free-ride, they also have incentives to check whether others they deal with are following rules and delivering as expected. They may be willing to incur costs in checking the violations of others if this is required to protect their own interests.

The higher the *productive capabilities* of an organisation, the more complex their activities are likely to be, and the more likely they are to demand rule enforcement and have the power to impose costs on rule-violators. Productive organisations with lower productive capabilities may behave very differently. Many countries have large informal sectors that may account for 70%–80% of the economy in some cases. Many (though not all) organisations in the informal sector may not even be profitable enough to be able to pay to register their activities, and many may not be able to survive without cutting corners and violating some rules on a regular basis. Such organisations are unlikely to exercise any horizontal pressure on trading partners if they discover they are violating rules.

Some organisations, particularly informal ones, can have significant *organisational capabilities* without being directly productive. Some clientelist networks, political parties or citizen groups can be in this category. Organisational capabilities can deliver material benefits for members by giving them holding power in contests over rents. These organisations may sometimes engage in supporting better delivery by other organisations and rule-following behaviour by them. But some informal networks with high organisational capabilities can *extract* resources from others. The more typical clientelist political organisation is of this type. These capable but extractive organisations have the opposite interest when it comes to supporting rules. They may enforce rules within their own organisation (think of the mafia) but may actively engage in horizontal relationships to compel other organisations to violate rules.

Organisations may, therefore, differ both in terms of their capabilities and holding power, and this can affect their horizontal relationships. In our research projects where we find clear evidence of effective horizontal checks (some of which are referred to below), those checks usually involved individuals and organisations with relatively high productive capabilities. Future research will focus on looking for evidence and identifying conditions under which organisations with high organisational capabilities (but not directly engaged in productive activities) can support horizontal relationships to check violations and improve the delivery of expected outcomes.

The *interests* of actors are closely related to their power and capabilities but are also different. An actor's interest in supporting enforcement depends not only on their own power and capabilities, but also on that of their horizontal partners and competitors. Even productive organisations may not have an interest in supporting rule-following behaviour if they can do better by becoming extractive. This can happen if there are very few productive organisations with the power to check *them*. Under these conditions, productive organisations can become crony capitalists by colluding with governments to get easy access to different types of rents. But if there are a large number of productive and powerful organisations in a sector or society, collusion becomes difficult, and at some point, powerful organisations are likely to support rule enforcement so that competitors get no special advantages. Therefore, productive capabilities and power alone may not be sufficient to ensure that organisations also have the *interest* to support rule-following behaviour. That emerges when there are a large number of productive organisations with similar levels of power.

Therefore, a very specific configuration of power, capabilities and interests has to emerge to support a rule of law. Otherwise, formal processes like transparency and accountability may fail to reduce aggregate levels of corruption. Yet to sustain development, it is necessary to address corruption and governance problems in specific sectors where policy distortion has serious effects. In some of these areas, it may be feasible to improve outcomes if effective checks can be developed with appropriate policies. We have to look for opportunities to create and deepen conflicts of interest between rule-followers and violators to create some of the horizontal checks that are taken for granted in rule-of-law contexts. If this can be done, transparency and accountability processes may actually begin to be used by interested parties and reduce damaging types of corruption.

The question of 'who will implement' also becomes important in the 'last mile of policy implementation', and that is finding those actors in government or the implementing agency who will ensure enforcement. These could be donors, or the relevant minister or bureaucrat. Once we identify the correct 'implementers/facilitators', our feasible and implementable strategies have a higher probability of being implemented.

B. Ensuring high and positive impact

Apart from the feasibility of an anti-corruption strategy, we have to ensure that it has a high positive impact, and at least does not have a negative one. A negative impact is clearly a risk in contexts where the rule of law has been weak for some time. In these contexts, many unreasonable laws exist on the statute books because no one really knows whether following those laws is feasible and people have simply ignored these laws or engaged in petty corruption to get around them. As a result, in these contexts, some laws and regulations are indeed reasonable, and the violators are free-riders or extractors who are harming others. This is the type of corruption we need to stop. But, at the same time, some rules are actually not 'reasonable' and enforcing them can impose significant hardship on vulnerable groups or put them out of business. Without looking at the reasonableness of the underlying laws and their implications for developmental and welfare outcomes, enforcing these rules could be harmful. While 'reasonableness' sounds like a subjective assessment, we use the term because it is easy to understand. A more technical description would be the following: we should be concerned with violations that amount to free-riding or extractive behaviour. We should not enforce rules on violators who are neither free-riders nor extractors but are simply individuals who cannot follow these rules. Enforcing the rules on them will serve no social purpose and may even reduce social welfare because these actors may simply go bankrupt, exit from the activity, or worse. Rules should only be enforced when all those who are expected to follow the rules have the capability to do so or the rules should be changed so that unnecessary violations are not encouraged. Only then will enforcement enhance society's welfare.

We find many examples of unreasonable rules and laws in countries and sectors with high levels of corruption. We are not condoning these types of corruption, but we are saying that this corruption cannot be addressed without first ensuring that the rules or the delivery systems are changed. For instance, junior doctors in Bangladesh who violate their employment rules by being absent from rural health clinics are doing so for different reasons. Some doctors with young families, or female doctors, are expected to attend remote clinics where amenities, schools, and even security may be lacking. These doctors may be violating rules for 'reasonable reasons'. At the same time, other doctors who could attend are violating the same rules for 'unreasonable reasons' because they have decided to free-ride on a minority of committed doctors by refusing to attend. Understanding these differences and responding to them is essential for splitting the free-riders from the reluctant violators and creating sufficient horizontal pressures against free-riders and extractors.

In the same way, rules of registration and taxation often ignore the fact that many organisations in the informal sector have low productive capabilities and may go out of business if these rules are prematurely enforced (Roy and Khan, 2021). In Nigeria, productive small and medium-sized enterprises (SMEs) facing severe power cuts often have to choose between shutting down their business or accessing electricity in ways that may be breaking rules and engaging in corruption. If we are unable to ensure that actors who do not want to break rules can operate without doing so, enforcing anti-corruption may cause substantial harm. Conversely, addressing the problems of violators who have reasonable reasons for

violating may directly enable many actors to stop being corrupt, and enable these actors to create horizontal pressures against the genuine free-riders and extractors.

There is a related problem when enforcement against genuine violators may be happening but in ways that are not necessarily developmental or welfare-enhancing. Here, too, we should be careful in extending uncritical support. We have already referred to cases where agencies like anti-corruption commissions are partially effective because of horizontal relationships with and pressures from the ruling party. These relationships give the agency the power to pick up, arrest and prosecute otherwise powerful opposition politicians, but the relationships also ensure that ruling party politicians cannot be touched. Here, the horizontal relationships and pressures that achieve partial enforcement are actually problematic even if it targets genuinely corrupt politicians. The intention of extractive ruling parties is to lock up the opposition so that their own corruption can continue unchecked. The result may be to *raise* overall levels of corruption because horizontal checks on the ruling party disappear or become weaker.

These examples demonstrate why we need to assess the welfare implications of enforcing particular rules on particular target actors. We are interested in finding opportunities where better enforcement is feasible and will achieve improved outcomes – for instance, by helping to create more jobs, enabling lower electricity prices, ensuring more absentee doctors turn up for work, and so on. Targeting the corruption that results in the wastage or misallocation of policy resources in these types of activities often has the desirable combination of feasibility and impact. Petty corruption is also often feasible to address. Those involved are often less powerful than those they extract from, but they can get away with it because the laws are badly made. Many countries have, indeed, made good progress against petty corruption by simplifying laws, or using digital technologies and other methods to improve transparency. Often, the impact of removing petty corruption is not huge but occasionally petty corruption can seriously affect the delivery of public goods. In these cases, petty corruption too should be prioritised for developmental impact.

At the other end of the spectrum, high-level corruption by political leaders engaging in grand theft, patronage or clientelism may have very negative impacts on development but may be very difficult to address because sufficiently powerful horizontal actors with the power and interest to check them do not (yet) exist. These types of corruption only become feasible to address when a country makes significant progress towards operating a rule of law, with many powerful organisations checking each other as well as checking powerful political organisations. Only relatively advanced productive societies (those with a broad base of high income) are likely to have the necessary range of powerful organisations that can constrain powerful political leaders through effective horizontal pressures.

As a result, our anti-corruption efforts mostly target specific intermediate activities at the sectoral or sub-sectoral level in public services as well as in the productive private sector. For instance, in healthcare service delivery, we have focused on absenteeism in primary health care centres rather than working on increasing accountability across the sector as our research revealed that the former is where policy would be feasible and have most impact. In other cases involving the productive sector – for example, in the power generation sector

in Nigeria – we have not focused on immediate reform of the national grid. We have instead focused on increasing electricity supply to clusters of SMEs most affected by power shortage and corruption in the sector (see Box 2 for examples). In the first example, we look at a specific level of activity in the healthcare delivery sector, and in the second, we consider electricity supply and generation outside the national grid, which is at the sub-sectoral level.

Such a sectoral anti-corruption strategy with high-impact priorities can accelerate the path towards a rule of law by developing new capabilities and organisations in society – though of course, no anti-corruption strategy is without some risk of reversal. This is the theory of change informing the identification of anti-corruption opportunities in the SOAS-ACE research programme (ACE's Theory of Change - ACE (soas.ac.uk), Khan, 2014; 2006).

3. Feasible and high-impact anti-corruption strategies

We identify three evidence-based types of anti-corruption strategy depending on the degree to which horizontal checks are already operating or could be feasibly developed in the activity or sector of interest. We illustrate these with reference to a selection of research projects from the SOAS Anti-Corruption Research Consortium (SOAS-ACE). Examples include fraud in skills programmes where hundreds of millions of dollars are wasted globally, or collusive overpricing in power purchase contracts that cost taxpayers in some countries billions of dollars. In other cases, such as doctor absenteeism in public hospitals, where around half of doctors or other health workers may be absent from critical facilities, new policy approaches could trigger self-interested checking that may have a significant impact on corruption. And finally, there are important areas such as the theft of oil in the Nigerian artisanal refining sector where there may be no immediately feasible strategies for triggering horizontal checking. This, too, is an important finding and suggests that in many areas, longer-term mitigation and transformation strategies are required.

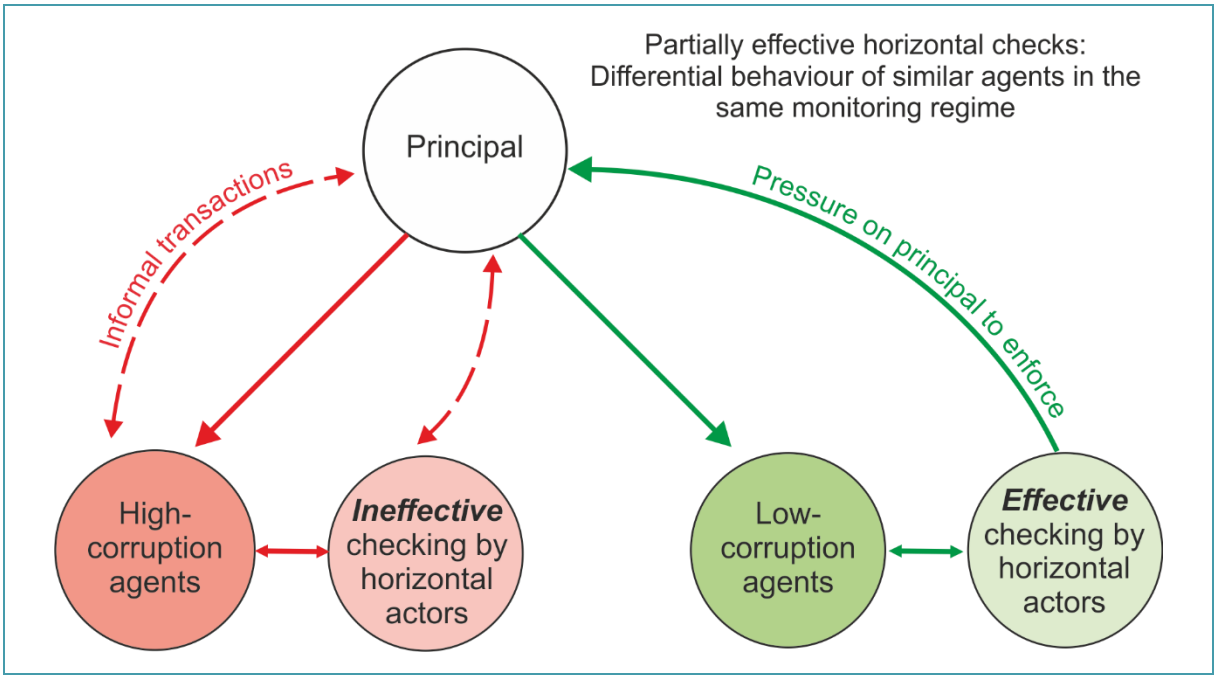
Based on our assessments of the extent and feasibility of effective horizontal checks in a sector or activity, we identify three policy approaches for effective anti-corruption. These are: (1) strategies that seek to *enhance effective horizontal checks*; (2) strategies that try and change sectoral incentives to *create effective horizontal checks*; and (3) strategies that focus on *mitigation and transformation*.

A. Enhancing effective horizontal checks

In contexts where some effective horizontal checks are already operating, a feasible anti-corruption strategy is to enhance these checks and, if necessary, strengthen transparency and accountability processes. The first step in this strategy is to look for evidence that some effective horizontal checks are already happening; the second is to assess why some horizontal actors are engaged in this effective checking; the third and final step is to investigate if this behaviour can be extended or enhanced to other horizontal actors using feasible changes in policies.

A good way to look for anti-corruption opportunities is to look for differences in corruption behaviour across otherwise identical organisations operating under the same principal and the same formal contractual arrangements. Figure 3 illustrates a situation where the same principal is effectively monitoring some organisations and achieving low corruption (the solid green arrow) but other (otherwise similar) organisations display high levels of corruption (the solid red arrow). High-corruption agents are also likely to be engaged in informal transactions with the principal (for instance, sharing corruption proceeds) while low-corruption agents are less likely to be doing so.

Figure 3 Evidence of effective horizontal checks

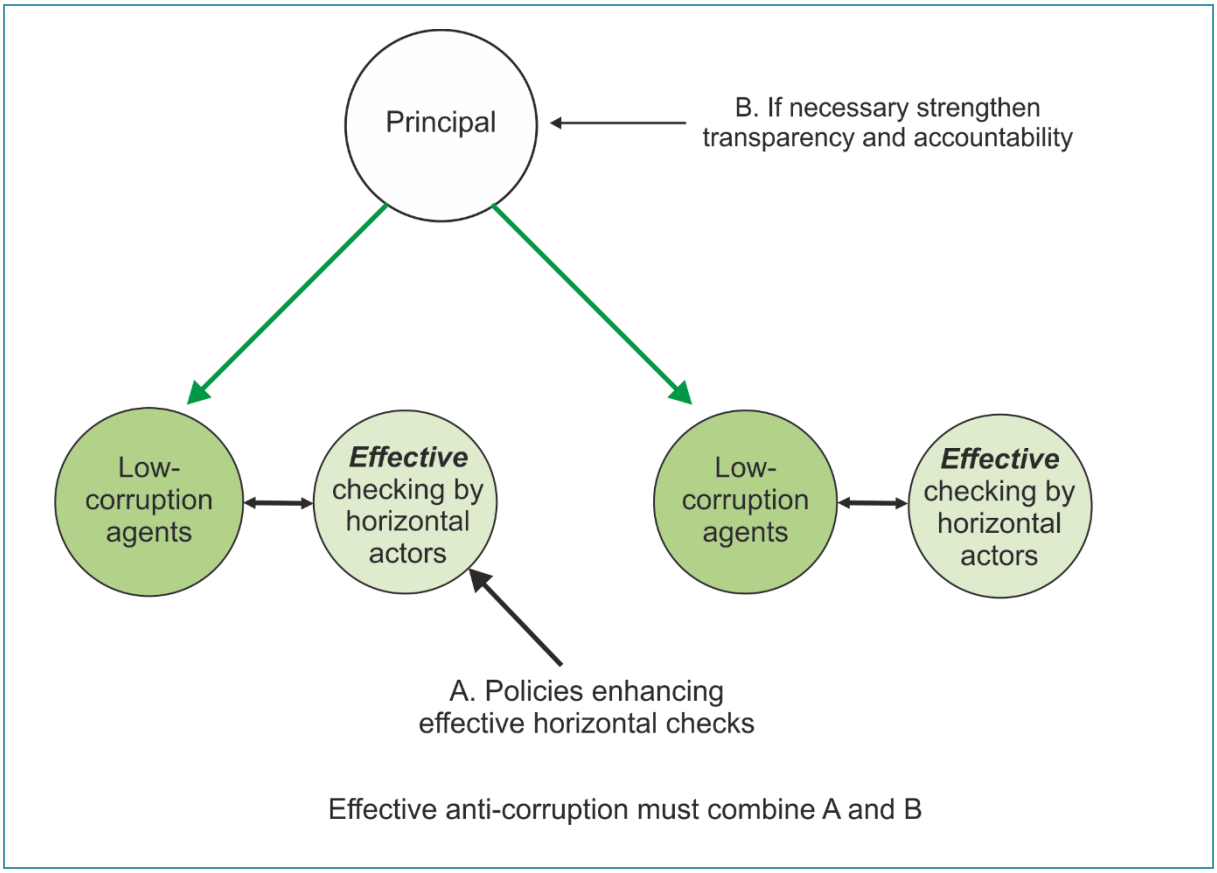


Source: Authors.

These differences in corruption cannot be explained by characteristics of the principal, or the transparency and accountability processes, because they are the same for the high- and low-corruption agents. More plausibly, the low-corruption agents are facing effective horizontal checks that constrain both them *and* the principal formally charged with monitoring. What happens throughout the system in rule-of-law contexts may be happening here in a partial way. The presence of an effective horizontal monitor changes the calculations of both the principal and the agent if the horizontal actor has sufficient power and the interest to make the check effective. The check is effective if the horizontal actor can impose costs on the principal or the agent or both if they persist in the corruption that harms that actor.

The second step in the analysis is to investigate if there are indeed differences in the characteristics of the horizontal partners that can explain differences in their horizontal checking. It often takes some research to identify the characteristics of the horizontal actors that can explain these differences. But once that is done, the behaviour of the actors is usually not at all surprising in terms of their power, capabilities and interests. We will discuss several examples from our research in Box 1.

Figure 4 Policies for enhancing effective horizontal checks



Source: Authors.

The final step in the analysis is shown in Figure 4. Can effective horizontal checks be enhanced, so that these are extended to include other horizontal actors? If such policies are feasible, this is the critical component of an effective and feasible anti-corruption strategy. An extension of horizontal checks is very likely to be effective because they are already partially effective. These policies should therefore be a critical component of an anti-corruption policy *package* for the sector (see Figure 4). That package could also have components strengthening formal transparency and accountability processes if necessary; but often, existing mechanisms of vertical enforcement may be sufficient. After all, effective horizontal checking was already limiting corruption in some organisations. Extending the number of effective horizontal actors simply makes the existing vertical enforcement systems work much better. While conventional anti-corruption strategies focus on transparency and accountability processes (B), the critical component of our strategy is the policy that transforms ineffective monitors into effective monitors (A).

Box 1: Enhancing effective horizontal checks – some examples

Skills programmes: Many millions of dollars are spent globally on skills programmes, but most achieve poor results. Incentivising trainers by linking part of their incomes to the successful employment of their trainees has failed to solve the problem. Instead, systemic fraud has emerged in many countries where post-course employment is over-reported by training providers. Principals in implementing agencies often also fail in their vertical monitoring because they often have incentives to keep programmes going. We compared 12 identical training providers in Bangladesh, providing identical training for the same industry, with similar trainer capabilities and curricula, selected by the same implementing agency, and subject to the same formal reporting and sanctioning mechanisms. We found significant differences in fraud levels in over-reporting employment (ranging from 60% for some to 0% for others). We traced this difference to differences in horizontal relationships of training providers with clusters of firms who were their customers. High-capability firm clusters had efficient internal working practices and would immediately employ trained workers while also easily identifying poorly trained ones. This created effective horizontal pressures for some providers that reduced their incentive for fraud. Low-capability firm clusters do not fully benefit from trained workers because their own production lines do not move fast anyway, and they prefer cheaper, unskilled workers from the factory gate. Training providers supplying them have strong incentives to engage in fraud because their trainees do not get jobs and the firms cannot identify the difference in quality of trained and untrained workers. Identical transparency and accountability processes resulted in different outcomes in the same activity. These effective horizontal checks can be feasibly enhanced with commercial investments to improve the organisational capabilities of employing firms. The evidence suggests that a joined-up strategy, combining commercial investments to improve firm-level capabilities with public investments in skills, could enhance horizontal pressure to reduce fraud by training providers to low levels, and productivity could rise by more than 30% (Khan et al., 2019).

Climate change investments: Many developing countries spend hundreds of millions of dollars in adaptation investments like river embankments and cyclone shelters. However, corruption in these projects can be very high and affect the quality of construction. In Bangladesh, as much as 30% of project funds may be misappropriated. Development partners have repeatedly opted out of funding climate projects because of corruption and governance concerns. However, some embankments and cyclone shelters built by the same government agencies and subject to the same transparency and accountability rules have much lower levels of corruption than others. By comparing four large projects in Bangladesh, a higher- and lower-corruption embankment project and a higher- and lower-corruption cyclone shelter, we found systematic differences between them in the types of horizontal monitoring by local citizens. We selected projects that were similar in other respects, except that the higher-corruption projects were deliberately selected in lower-corruption areas, and vice versa, so that better horizontal monitoring could not simply be attributed to low levels of background corruption. We surveyed 1,900 households in the surrounding project areas to see who was engaged in monitoring and why. Lower-corruption projects were monitored by significantly higher numbers of above-average-income citizens. Cyclone shelters and embankments in Bangladesh formally have ‘dual

uses', so that embankments are used as roads and cyclone shelters as community centres or schools. These are not always properly planned, but when the design happens to deliver strong immediate benefits to the local community (for instance, because the embankment road is connected to other roads and raises connectivity), a significantly higher proportion of influential individuals get involved in the informal monitoring of construction, and *this* reduces corruption. Influential locals are peers of the contractors involved in the projects and are able to access relevant information and exert effective horizontal checks during construction. Enhancing this horizontal monitoring can easily be done by taking dual use seriously and involving the community in designing projects to maximise dual-use benefits (Khan et al., 2022).

Public–private partnership (PPP) contracts in private power projects: Public procurements are subject to significant collusion and corruption risks in developing countries. The private sector generates more than 40% of power in Bangladesh in PPP projects and the power is sold to the public distributor. Many contracts have been collusive and overpriced, but others are remarkably competitive. Here, the problem is that high country and contract-enforcement risks deter politically unconnected investors, leaving the field open for connected investors allowing collusion with the principals granting contracts. Formal procurement, transparency and accountability rules are no longer effective. Overpriced contracts in the power sector alone cost the Bangladeshi taxpayer around $1 billion annually. By comparing 58 private plants selling power at different prices over an eight-year period, we found a 25% difference in prices across otherwise identical plants and projects after adjusting for differences in fuels, plant size and year of construction. The projects where prices were lower were ones where, for fortuitous reasons, financing was available from development finance institutions at lower than market interest rates and, *crucially*, not tied or available only to particular investors. This financing design lowered risks for politically unconnected bidders, and by enabling their participation, generated effective horizontal checks during the bidding process. In these bids, even if connected bidders won, they did so by bidding much lower prices. Effective horizontal checks suddenly made existing vertical enforcement in procurement processes work, whereas in other projects, they had little effect in limiting collusion. This can help design new financing instruments to open up competition and restrict collusion in procurement and PPP contracts (Khan et al., 2020).

B. Creating effective horizontal checks

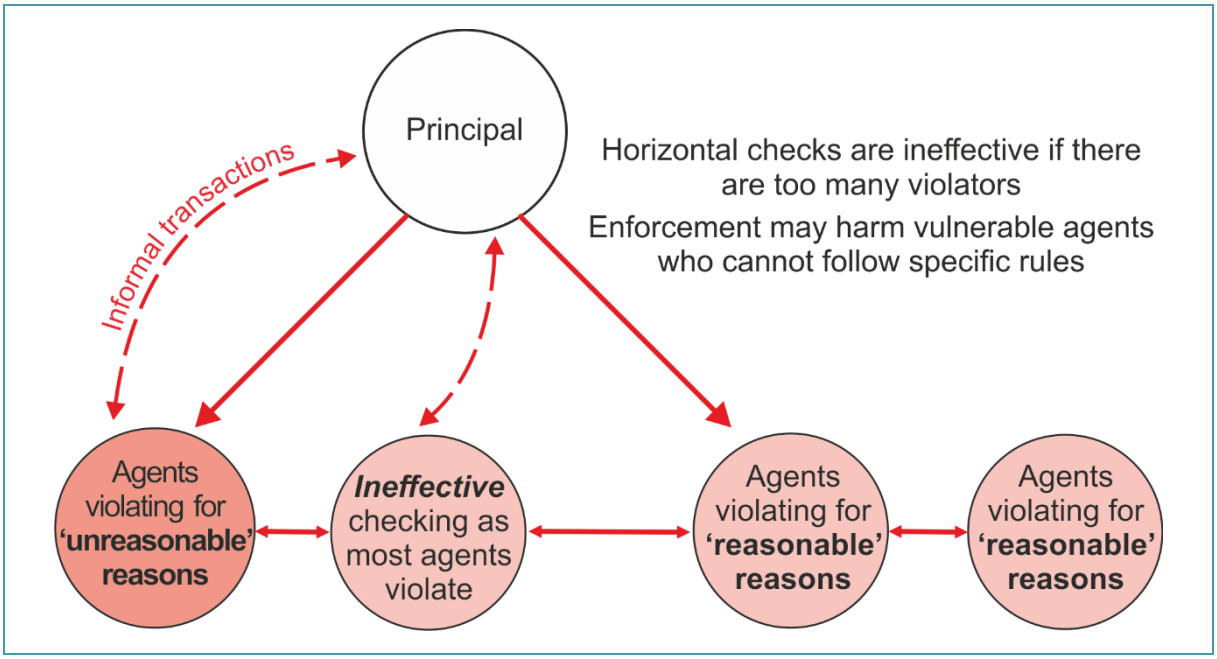
In many sectors, effective horizontal pressures are not sufficiently strong to have an anti-corruption effect. Often, this is because there are too many rule-violators in that activity. There may be a feasible strategy in these situations if the violators are violating for different reasons. Some reasons may be socially desirable to address because the rules may be dysfunctional given the context. Here, a different approach has to be followed to identify feasible anti-corruption strategies. We first need to look at the evidence to assess if new rules or policies could change the behaviour of existing actors or bring in entirely new actors, with the aim of increasing both social welfare and adherence to rules. If such strategies are feasible, we could create the rule-followers who could also feasibly check others. At a later stage, these checks may be further enhanced using the first strategy.

Figure 5 shows such a corruption problem. Here, too many actors are violating rules and engaging in corruption, so internal checks by the actors themselves are not viable. The figure is a simplification because not *all* actors in any sector are corrupt; that is rarely the case. There will always be actors who do not have to be corrupt and choose not to be. The distinctive feature is only that *too many* actors are violating rules for horizontal checking to be viable. Nevertheless, a closer investigation may reveal that individuals are violating rules for different reasons. Some may be free-riders; these are actors who cheat when they do not need to, because cheating is even more attractive. Others may be even worse; they may be expropriators or extractors who are appropriating resources from others. But there may also be many violators who do not intend to be free-riders or extractors, but are forced to violate rules because the rules are dysfunctional for them and from a social welfare perspective. If the last group is significant in number, and if it is possible to feasibly change the rules so that this group can contribute to collective welfare, our second strategy is feasible.

As a simplification, we describe the latter group as violators who are violating for *reasonable* reasons – namely that following the rules would harm them to an extent that cannot be justified by any benefit to others. By contrast, free-riders and extractors ~~expropriators~~ are violating for *unreasonable* reasons. They *could* follow the rules but choose not to for selfish reasons. This distinction is very important in countries where many rules are constructed without proper consultation and taking account of differences in capabilities of different groups. One reason why corruption is widespread in many countries is that the distinction between different types of violators is not recognised and identified. Harsher enforcement attempts fail because a broad coalition opposes enforcement, including actors we would otherwise expect to support anti-corruption. And if enforcement partially succeeds under these circumstances, it usually disproportionately targets the more vulnerable violators who have reasonable reasons for violating. Paradoxically, enforcement under these conditions can *reduce* social welfare.

We find many examples in our research of violators who are compelled to violate but who are neither free-riders nor extractors (see Box 2). These include owners of SMEs in Nigeria who find it impossible to access power supplies without breaking rules because the public grid has extensive downtime. They also include junior doctors in Bangladesh, who may be allocated to rural health clinics without consideration of amenities for young families or security for female doctors. Many of these doctors may want to serve but not at the cost of their own security or the welfare of their families. Digitalised service delivery systems may have built-in errors that are difficult to correct unless you are powerful enough and have the money and connections to do so, or digitalisation may ignore the lower capabilities of some types of firms, particularly SMEs, to comply with registration, taxation and other requirements, forcing them to break rules or shut down entirely (Roy and Khan, 2021). In each of these cases, many violations may be happening for ‘reasonable’ reasons. And in those circumstances, horizontal checks break down, allowing free-riders and extractors to operate with impunity.

Figure 5 Creating conditions for effective checks may often be necessary

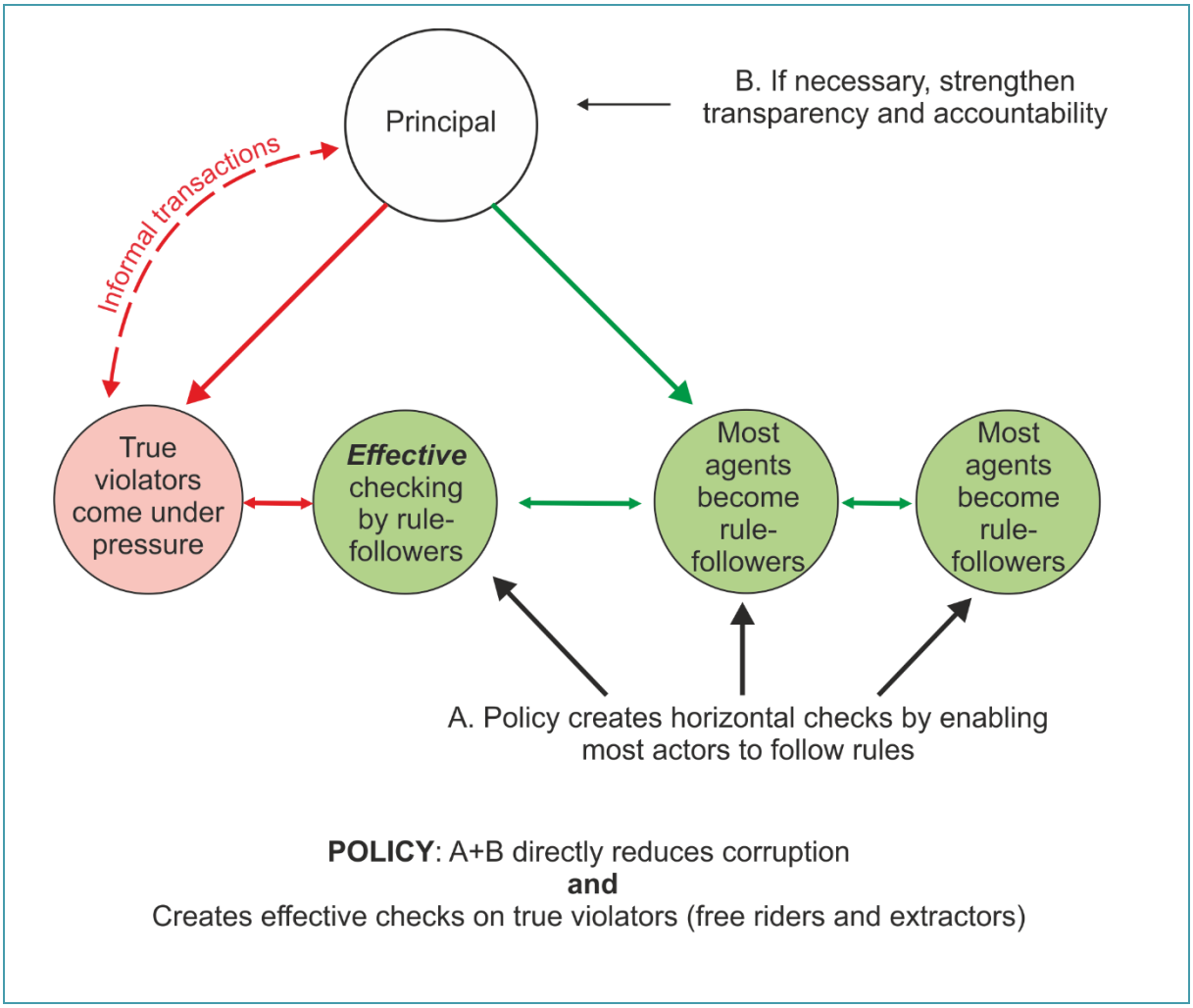


Source: Authors.

Infringements by powerful actors deliberately violating to extract rents and inflicting high costs on others are very different from those by actors who are violating for 'reasonable reasons', as described above. So, in the same examples discussed above, there may be SME owners who refuse to pay electricity bills that they could pay or make informal arrangements to access electricity from the distribution company; there may be doctors who are politically appointed or otherwise powerful and have no intention of attending rural health clinics even if the amenities are sufficient for them; and there may be powerful actors who can misuse digital systems to gain added advantages. These actors (in the darker circle on the far left of Figure 5) are likely to also be involved in background rent-sharing and other informal transactions with principals. However, other violators (represented by the lighter circles on the right of Figure 5) may be involved in corruption as a survival strategy; they may not benefit very much and may become rule-followers if the rules were to become more reasonable. Also, there may be so many violators that the principal cannot even identify all of them.

The first step in discovering a feasible strategy in these cases is to see if there is a policy change that can solve the problem of violations for 'reasonable' reasons. If policies can change incentives so that a significant majority of actors can be productive and follow rules, then rule violations will be directly reduced. In addition, we expect a second highly desirable side-effect. A significant increase in the number of rule-following actors is very likely to create pressures on the genuine free-riders and extractors – the small minority who were violating for unreasonable reasons. That cannot happen if we do not address the first order problem of making rule-following feasible for the majority. This transformation is shown in Figure 6.

Figure 6 Creating effective horizontal checks



Source: Authors.

Box 2 gives examples of our research identifying feasible ways of reducing violations for 'reasonable' reasons that are endemic in many sectors and countries. The full anti-corruption package may include strengthening transparency and accountability processes (B in Figure 6) (which usually already exist but are under-used). However, the most important component of the package is the strategy for reducing the violations of the majority of violators who would prefer not to violate (A in Figure 6). This can directly improve vertical enforcement by reducing the number of violations that have to be addressed by enforcers, but more significantly, horizontal checks will increase, raising pressure on the genuine free-riders and extractors. Finally, this strategy combination reduces the risk that enforcement will inadvertently reduce social welfare by penalising vulnerable violators who are forced to violate because they cannot comply with the rules as they are.

Box 2: Examples of strategies that can create effective horizontal checks

Health sector absenteeism: In Bangladesh and Nigeria, the percentage of absent doctors and health workers in rural clinics may be close to or sometimes higher than 50%. Horizontal pressures on free-riders from health workers who want to work are not likely to be effective with violations on this scale. Not all these violators are necessarily free-riders though; many may have 'reasonable reasons' for their behaviour. With violations on this scale, vertical enforcement fails, and the genuine free-riders cannot be identified. In Bangladesh, enforcement attempts have included the installation of fingerprint monitors to track attendance, with information about absences uploaded on public websites. This simply revealed absenteeism on a massive scale, but no effective action was or could be taken by principals with violations on this scale. Our research found that it was feasible to address many of the 'reasonable' reasons for violations. Using a discrete choice experiment, we found three statistically distinct types of doctors: (1) those who were already following rules; (2) those who were frequently absent but had legitimate reasons for absence (such as the lack of security for female doctors in rural health clinics and the lack of amenities for doctors with families); and (3) those who were unlikely to attend under any circumstances (the genuine free-riders). Addressing the legitimate concerns of the second group is economically feasible and also normatively justified. Moreover, a policy addressing the concerns of the second group would significantly increase the number of rule-following doctors, creating conditions for effective horizontal pressures on the remaining minority of true free-riders and enabling existing transparency and accountability measures to be more effective (Blake et al., 2021).

Digital government service delivery: The rapid growth in digital government services using unique digital identities has been a powerful tool for reducing information asymmetries and has reduced some types of corruption. But our analysis evaluating India's Aadhaar system showed that violations in government service delivery happen for very different reasons. The powerful are more likely to be free-riding or cheating. The less powerful sometimes also violate because they are unable to comply with particular rules, and this is particularly true of low-capability SMEs or poor people who are unable to find all the evidence that is required to register for different services. The ability of different types of actors to correct mistakes can also vary greatly. Digital government service delivery can reduce some types of corruption and exclusion, but it can also exacerbate the exclusionary effects of asymmetric power. Some types of exclusion can get worse and the less powerful may be forced into new types of corruption. An important implication of our analysis is that extending digital government services too rapidly can paradoxically lead to increased corruption and enhanced power asymmetries if the different types of violators and the reasons for their violations are not adequately recognised. The Bangladesh government's digital agency, a2i, is using our framework and we plan to work with them to identify risks and design systems to reduce the dangers of exclusion and secondary corruption in digital systems (Khan and Roy, 2019; Roy and Khan, 2021).

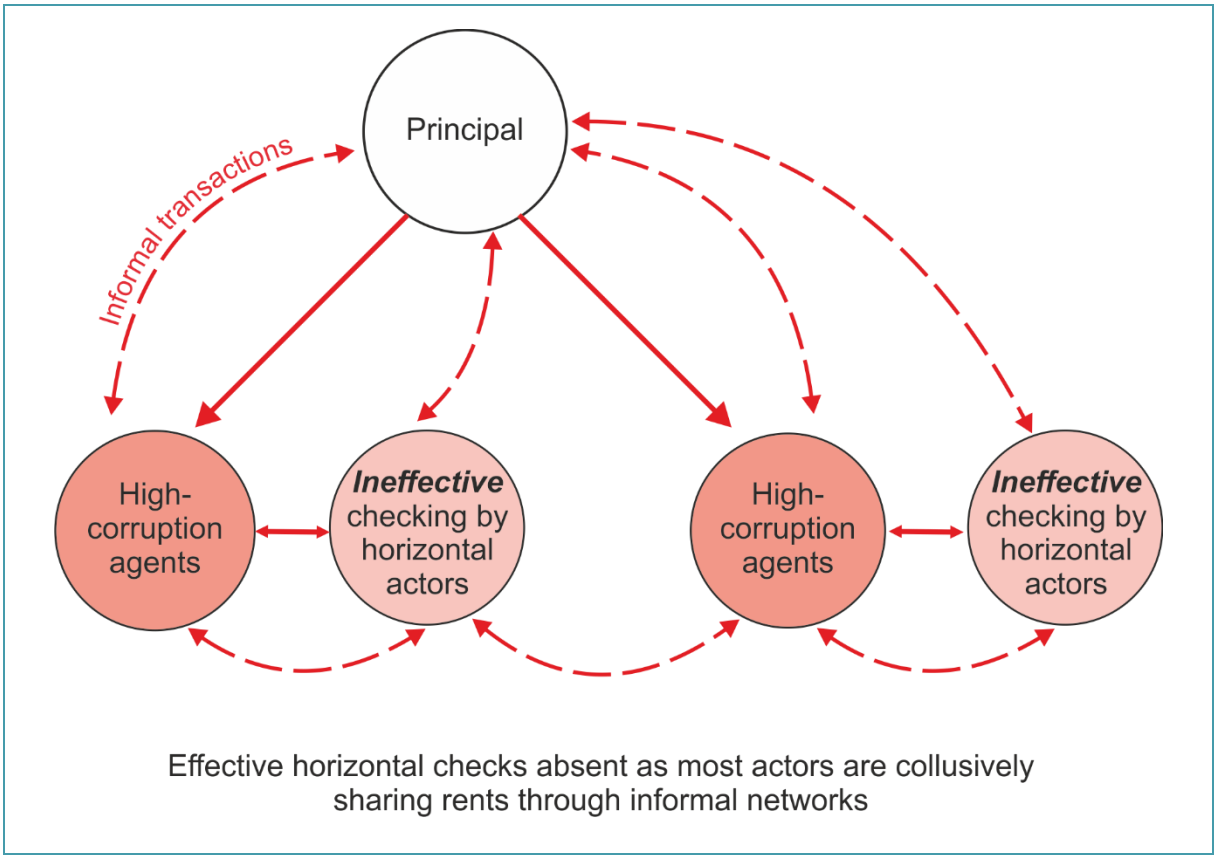
Embedded, disaggregated power for small and medium-sized enterprises using greener sources of fuel: The Nigerian national grid is dominated by politically connected firms who do not have the technical and financial capabilities to address the major problems facing the sector. Nevertheless, political connections help them obtain bailouts. Capable investors stay clear, as anyone without political connections is less likely to get paid. Effective horizontal checks are absent and service delivery is poor. Many users have to engage in corruption for 'reasonable' reasons: SMEs have to rely heavily on own generation, and have to resort to violations – for instance, buying diesel on the black market or stealing electricity from distribution lines. As solving the problems of the grid will take time, enforcing anti-corruption on SMEs is not likely to enhance welfare. The most feasible policy for addressing the electricity access problems of SMEs is to develop mini grids. By moving the problem to the level of a local grid, we can *centre* effective checks. We worked with 32 clustered SMEs to establish the feasibility of cleaner, gas-based (and potentially solar) solutions for generating power in local grids for SME clusters. Investors in mini grids do not face the high political risks and corruption that characterises the main grid. Better-quality investors may be attracted to supply local SMEs, and our research shows they are willing to pay for a predictable power supply. Horizontal checks between SMEs and local power providers are much more plausible and can set up effective horizontal checks within the cluster to limit power theft and the non-payment of bills on the one hand, and pressures on generators to keep power supply and prices aligned with SME requirements on the other (Roy et al., 2020).

C. Mitigation and transformation strategies

Sectoral corruption problems may not have an immediate solution if there are many violators *and* there is no way of splitting this group by making it possible for a majority to start following rules. If the corruption practised by different actors is closely related and the rents are shared across these horizontal networks, we may have a very different configuration from the one discussed in the previous section. We describe these situations as 'networked corruption' because many of the violators are transacting with each other even if their levels of benefits from the violations are different. It may not be possible in these situations to use feasible policies to create rule-following opportunities for the majority.

An example of this type of networked corruption is shown in Figure 7. These collusive horizontal networks can emerge when many violators have livelihoods that depend on the circulation of illicit rents. This is different from the previous case, where a majority may be violating because they cannot follow the rules in place. Consider local economies around activities like stealing oil from pipelines or opium production; these activities create significant illicit rents that create a local economy where a vast variety of interests are horizontally linked to the illicit activity. Here, horizontal relationships due to the rents in the local economy are such that almost no one can 'break' out of this network even if the returns from violation are extremely unequal. This obviously makes it very difficult to trigger rule-supporting horizontal relationships. A large number of people may benefit (to varying extents) on rents from the illicit activity, and unless policy can create feasible and more attractive opportunities for a large enough number of these actors, they are unlikely to start following rules.

Figure 7 Networked corruption makes effective checking unlikely



Source: Authors.

In the case of the artisanal oil industry in Nigeria, based around stolen oil, the beneficiaries may include high-level politicians and security agencies who may formally be the principals. At lower levels, the horizontal actors include artisanal refiners, the teams that keep the stolen oil flowing from pipes, the transporters of refined products, service industries like restaurants, sellers of artisanal refining products, and so on. All of these horizontal actors have business interests that are dependent on the illicit rents, and their horizontal activities are collusive to protect the collective interest in maintaining the economy based around theft and payoffs to enforcement agencies. As in the previous strategy, some of the people engaging in this corruption – who, in many cases, are poor and vulnerable – are violating because the rules are unreasonable. At least there is a strong perception among community members that this is, indeed, the case, given historical injustices in the region. However, the problem is that even poor people are engaging in extractive activities – namely, getting a (small) share of the illicit rents based on theft. So even if the violation is for reasonable reasons, it cannot be feasibly solved. Cutting out the stolen oil would make many local employment opportunities disappear, and what is more, poor people may join violent struggles to protect their livelihoods. Many community members also buy illegally refined diesel to power generators as the electricity supply is very erratic. As a result, attempting to enforce the law in these cases is again likely to harm the poorest people disproportionately, and may trigger violent conflicts.

Solutions in these cases are therefore further upstream. We have to first create the conditions for creating or enhancing effective horizontal checks. The first immediate response is to develop mitigation strategies to address the human costs of these activities – for instance, in the form of health and environmental risks, which are likely to be very significant. The other arm of the response is to take steps to transform the local economy to create local employment and income opportunities so that safer and more sustainable livelihood opportunities gradually emerge. This reduces the dependence of local communities (poor and non-poor) on livelihoods based on illicit activities. Only then can actors emerge who will follow rules out of self-interest and engage in horizontal checking.

This is very likely to be a gradual process. In the meantime, it is useful to understand why vertical enforcement strategies are not likely to work in these contexts. This understanding can help governments avoid inflicting inadvertent harm, not to speak of wasting time, effort and money. Those resources would be better spent on developing an effective mitigation and transformation strategy for sustainable and effective longer-term changes in the corruption environment (see Box 3).

Box 3: An example of a mitigation and transformation strategy

The artisanal oil industry in Nigeria: The Niger Delta artisanal oil refining industry (AOI) supports a local economy based around the theft and refining of oil. It uses crude technologies that cause severe damage to human and environmental health. All attempts at enforcement from above have failed. Security agencies, politicians and local communities collude in this crime–corruption nexus, and poor people at the bottom of the chain are literally caught in the crossfire. Standard anti-corruption approaches not only fail, they harm already vulnerable communities and frequently result in violent conflict. Despite being oil-rich, the Niger Delta remains one of the most impoverished and politically volatile regions of Nigeria. Severe power supply constraints in the country create the demand for AOI products from locals who purchase diesel to power their generators. The AOI economy is also integrated into the local economy and creates horizontally 'networked corruption'. With no internal horizontal pressure for enforcement, and strong collusive support for it, a strategy of mitigation and transformation is required, first to mitigate the harmful effects of AOI (such as pollution) and second, to provide alternative, legitimate livelihood opportunities, including cheap solar power and employment opportunities. This, rather than the conventional approach of criminalising the activities of AOI, may gradually create interests and capabilities for effective horizontal approaches in the longer term (Roy et al., 2022).

4. Comparisons with other approaches

Our PCI approach has similarities with a number of other ways of explaining extensive corruption but is also different in important respects. These differences are important because they imply different policy responses. In this section, we locate our analysis relative to a number of important alternatives. We distinguish between three distinctive approaches that a number of authors draw on in different combinations. These are: corruption equilibria explanations; social norms explanations; and explanations that focus on functional corruption (Marquette and Peiffer, 2018; Mungiu-Pippidi, 2015; 2013; Persson et al., 2013; Besley, 2006; Johnston, 2005; Aidt, 2003; Andvig and Fjeldstad, 2001; Falaschetti and Miller, 2001; Shleifer and Vishny, 1993; Andvig and Moene, 1990; Klitgaard, 1988; Rose-Ackerman, 1978).

High-corruption equilibria. These models are related to collective action models in game theory, which show that high levels of free-riding within a group can become an equilibrium that is difficult to change (Elster, 1989a). High levels of corruption can change the costs and benefits of individuals engaging in both corruption and anti-corruption. The probability of a corrupt individual being detected and punished declines as the number of violators increases, raising the expected benefits from corruption. At the same time, the benefit to a principal of engaging in anti-corruption also falls as other violators are expected to take their place. This reduces the expected benefit of anti-corruption. The society can then become stuck in high levels of corruption, and principals appear not to be 'principled' because there are too many corrupt agents to detect and punish. High-corruption equilibria may also result in low levels of trust and sustain expectations of corrupt behaviour by others, making corruption the rational strategy for everyone. Incremental anti-corruption efforts are therefore likely to fail because the system is likely to return to the high-corruption equilibrium after a while (Andvig and Moene, 1990).

The argument that high levels of corruption make anti-corruption more difficult is plausible, but taking the logic too far is also a mistake. Persson et al. (2013) take the analysis to an extreme by arguing that societies with high levels of corruption cannot follow an incremental strategy because any small improvements will revert back to the equilibrium. It is therefore *necessary* to have a 'big bang' to take societies quickly to much lower levels of corruption and a low-corruption equilibrium. The difference between our analysis and that of equilibrium theories is very significant. Equilibrium theories do not provide any analysis of power, capabilities and interests of organisations that may be necessary to support rule-following behaviour. They implicitly assume that a low-corruption equilibrium is just as feasible as a high-corruption one, and all we have to do is push hard to get to the better equilibrium. Even worse, the 'big bang' variants of equilibrium models are not just saying that these big changes are *possible;* they are making the much stronger claim that they are *necessary* as incremental changes will always fail.

We do not rule out the possibility that 'big bangs' may sometimes work; they will in situations where the underlying distribution of power and capabilities is already close to supporting a rule of law. A low-corruption equilibrium is then feasible, because the real capabilities and interests supporting rule enforcement already exist, and the bad, high-corruption equilibrium is therefore avoidable. A big push will move the system to a good equilibrium that is sustainable. But by ignoring the link between power, capabilities, interests and the sustainability of rule-following behaviour, equilibrium models provide a potentially dangerous recipe. A low-corruption society is not just an equilibrium based on the numbers of violators; it is an equilibrium sustained by the *actions* of large numbers of individuals who are acting out of self-interest to check violators. Sustained behaviour of this type has to be based on interests: these actors need an adherence to rules to fully utilise their productive capabilities. If such organisations do not (yet) exist, 'big bangs' will not take us towards a sustainable low-corruption society, but only to massive social disruptions and ultimate failure. Earlier arrangements are likely to return in new or even worse forms, as we have seen in many developing countries that attempted radical anti-corruption strategies only to revert back to what existed after a few years. Progress towards a rule of law and low corruption has generally been gradual and incremental because the development of organisations that can sustain rule enforcement is a gradual process. As a result, 'big bang' transitions are certainly not necessary. In fact, when the configuration of power and capabilities is very adverse, *incremental changes* may be necessary because at each step we are not only reducing a specific type of corruption, but we are also developing the effective checks that makes this self-sustaining.

Social norms. Social norms are expectations of behaviour that are sustained by the actions of others, including actions of imposing costs on other actors. The intellectual roots of social norms theories can also be traced back to game theoretic collective action models where expectations about the behaviour of others sustain an equilibrium of actions and beliefs (Elster, 1989b). When applied to anti-corruption, social norms theory points out that norms of expected behaviour in a high-corruption society can generate horizontal pressures supporting that corruption. There are obvious similarities with what we are describing as horizontal relationships, but where we focus on the real interests, capabilities and power of the actors involved, social norms theories usually argue that in order to get to a lower-corruption equilibrium, we have to change expectations about how others behave. Like equilibrium theories, social norms theories implicitly assume that a different set of expectations could support a lower-corruption equilibrium. Once again, this ignores that actors will only have the power and interest to check the corruption of others under very specific circumstances. Otherwise, norms that encourage rule-following are unlikely to emerge. In the same way, norms that encourage rule-violation may actually be there because they are aligned with the interests of powerful unproductive groups who punish or put pressure on those who challenge their privileges. Going back to the game theoretic roots, social norms describe an equilibrium of actions and beliefs. The beliefs or expectations about the behaviour of others do not exist independently, they are based on the expected *actions* of others, and those actions reflect their interests. In the political settlements analysis, the actions of actors are also based on their beliefs about how others will act, but the *expected actions* of actors depend on their productive and organisational capabilities (Khan, 2018a). This distinction is important in terms of policy implications.

Consider a problem seen in many developing countries where bureaucrats are expected to give jobs to people from their own political party, ethnic group, caste or tribe. Where this behaviour is widespread, job-seekers in the public sector are only likely to get jobs if they can find an appropriate patron. Social norms may also emerge describing horizontal pressures where bureaucrats who do not behave in this way face social ostracism and sanctions from their communities. Similarly, if clientelist parties are providing client groups based on tribe or party with patronage for electoral purposes, these actors may also sanction bureaucrats with threats or worse if they do not provide jobs to selected clients. However, these norms are not independent variables that just happen to exist. Behaviour of this type is not just sustained by expectations; it is sustained by the material interests of powerful networks like clientelist parties or ethnic networks who spend resources in horizontal relationships with bureaucrats and others (including sharing resources or issuing threats) to sustain particular patterns of behaviour. The behaviour is also sustained by the *absence of organisations* that could check bureaucrats who violate rules. Imagine what would happen if there were many powerful tax-paying organisations that stood to lose money if incompetent bureaucrats were appointed. They would exercise horizontal checks, spending their time and money to put pressure on – or cut their links with – political parties, ministers and leading bureaucrats who behaved in that way. If these organisations were powerful enough, and could therefore impose significant costs on violators, the norm of giving jobs to tribe or party members would be replaced by the norm of giving jobs based on merit. But if these organisations do not exist or are not powerful enough to exercise effective horizontal checks, the rule-following norms will not be able to oust the regressive social norm, however much we signal and publicise their utility.

Nevertheless, the central observation of social norms theories is surely right: societies develop expectations about how other people will behave and develop sanctions against individuals who violate expected patterns of behaviour, making that behaviour harder to change even if that behaviour is violating rules. The important questions are: what is the 'society' we are referring to? What material interests do these norms support? Who is doing the sanctioning, and with what resources? And how do we strengthen other interests that may support norms of rule-following behaviour? The sanctions supporting the low-corruption equilibrium have to be as strong or stronger than the sanctions supporting the high-corruption equilibrium. Simply trying to change the social norm without understanding why it exists risks becoming a moral argument that may not persuade people who are only violating because they are responding to compelling material incentives in difficult circumstances.

The related problem with social norms approaches is that problematic norms are rarely supported by the whole 'society' and usually only by a subgroup that benefits from them. A subgroup like a tribe or a clientelist network that benefits from a specific type of corruption is likely to use normative arguments and sanctions to sustain group behaviour, even though the broader society may not share these norms. An extreme example would be that of a mafia that has internal codes of conduct that it maintains through violence because its own norms enable the mafia to extract and share rents. The broader society does not necessarily share these norms and yet may have no power to change the behaviour of the mafia or clientelist networks operating in its midst. In this context, informing ordinary people that

rules are being broken by some, and that the social norms of that 'society' need to change, may not help at all because we may be attributing the norms of a subgroup to the whole society. Ordinary people who want these norms to change may actually have no power or capability to sanction those who are violating. If many people already feel powerless in this high-corruption context, reiterating the harmful effects of corruption and the norms supporting it through messaging may only serve to reinforce hopelessness and may even persuade those who are not corrupt to start breaking rules themselves (Cheeseman and Peiffer, 2020).

This is why our focus on power, interests and capabilities, both productive and extractive, is so important. Instead of trying to change norms directly, we look for opportunities where self-interested and sufficiently powerful actors will use horizontal relationships to engage in effective checking activities. This is a much more plausible way for progressive norms to emerge and be sustained. In the same way, it is important to recognise that regressive norms are not just accidentally there, they exist to protect the material interests of extractive groups who are currently powerful. As a result, the self-interested behaviour of those who are corrupt is only likely to change if other, equally powerful players become involved and effectively check them to protect *their* interests. Norms of fairness and honesty actually exist in *all* societies; people do not need to be taught better norms. When they remain dormant, that is only because they are suppressed by powerful interests who prefer discriminatory norms that suit their interests. The shift to expectations that impartial rules will be enforced requires the simultaneous activity of many powerful organisations supporting enforcement. This cannot happen if such organisations and extractive networks and organisations are stronger. The regressive norms in these contexts are therefore not directly a problem of the norms being the 'wrong ones', but of the distribution of power and capabilities supporting the wrong norms.

Changing this situation requires reformers to identify and promote capabilities and interests that support horizontal checks that may already be beginning to emerge or that are feasible to develop on the basis of existing capabilities and interests. This may require directly assisting the development of productive capabilities, further incentivising those who potentially have these interests, removing dysfunctional rules that force many actors to violate, and so on. It is only when rule-following norms and the interests supporting these norms reinforce each other that both become sustainable. The feasible way forward therefore does indeed rely on horizontal checks, but these cannot be ensured by trying to change expectations and norms. On the contrary, an excessive focus on norms rather than on capabilities and organisations can result in disappointment, because these efforts are likely to be blocked or reversed by powerful organisations.

Functional corruption. A third group of explanations focuses on the different ways in which corruption may be 'functional', as the utility of corruption for the parties involved obviously reduces support for anti-corruption. Functional corruption means that both those paying the bribes and the officials (whether principals or agents) collecting them benefit from the corruption. This makes the corruption 'transactional' and is often distinguished from corruption based on 'theft'. However, in most cases, corruption is both 'transactional' (because some coalition is better off and the corruption solves some 'problem' for them),

while also involving an element of 'theft' because someone somewhere else is usually worse off. The only corruption that may have no transactional element is theft by public servants (principals or agents) that is undetected by anyone else. In almost every other case, corruption, including corruption that involves theft, is also likely to involve transactions that fulfil various functions. But the type of function, the distribution of benefits, and the overall impact on society may vary widely. The more important point is that the functionality or otherwise of corruption does not tell us anything directly about the social costs of the corruption or the feasibility of anti-corruption.

Consider theft by public officials where payments are demanded by threatening harassment or worse. A business or individual may 'voluntarily' pay up if other courses of action, including reporting the offence, are not likely to be effective. Corruption may then be functional for the victim as a way of buying peace and security given the alternatives. The social cost may be small or large depending on the downstream effects on investments, welfare, security, and so on. When it comes to grand theft by leading politicians and officials, these too are rarely individual acts of theft, and are usually linked to systems of political corruption and clientelism. Large coalitions are typically involved, getting different shares of the loot. Many 'transactions' are involved to skim rents from government contracts or from sales of oil and natural resources (which require the exercise of power, authority and extractive capabilities across many different individuals and organisations), and different organisations and individuals benefit from these transactions. The rents that go to political leaders are also distributed across many groups and are often the cement that keeps potentially violent groups from engaging in violence in many political settlements. Perversely, therefore, even this type of very costly corruption may be performing important 'functions' (North et al., 2009; 2007; Khan, 2006; 2002). The social cost depends on an assessment of feasible alternatives. The most useful way of proceeding is therefore not to ask whether a specific corruption is transactional or theft-like (most are usually both), but whether the background conditions (power, capabilities, horizontal checks and so on) can be feasibly changed to achieve better developmental or welfare outcomes.

Yuen Ang's (2020) distinction between four types of corruption illustrates the problem. Her classification is based on whether corruption is transactional or like theft; and whether it involves 'elite' or 'non-elite' officials. The four-fold classification into speed money, access money, petty theft and grand theft is conceptually useful but difficult to apply in practice. Ang's classification has some overlaps with our distinction between corruption driven by market restrictions, corruption constraining policy interventions, political corruption and predatory corruption (Khan, 2014; 2006). Our classification focuses on the feasibility and impact of anti-corruption strategies addressing different types of corruption described above, but even that serves a conceptual purpose and is not directly applicable to policy. Ang's speed money is paid to lower-level officials to overcome bureaucratic obstacles. It is functional in helping to overcome these obstacles. This is very similar to what we describe as corruption driven by market restrictions. In any case, the functionality or otherwise of the corruption does not tell us much about how much damage it causes and how feasible it is to remove it.

In the case of access money, businesses and other actors spend money to influence the design and implementation of policies or the allocations of state resource. Ang argues that this corruption can drive growth even though it is likely to be damaging in the long term. However, not only is most corruption both transactional and theft-like, the important variants involve both elite and non-elite officials in various roles. In many countries, even the gains from 'petty theft' have to be passed up the chain for higher officials to turn a blind eye. Moreover, neither the social costs of a specific type of corruption nor the feasibility of anti-corruption may be read off from the broad conceptual category or type it is likely to fall into.

In this paper we take a deeper dive and focus on what we call 'policy-distorting corruption' (which is roughly similar to Ang's access money) as the most important focus of feasible and effective anti-corruption approaches. We argue that when corruption affects the implementation of policies, the outcomes can vary greatly depending on the details of the policy and the power and capabilities of affected actors. These factors also determine the feasibility of anti-corruption. Our analysis is therefore much more qualified; policy-constraining corruption can co-exist with growth, but it can also reduce growth, both in the short and the long term. Businesses can 'buy' policies that unleash growth, but they can also spend money to set up growth-reducing monopolies or overpriced contracts from the outset. Ang argues that the Chinese government had policies which ensured that access money drove growth and business shared profits from growth with public officials. We would agree. But underpinning this was not just a few policies of the Chinese government, but a deeper configuration of power and capabilities across business, political and bureaucratic organisations in China that was quite unique.

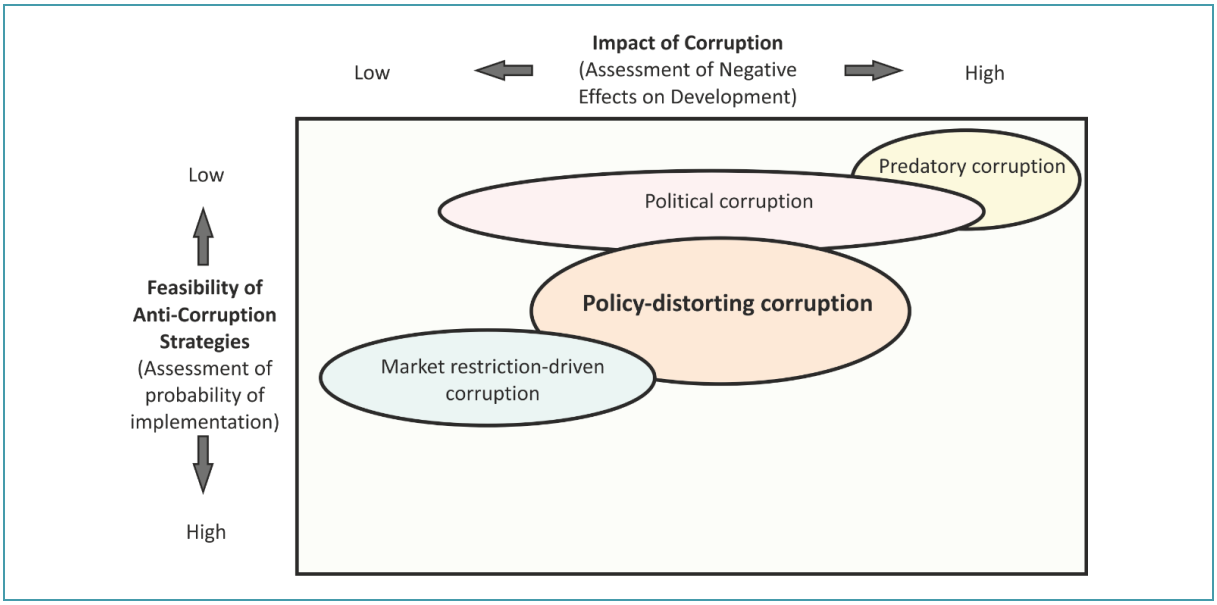
Nevertheless, we have argued that of all the types of corruption, variants of policy-distorting corruption offer the best opportunities for identifying feasible and high-impact anti-corruption. This is despite the fact that these types of corruption may appear to be functional and transactional. Actually, these types of corruption can do serious damage in many contexts, not just in the long term but also in the short term. Ang's example of growth-supporting access money in China is untypical, just as South Korean examples of corruption with high growth were in an earlier period (Khan, 2000a; 2000b). It is important for us to understand how corruption operated in those contexts, but also that these countries had very untypical political settlements (Khan, 2010). In most developing countries, policy-distorting corruption can have variable effects across sectors, and is growth-reducing in many cases. Fortunately, our research also shows that there are many opportunities for exiting from damaging policy-distorting corruption.

Our third type of corruption – political corruption and clientelism – does not figure as a category in Ang's work, reflecting her starting point in the very specific Chinese experience where informal fundraising and off-budget clientelist political allocations were not required to stay in power. In countries where political corruption and clientelism are rife, this type of corruption plays a function in maintaining political stability, but the outcomes can range from benign to highly damaging (Khan, 2014; 2006). Finally, Ang's last two types – petty theft and grand theft – have some overlaps with what we describe as predatory corruption. But as argued earlier, grand theft can sometimes be part of political corruption rather than theft proper, and petty theft can also be transactional and linked to speed money. What we

describe as predatory corruption is somewhat different and not observed in China's recent history. It happens when higher levels in the state lose control over lower levels, and warlords of different types emerge who can start extracting from citizens on their own account. We would have to go back to the China of the warlords in the early part of the twentieth century to find an equivalent example. Ironically, even predatory corruption can be 'functional' if this is the only way citizens can buy peace and protection. But even if warlords are 'stationary bandits' with moderate time horizons, the emergence of predatory corruption has some of the highest costs for society in terms of driving away investments and triggering ongoing conflicts between warlords. However, this type of corruption is also particularly hard to confront because only warlords are likely to have the power to check warlords. Unfortunately, warlords typically do not have productive capabilities, and their intention is simply to replace extraction by other warlords with their own extraction. The state-building process that is required to reel back a society from warlordism is therefore a long and uncertain one, as China's own experience shows.

Marquette and Peiffer (2019; 2018) have also argued that the functionality of corruption does not imply that it is good for society, only that it is solving 'problems' for those who are engaged in it. They use this to critique Persson et al.'s (2013) 'big bang' argument by pointing out that high corruption is not just an undesirable equilibrium; there may be reasons why some violations are widespread and solutions to these have to be found. We agree, and we have provided an explanation of why a high-corruption equilibrium persists in some settings. But we would present the argument in a different way to avoid misunderstanding and to link the analysis to a policy discussion. The reason why corruption is high in many countries is not because it is playing a functional role, but because the distribution of power, capabilities and interests makes it unlikely that we will find rule-following and enforceable ways of organising activity that also achieves greater welfare. Nevertheless, we have argued that we can find such opportunities, and these must be our starting point. Looking for the functionality or otherwise of corruption may be a red herring.

Figure 8 The feasibility and impact of anti-corruption



Source: Khan (2014).

The relationship between the functionality of any corruption and the feasibility and impact of the related anti-corruption is therefore a complex one. Linking the characteristics of impact and feasibility to broad types of corruption and their functions can therefore be misleading unless it is understood as a very rough starting point. Based on plausible assumptions about the distribution of power and capabilities in a 'typical' developing country, we can locate each of our four broad types of corruption in terms of their social harm and the feasibility of anti-corruption based on the likelihood of effective horizontal checks. This is shown in Figure 8. Corruption driven by market restrictions (bribing to get around red tape and so on) usually does the least social harm (though some variants can be very damaging). It is usually also relatively feasible to address for the reasons discussed earlier. By contrast, predatory corruption is usually extremely damaging but also quite difficult to address until the configuration of power changes considerably. Anti-corruption addressing some variants of policy-distorting corruption (where important policies, public service delivery mechanisms or procurements are distorted by corruption) has the most attractive mix of impact and feasibility. These sectoral opportunities have motivated much of our research.

5. Conclusions

Anti-corruption policies have fared poorly because the problem of their implementation has been largely ignored. It is often assumed that societies in developing countries are already close to a rule of law, that most people are already following rules, and therefore that if we improve systems of transparency and accountability, the few people who are corrupt will be quickly dealt with. As this has not happened, analysts and policy-makers have suggested a variety of other explanations and policy approaches, and we have reviewed some of these.

Rule-following behaviour has to be seen in the context of the power, capabilities and interests of the actors affected by the rules. Contexts where rule violations are widespread are also contexts where large parts of the economy are informally organised, which usually also means that most organisations have low productive capabilities. The tax take may be so low and social demands so high that much of politics is clientelist. Big shifts in corruption may be unrealistic in these contexts because powerful organisations who have an interest in exercising effective horizontal checks on violators may be few in number or even completely absent. Major shifts in social norms are also unlikely as regressive social norms are underpinned by horizontal sanctions and pressures from powerful networks that *benefit* from rule-violating behaviour.

Finally, we want to reiterate what we are *not* saying. We are not saying that anti-corruption can wait till the configuration of organisational power and capabilities in the economy has changed, when anti-corruption and a rule of law will emerge anyway. That is just as wrong as saying that productive capabilities will not emerge unless we can get rid of *all* corruption, and only then can a productive economy emerge. Both positions are wrong. The reality is more challenging and requires ongoing incremental interventions to improve governance at the micro and meso levels of sectors and policies. The countries that have progressed significantly towards a rule of law have done so by incrementally navigating this path and they have gradually become more productive and rule-following. Policy-makers, reformers and policy advocates have to identify problems in critical areas that are holding back development, and that can be feasibly addressed by the types of policy combinations we have discussed.

Our anti-corruption strategy is therefore not a separate set of measures that policy-makers can add on as complements to existing policies affected by corruption. Instead, we are saying that anti-corruption has to be built into the design of *all* policies. Policies work if policy resources are not diverted and wasted. The most effective way of ensuring this is to understand how different organisational interests are likely to try and divert or change the use of policy resources, and to design a policy package that creates incentives for critical actors to ensure policy success in their own interest. The more effectively we do this, the more rapidly we can progress towards a diversified society with higher capabilities. That, in turn, will enhance the demand for rule-following behaviour in more and more areas, and ultimately across society.

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