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Anti-Corruption Agencies: Why Do Some Succeed and Most Fail? A Quantitative Political Settlement Analysis

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Abstract

The question of why Anti-Corruption Agencies (ACAs) have reduced corruption in some developing countries but failed in most is unresolved. Many studies identify a lack of "political will" as the root cause, but in turn struggle to explain its source. This thesis argues that only where the distribution of power between contending social groups – the political-settlement – is relatively cohesive, governments are able and willing to support ACAs. The empirical test with a quantitative difference-in-differences-method applied to 172 countries confirms the hypothesis: in developing countries with cohesive political settlements the implementation of ACAs significantly decreases corruption while it has no impact in fragmented political settlements.

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List of Abbreviations

ACAs	Anti-Corruption Agencies
CoC	Control of Corruption Index
GDP	Gross Domestic Product
ICAC	Hong Kong's Independent Commission Against Corruption
ICRG	International Country Risk Guide
KPK	Indonesian Corruption Eradication Commission
TI	Transparency International
WGIs	World Governance Indicators

1. Introduction

Over the past two decades, corruption has increasingly been identified as a central impediment to development. As a result, pushed by the World Bank's new agenda on "good governance" and in accordance with the United Nations Convention against Corruption, developing countries adopted a range of anti-corruption measures with the goal of reducing the opportunity structures for corruption in society. A corner stone of this strategy is the creation of specialised Anti-Corruption Agencies (ACAs) that lead and coordinate the state's fight against corruption. Given the great success of such agencies in Singapore and Hong Kong, donors laid great hopes on their successful implementation in other corruption-riddled countries. Unfortunately, with few exceptions, ACAs are not considered to deliver on the high expectations bestowed upon them. Even worse, in some cases ACAs have been abused as a weapon to repress and eliminate political enemies. Thus, the central question that this thesis wants to address is: *What determines the effectiveness of Anti-Corruption Agencies in curbing corruption?*

In the last ten years, a number of scholars (e.g. Doig *et al.* 2007; Heilbrunn 2004; Meagher 2005) have attempted to answer this question, describing and comparing different cases of successful and failed ACAs. The consensus within all these studies is that ACAs that succeeded in curbing corruption – such as in Hong Kong, Singapore, or Botswana – were well staffed and financed, independent from political interference, and backed by broad public and political support. On the other hand, unsuccessful ACAs – such as in Kenya, Tanzania, or Nepal – were missing exactly these characteristics. The crucial question, however, remains largely unanswered: why were some ACAs well-funded, well-staffed and independent, that is, generally supported by a countries leadership while others were not?

I argue in this thesis that the answer to this question lies in the political settlements of developing countries (Khan 2006a; Khan and Gray 2006). Political settlements, that is, the balance of power between contending groups in society, can take on different forms. The most important is the fragmentation of the political settlement, in other words, the number of powerful groups and the division of informal and formal institutions in state and society. The central hypothesis of this thesis is that the higher the fragmentation of the political settlement, the less likely the success of ACAs. Correspondingly, ACAs have only been functional and

effective in states with cohesive or centralised political settlements. Given limited resources, political corruption is structural in all developing countries (Khan and Gray 2006: 18). Centralised political settlements, however, have the ability to confine corruption to the political arena due to higher political stability. Just as important is the fact that governments in cohesive political settlements have large incentives for promoting development, and thus detain any type of corruption that could inhibit economic growth. Consequently, here, the government can actually be perceived as a "principal" wanting to control his "agents" (Persson *et al.* 2013: 450). As this is exactly what ACAs are supposed to do, governments of cohesive political and institutional states will support and empower them, thus making them effective. In fragmented political settlements stability is lower, however, and the state lacks the ability and often the will to keep corruption from spreading to all levels of society. When corruption is systemic in all of society – not just in politics – it takes the form of a collective action problem: if most of society is likely to act corrupt, it is irrational and damaging for an individual to act honest (Rothstein 2011).

To test this hypothesis, I compare 172 countries from 1996 to 2012 using a quantitative difference-in-differences design. This design – provided central assumptions hold – can permit the identification of the causal impact that the implementation of an ACA (the treatment) has on the corruption level in a country, measured through the World Governance Indicators' (WGIs) perception-based Control of Corruption Indicator. The results confirm the hypothesis: ACAs work in countries with cohesive political settlements (proxied by whether a country is converging economically to advanced countries), but not in fragmented political settlements (proxied by diverging development). Given the severe potential limitations of perception-based indicators and specifically the WGIs, however, the findings have to be interpreted with care.

In the following, the research question is analysed in six parts. First, I review the relevant literature on the reasons for the success and failure of ACAs, thus summarising previous results, identifying areas of controversy, and consequently formulating questions that require further research. In chapter three I will present three theoretical models forming the theoretical framework of the study: first, the principal-agent problem as the "thesis" of why ACAs should work everywhere; the collective-action model as the antithesis, claiming the futility of ACAs in developing countries; and finally, the political settlement approach which

synthesises both frameworks into the working hypothesis. Chapter four illustrates my research design, including a detailed discussion of the selection and the limitations of the applied methods and data. Hereafter, I present the results of the study in chapter five and discuss them in chapter six. Concluding, I summarise the survey's findings, discuss potential policy recommendations, and touch on future prospects.

2. Literature Review

In the last two decades a growing number of scholars have studied the history, structure, and functioning of anti-corruption agencies. This increased interest in ACAs is due to three waves: the success of Hong Kong's, Singapore's and later Botswana's ACAs in curbing corruption; the following proliferation of ACAs since the mid-1990s; and finally the failure of most of the latter. Generally discussing the effectiveness of ACAs, most studies have either focused on single case studies (Bolongaita 2010; Camerer 1999; Chêne 2011; Dix 2011; Mutebi 2008; Okoth 2014; Quah 2001; Theobald and Williams 1999) or on a comparison of several cases, above all Johnston (1999), Quah (1994; 2008), Doig (1995; 2006; 2007), Meagher (2005), and Heilbrunn (2004). Other studies have concentrated mainly on finding and applying different possibilities and tools to measure the performance of ACAs (Doig *et al.* 2005; Johnsøn *et al.* 2011; Quah 2009; UNECA 2010). Given the research question of the thesis, this literature review will focus on the former group. It will thus provide an overview of factors that have been identified in the literature to be crucial for the success and failure of ACAs in curbing corruption in developing countries.

A good starting point is the founding history of an ACA. In the vast majority of cases ACAs have been created due to donor pressure and popular discontent, often in the advent of national crisis. Bolongaita (2010: 8) argues that it was the concurrence of exactly these three factors that forced the Indonesian government to allow former ICAC (Hong Kong's Independent Commission Against Corruption) Chief Commissioner De Speville to build a particularly strong ACA in 2003. However, Heilbrunn (2004: 1) counters that ACAs created due to public and especially donor pressure are more often than not merely a "token reform". According to Heilbrunn, governments are not interested in actually fighting corruption –

because they fear losing their financial gains or their political support – and thus create (ineffective) ACAs in order to placate donors and citizens. Similarly Schwartz (2003: 2) writes that when policy reforms such as the creation of ACAs "are politically popular, but unattractive to important policymakers, they are likely to be adopted in a symbolically potent fashion with ample lacunae to render them weak and subject to political direction". The following press release by the Kenyan government – issued in late October 1997 in the context of mounting pressure from the public and the international donor community – supports this claim:

> *The Government has this morning formed an anti-corruption squad to look into the conduct of the anti-corruption commission, which has been overseeing the anti-corruption task force, which was earlier set to investigate the affairs of a Government ad hoc committee appointed earlier this year to look into the issue of high-level corruption among corrupt Government officers (The Daily Nation 1997).*

Given this tragic-comical anecdote, it is questionable whether the mere combination of donor and citizen pressure as well as crisis is enough to enable an ACA to be successful. In fact, this statement of former French Prime Minister Georges Clemenceau appears more adequate sometimes: "when you want to bury a problem, appoint a commission to investigate it" (Henley 2004).

The single most important factor determining the success or failure of ACAs identified in the literature seems to be "political will" (Doig *et al.* 2005: 12; Fjeldstad and Isaksen 2008: iii; Langseth *et al.* 1997: 514; Pope and Vogl 2000: 8; Quah 1994: 408; UNECA 2010: 62–64). Kpundeh (1998: 92) defines political will as the "demonstrated credible intent of political actors (…) to attack perceived causes or effects of corruption at a systemic level." Essentially, so the argument goes, ACAs will be successful in countries who have this intent and support their agencies, such as in Hong Kong (Speville 2010: 53), Singapore (Quah 1994: 408), or Indonesia (Bolongaita 2010: 20), or will fail in those without a political will, e.g. Kenya (Okoth 2014: 20) or Nepal (Dix 2011: 19). Although there is widespread agreement that "political will" is the key to successfully curbing corruption, surprisingly, none of the literature analysing ACAs has made any attempt to explain why there is a strong political will in *some* countries but little to no political will in most. The only common

ground seems to be that strengthening public opinion and pressure may increase the political will (Bolongaita 2010: 18; Doig *et al.* 2005: 12; MacMillan 2011: 621). This strategy, however, runs counter to the earlier findings, that public pressure has usually not led to the creation of effective ACAs.

Another important and often-mentioned cause for the failure of ACAs is the lack of context sensitivity. Although former ICAC Chief Commissioner Speville argues that "institutional transfer is not the impossibility it is made to appear" and the success case of Botswana's Directorate on Corruption and Economic Crime (DCEC) supports this motion, many authors disagree. Especially Doig *et al.* (2006: 171) argue that the ICAC model might not be the best for every country, criticising that it has been "carpet-bombed" all over the globe (Doig *et al.* 2005: 6). Essentially, Doig *et al.* argue that many African countries in particular do not exhibit the political, social or economic conditions that Hong Kong had. Trying to follow the ICAC's multi-functional approach might demand too much from new or organisationally immature agencies, leading to stakeholder frustration, followed by less funding and eventually failure. Generally, Doig *et al.* argue that donors often have wrong expectations of what ACAs can achieve under certain conditions. Rather, achievable levels of success should be aimed for, that is, "good enough" rather than "good" ACAs (Doig *et al.* 2006: 170). Similarly, Quah (1994: 407) argued that Singapore's and Hong Kong's ACA approaches might only be relevant to countries with similar features: small size, strategic location, developed infrastructure, high degree of urbanisation, and an increasingly diversified economy.

The level of governance is a further mentioned determinant. Meagher (2005: 69) emphasises that for an ACA to be successful, the host country needs to have established at least a minimum level of effective governance. Moreover, he argues that in badly governed states riddled with systemic corruption ACAs will be ineffective or even harmful, that is, abused to attack political enemies (Heilbrunn 2004; Meagher 2005; Schwartz 2003). Going one step further, Shah and Huther (2000) argue that ACAs should only be implemented in countries with "good governance" and low incidence of corruption. It is true that the ACA success cases – Hong Kong, Singapore, Botswana, and perhaps Indonesia – did exhibit minimum levels of effective governance during the period when they implemented ACAs. They did not, however, have low levels of corruption or "good governance" (Quah 1988; Speville

2010). Arguably, most of them do not even have "good governance" in all its facets today. Generally, while effective governance seems to be related to the effectiveness of ACAs, this thesis will argue in section three that the former does not cause the latter, but rather that both have a common denominator.

The final factor that is said to have a major impact on the achievements of ACAs is their institutional structure. Four areas are particularly important. First, second only to – and obviously related to – political will, the independence of ACAs from political interference is high on scholars' wish-lists for the ideal ACA (Camerer 1999; Heilbrunn 2004; Johnston 1999; June *et al.* 2008; Meagher 2005; Pope and Vogl 2000; UNECA 2010). Meagher (2005: 5) stresses that it is not so much the formal or "de jure" independence that is important as it can be overridden by political factors. Rather, the "de facto autonomy" from political interference is a necessary condition for an ACA to perform its work.

The second important area concerns human and financial resources. While all successful ACAs generally had sufficient financial resources and well trained staff (Camerer 1999: 2; UNECA 2010: 62–64), the "problem children" were mostly understaffed and underfinanced (Doig *et al.* 2005: 12). It should not come as a surprise that the latter agencies are found in countries in which a lack of "political will" is lamented by scholars and donors.

Moreover, there has been a debate on whether countries should follow a single-agency approach (such as in Hong Kong) or rather a multi-agency approach (such as in the USA) to fight corruption. The main difference between the two is that in the former the ACA takes the lead in the anti-corruption framework (Meagher 2005: 72). While some authors argue that the single-agency approach was central in most countries that effectively curbed corruption in the last decades (Speville 2010), others, above all MacMillan (2011: 588), argue that this approach is expensive and prone to failure and that the "multi-headed dragon" corruption should be attacked with "many swords" (Camerer 1999: 10).

Related to this debate are the questions of which functions an ACA should perform and how powerful it should be. The general consensus, with only few exceptions (Doig 1995; Doig *et al.* 2006; MacMillan 2011), is that ACAs should follow the ICAC "multi-purpose" model (OECD 2008: 11–12), and thus perform as many tasks and be as powerful as possible. More specifically, they should have a broad mandate (Johnston 1999: 218; Quah 1994: 408;

UNECA 2010: 8), and use a "three-pronged attack" including enforcement (both investigation and prosecution), prevention, and public education (Bolongaita 2010: 13–19; Speville 2010: 62–63). To conclude, an independent, well-resourced, multi-functional yet centralised ACA is, according to the majority of the scholars, the most likely institution to reduce corruption.

The common nominator of all-above mentioned factors seems to be "political will". Without it ACAs will not be independent, well-staffed or financed, or entrusted with meaningful tasks or powers. Yet, as mentioned above, none of the summarised studies have been able to explain *why* only a minority of governments have had the political will to empower their ACAs, while in most cases the creation of ACAs appear merely as a token gesture. In addition, to my knowledge, no attempt has been made to subject the question of ACA effectiveness to rigorous quantitative analysis. This thesis intends to fill both academic voids, by a) providing a theoretical framework that can explain why ACAs have succeeded in some countries but failed in most and b) testing this framework in a large-N quantitative comparison.

3. Theoretical Framework

The review of the literature on ACAs has shown that while the symptoms of successful or unsuccessful ACAs have been thoroughly studied, the underlying causes have not yet been explained. I argue that to fill this gap and to answer why some ACAs managed to curb corruption and most failed one first has to understand the theoretical reasoning for the creation of ACAs, namely the principal-agent model. Afterwards, I will present a critique coming from a group of scholars perceiving corruption as a collective-action rather than a principal-agent problem. Finally, I will synthesise both schools, arguing that Mushtaq Khan's (1998a; 2006a; 2010) political settlement framework can explain why in a few developing countries ACAs could work according to the principal-agent model, while in the majority the ACA sceptical collective-action model is more adequate.

3.1 Principal-Agent Model

The mainstream perception in corruption scholarship is that corruption is a consequence of a principal-agent problem (Meagher 2005: 77). A principal-agent problem exists where one party to a relationship (the principal, e.g. a minister) requires a service of another party (the agent, e.g. a civil servant[1]) but the principal lacks the necessary information to effectively monitor the agent's actions (Booth 2012: 9). This "information asymmetry" allows the agent to abuse his public office – given to him by the principal – to attain his private goals, that is, acting corrupt by definition. Essentially, according to New Institutional Economics, the principal's struggle to monitor his agents is accounted for mainly by a lack or inadequacy of countervailing institutions to enforce accountability (Shah and Schacter 2007: 3).

The first scholars to have made this linkage between corruption and the principal-agent model were Susan Rose-Ackerman (1978) and Robert Klitgaard (1988). Especially Klitgaard's seminal piece on "Controlling Corruption" has influenced the scholarship of corruption like none other and has been behind the World Bank's and most donors' anti-corruption policies (Forgues-Puccio 2013: 2). Klitgaard argues that corruption is a function of the following three factors:

Corruption = Monopoly + Discretion – Accountability

Thus, according to Klitgaard, corruption occurs mainly when officials are in a monopoly position (and can extract economic rents or unofficial additional income), have large discretion in their actions, and are barely accountable to their principals. This argument bears three main policy implications for an effective anti-corruption strategy. First, monopolies which create corrupting rents should be reduced by pursuing a greater economic liberalisation and deregulation (Ades and Di Tella 1997: 1023; Jain 2001: 79–80; Mutebi 2008: 149; Langseth *et al.* 1997: 513). Second, discretion should be reduced through public sector reform, institutional strengthening, and generally weakening the state's regulatory power (Rose-Ackerman 1978). Finally and importantly for this analysis, states should increase accountability by building up oversight institutions such as ACAs, and by encouraging the

[1] The government can be both the principal (for the civil servants) but also the agent (of the citizens).

growth of a more questioning civil society (Riley 1998: 137). Thus, the main rationale for creating an ACA is to help the principal to better control his agents by reducing agent discretion and increasing their accountability. Thus, ACAs minimize the opportunity structures of corruption.

3.2 Collective-Action Model

In the previous section we have shown that the rationale for creating ACAs is based mainly in principal-agent theory. However, in recent years, a number of voices have questioned the fit of this framework for contexts of systemic corruption, that is, where corruption is deeply entrenched and pervasive throughout society (Robinson 1988). Interestingly, the father of the principal-agent corruption model himself was one of the first to express his doubts:

> *"When systems are so thoroughly corrupted, there may be little, if any, political will to reform them. Calling for better agents, improved incentives, better information, more competition, less official discretion, and higher economic and social costs is well and good. But who is going to listen? Who is going to act? The usual anticorruption remedies may not work. Now what?" (Klitgaard 2006: 302)*

Several scholars – most prominently Bo Rothstein (2011), Alina Mungiu-Pippidi (2006), and David Booth (2012) – have criticised the application of the principal-agent framework in developing countries more thoroughly. Essentially, their argument is that in contexts of systemic corruption we cannot expect to find a "benevolent" or "principled" principal committed to enforcing anti-corruption strategies, as they themselves are often corrupt (Rothstein 2011, 230–31). This, so they argue, makes the principal-agent framework useless as an analytical tool (Persson *et al.* 2013: 450; Rothstein 2011: 230–231). Moreover, it does not matter whether we perceive the government as principal and the civil servants as agents (the so-called supply-led model), or the citizens as principal and the government as their agent (the demand-led model) (Booth 2012: 10). Although both politicians and citizens regularly proclaim their (often honest) outrage against corruption, at the end of the day this does not seem to translate into credible commitment (Persson *et al.* 2013: 455). Politicians appear to make no effort to enforce anti-corruption laws, while most citizens continue to

partake in corruption, for example by selling their votes or bribing officials in order to receive public goods. The bottom line is that in developing countries neither rulers nor citizens meet the high expectations of the principal-agent model – it seems to be applicable to developed countries only (Mungiu-Pippidi 2006: 86–87).

Instead of seeing it as a principal-agent problem, Rothstein, Mungiu-Pippidi, and Booth classify systemic corruption as a **collective-action problem**. The framework, authored by Mancur Olson (1965), describes the situation when a group of actors fails to cooperate to achieve a common objective because a) the first-movers would run the risk of bearing costs, which b) they cannot be sure they will be compensated for by other beneficiaries, who may also "free ride" on the benefit (Booth 2012: 11).

In terms of one prototypical model of collective action and game theory, systemic corruption could be described as an "assurance game", also known as "trust dilemma" or "stag hunt" (Persson *et al.* 2013: 457). As illustrated in Figure 1, in this "corruption game" there are two "players" – an individual and society as a whole – which can choose to behave with integrity or corrupt. The best (pareto-efficient) outcome for every individual and society as a whole would be if no one acts corrupt. Both individual as well as societal development and good provision would be maximal. If most of society is corrupt, however, it would be irrational for an individual not to participate in corruption, as this would make him worse off than the alternative corrupt behaviour. Put simpler, in a systemically corrupt society an individual who chooses to act honestly might, for example, fail to receive medical treatment by refusing to bribe the doctors. Whether a society is locked into the lower-right "corrupt" equilibrium or the upper-left "integrity" equilibrium depends, thus, on whether individuals believe that the rest of society is going to act with integrity or not. In a society with systemic corruption the chances are high that others engage in corrupt behaviour, which creates a strong incentive for the individual to engage in corrupt behaviour as well. Thus, systemic corruption is self-reinforcing by making everyone believe that behaving corruptly is the best strategy, and sadly it often is.

Figure 1: Corruption as an Assurance Game

Society / ***Individual***	**Integrity**	**Corruption**
Integrity	4/4	0/3
Corruption	3/0	2/2

It is important to emphasise that corruption is not a "cultural" but a "social trap" (Rothstein 2011: 232). People in developing countries are not less honest or immoral than people living in developed countries. This is clearly indicated by the results of the third round of the Afrobarometer (2006): a clear majority of Africans is against corruption and knows well that they would be better off without it. As the above game theoretical model has illustrated, however, it is irrational to act with integrity in a systemically corrupt environment. Individuals know that their costs of defying corruption might be unbearable, while it is likely to leave the "game" unchanged (Persson *et al.* 2013: 457). This logic holds both for the rich and poor, as well as for the powerful and weak in developing societies. While the poor simply would often not receive public good provision without paying bribes, public officials would not get promoted, and politicians would not get elected. Whistleblowers are usually sacked or face a high risk of "disappearing" (Persson *et al.* 2013: 459). The collective-action model thus demonstrates how it might be difficult if not impossible for any actor in a systemically corrupt society to act as "principled principal". This explains why principal-agent based approaches that aim at supporting the principle – such as ACAs – are likely to fail. The symptoms of this failure are those commonly identified in the literature: poor equipment, vague missions, and political interference. Perversely, the failure of ACAs is likely to aggravate the problem of systemic corruption. The population will perceive integrity as even more illusory, which reinforces its incentive to play corrupt in the "corruption game" (Persson *et al.* 2013: 464).

One central claim of this school of thought is that corruption is necessarily systemic in developing countries. The reason is resource scarcity (Mungiu-Pippidi *et al.* 2011: xiv). In developing countries – in contrast to developed countries – those in power cannot simply distribute resources in a universalistic (impartial) manner to all of society in order to secure political survival. Rather, they have to distribute the access to the scarce resources to a "particular" or "limited" group of people to keep their political "system" running. Corruption is then "systemic" in developing countries, whose political systems are appropriately called "particularistic" by some scholars (Mungiu-Pippidi 2006) or described as "limited access orders" by others (North *et al.* 2007, 2009). To summarise in Mungiu-Pippidi's own words, particularism is "a mode of social organisation characterised by the regular distribution of public goods on a non-universalistic basis that mirrors the vicious distribution of power within such societies" (2006: 87).

While the collective-action approach to corruption can explain quite convincingly why most ACAs have miscarried in developing countries, it fails to explain why in some developing countries ACAs have been politically supported and successfully used in the fight against corruption. In fact, based on the described relationship between resource-scarcity, systemic corruption, and collective-action any intervention that is derived from the principal-agent framework should fail in developing countries. More generally, it seems that the collective action school of thought has difficulties explaining how developing countries have escaped the "vicious circle of systemic corruption": systemic corruption inhibits development, and underdevelopment preserves systemic corruption (Persson *et al.* 2013: 466). The argument that revolutions are *the* missing piece of the puzzle (Forgues-Puccio 2013: 3; Mungiu-Pippidi 2006: 87; Persson *et al.* 2013: 465) is only partially persuasive, considering that arguably neither Hong Kong, nor Singapore, nor Botswana had to go through revolutions in order to host powerful ACAs. Given the lacunae in both the principle-agent and the collective-action models of explanation the next section introduces a framework that provides a more convincing narrative – the political settlement framework.

3.3 Political Settlement Framework

The preceding two chapters have shown that both the principal-agent approach and the collective-action model are by themselves insufficient to explain the variation of ACA effectiveness in the developing world. The comparatively young "political settlement" framework, first established by Mushtaq Khan (1995), might provide a remedy. Coming from a historical political economy perspective, a "political settlement refers to the balance or distribution of power between contending social groups and social classes, on which any state is based" (Di John and Putzel 2009: 4). "Power", in this framework, refers to the ability of different social groups to maintain or challenge both redistributive and productive property rights that transfer particular income flows (Gray 2012: 72).

Political settlements can be a result of a forced or narrow bargain by authoritarian regimes, a compromise between former conflict parties, or pluralist bargaining, such as in democratic states (Di John and Putzel 2009: 4). They will only emerge, however, when the distribution of benefits generated by the settlement's institutions matches the distribution or balance of power in society, and when these benefits are stable over time (Khan 2010: 1). Usually these benefits come in the form of "rents". A rent is the "income to any factor of production (land, labour or capital) in excess of the amount required to draw it into its current use (that is, its opportunity cost)" (Booth 2012: vi). More straightforward, Khan (2006: 9) simply defines rents as incomes that are created by state interventions. The profits generated when the state creates or protects the rights of monopolists, natural resource owners, or owners of technologies and information are thus all rents. The same goes for any kind of subsidy. Essentially, "all state intervention creates rents by definition" (2006: 9).

As mentioned above, the creation and distribution of rents is central to the stability of political settlements, as they provide the incentive for its members to abide by it. North *et al.* (2009: 6) put it as follows: "rent-creation provides the glue that holds the coalition together, enabling elite groups to make credible commitments to one another to support the regime and to perform their functions." However – and this is where Khan coincides strongly with North *et al.*'s and Mungiu-Pippidi's social order models – rent distribution is structurally different in developed and developing countries. The major discrepancy between the two is that while governments in developed countries have sufficient official resources from tax income to

distribute rents almost universally to the population via the formal fiscal system (for example through social welfare), governments in developing countries are so fiscally constrained, that in order to secure their political survival they have to limit rent distribution to the most powerful or dangerous groups (Khan 2006a: 16). This accommodation of powerful groups, however, is inevitably a form of political corruption: the implicated rents are either created or transferred illegally, usually by using informal patron-client networks (Khan 1998a, 1998b).

Mungiu-Pippidi (2006) and Rothstein (2011) argue that since the political system is corrupted, corruption will be systemic in a country. This is, however, where Khan and Gray (2006) diverge from the collective-action model. Although they agree that political corruption is structural in developing countries due to limited resources, it does not necessarily have to spread to all of society. Although political corruption *has* in the majority of cases implied systemic or predatory corruption, countries like South Korea, Taiwan, or even Botswana[2] – all having faced high corruption on the top-political level – have demonstrated that political corruption does not *have* to cause systemic corruption or even inhibit strong economic growth and developmental policies (Khan 2002; Wedeman 1997).

Khan and Gray (2006) argue that the key factor in explaining whether political corruption will turn into systemic and "predatory" corruption or not is the political and institutional fragmentation of the state and society, that is, the degree of fragmentation of the political settlement. Essentially, the argument Khan and Gray put forward – and which has been raised in a similar yet more state-confined way by Shleifer and Vishny (1993) and Olson (1993) before – is that if the state and society are highly fragmented into many powerful contending groups, the distribution of rents through the state will fail to achieve stability (Khan and Gray 2006: 20). It is in these situations that the state is so weak that it is unable to control factional competition for rents, which thus can turn extremely predatory. However, state weakness and fragmentation also implies that the "looters" cannot be sure that their spoils will not be expropriated from them by contending factions, which is why they will likely consume or hoard them abroad (Khan and Gray 2006: 26; Wedeman 1997: 475). It is in these situations that political corruption will infringe on society as a whole, causing a collective-action

[2] The ACA in Botswana actually emerged out of a series of scandals in which senior Botswana Democratic Party officials were implicated in accepting bribes Heilbrunn (2004: 10).

problem and, thus, rendering the creation of an ACA a vain endeavour. Examples would be the failure of ACAs in highly fragmented states such as Nepal (Dix 2011: 19) or Kenya (Okoth 2014: 20).

Things look very different when there are only a few powerful contending factions in society, that is, if the political settlement is cohesive. First, since there are only a limited amount of groups that have to be accommodated, rents distributed through political corruption are very likely to achieve political stability (Khan 2002: 22). Second, fewer factions also imply less factional competition for rents, thus, less predatory corruption and a more centralised control of rents[3]. In short, cohesive political settlements are more stable politically. As a consequence, both rents and property rights produced by the settlement are more secure. The risk of expropriation through competing factions is small. Therefore, it is safe for individuals and the state to invest their money in domestic properties and companies rather than in foreign countries. In line with this, states in cohesive political settlements, e.g. South Korea, Taiwan, or Rwanda, heavily subsidised domestically active companies. As repayment for this illegal or corrupt rent allocation, companies would have to "kick back" a certain percentage of their profits to the ruling party (Khan and Gray 2006: 53; Wedeman 1997: 461). The ruling party would then use these "dividends" to finance its political campaigns, thus securing its political survival (Wedeman 1997, 461). To increase these dividends and hereby political stability, subsidies would only be allocated to productive companies.[4]

In order to secure its political survival, the ruling party in cohesive political settlements was thus very interested in the growth of supported companies. Often, however, "market-" and "state-constraining"[5] corruption caused by civil servants threatened this economic growth.

[3] In his work on African governance, David Booth (2012) provides an excellent overview of how the centralisation of rents can lead to developmental outcomes in patrimonial systems, such as in Rwanda or Ethiopia.

[4] This essentially explains why countries like South Korea, Taiwan or China could grow rapidly despite high levels of political corruption.

[5] Market-constraining corruption is a "type of corruption that is associated with legal but socially damaging state interventions that restrict markets" (Khan and Gray 2006: 3). In state-constraining corruption, in contrast, the state interventions are actually potentially beneficial, but are inhibited by corruption.

Singapore in the 1960s or Hong Kong in the 1970s – shortly before they implemented ACAs – were in this situation. For the sake of political stability it was therefore in the leadership's interest to control their civil servants as to eliminate this growth-inhibiting corruption. What is interesting is that in this situation the principal-agent framework might actually be applicable again: the government can be thought of as acting in accordance with a reprimand principal in the sense that it actually *wants* to control its agents. In cohesive political settlements it thus makes complete sense for the government to support the creation of a powerful ACA, which can minimise the opportunity structures for bureaucratic and any other forms of non-authorised corruption and thus help secure political survival and development. Therefore the main hypothesis of the thesis is the following:

Hypothesis: *ACAs can reduce corruption in developing countries with cohesive political settlements, but not in those where it is fragmented.*

4. Methodology

The previous sections of this thesis have shown that the underlying causes of ACA effectiveness are undertheorised and –tested. Based on the discussion of different theoretical frameworks in Chapter 3, I presented the hypothesis that ACA effectiveness depends on the political and institutional fragmentation of the state: where it is fragmented, ACAs are likely to fail, and where it is more centralised or cohesive, ACAs are more likely to help curb corruption.

To test this hypothesis I have decided to apply quantitative methods for three main reasons. First, ACA effectiveness has, to my knowledge, not yet been analysed with quantitative methods. In this respect, this paper would fill an academic void. The lack of quantitative methods might, however, also be explained by the potential limitations of corruption indicators in general and as a measure of ACA effectiveness in particular. These will be acknowledged and discussed in detail in the description of the dependent variable.

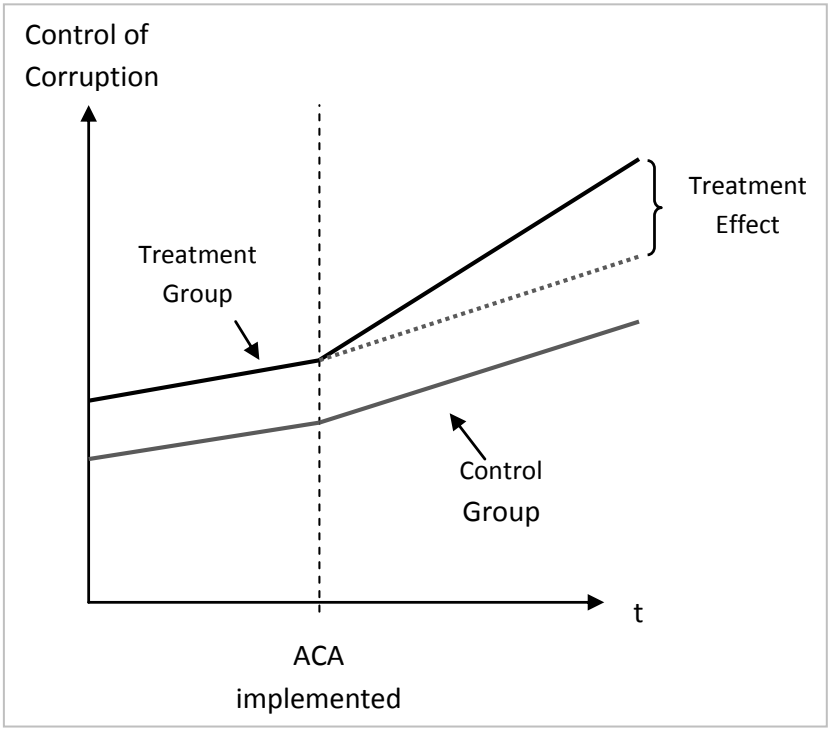
Second, the quantitative design allows me to compare a large amount of ACA cases around the world (over 140). Hopefully, this should increase my external validity, that is, the ability

to generalise results. It should also be noted, however, that while quantitative methods are arguably more "efficient" in testing hypotheses, they come at the great loss of not being able to provide the in-depth and contextual analysis that case studies provide. Unfortunately, applying a mixed-methods design using both case studies and a large-N comparison goes beyond the scope of the thesis. Fortunately, though, I believe that the detailed case studies on political settlements by Khan (1998a; 2010), Gray (2012), and Di John and Putzel (2009) already provide excellent in-depth analysis, and that it might be fruitful to attempt testing the framework with quantitative methods.

Finally and importantly, I believe that the specific quantitative method applied suits the research question. Assessing ACA effectiveness implies that we actually need to identify the causal impact of ACAs on corruption. Standard OLS regression merely provides us with the association between the two and thus cannot show us whether ACAs cause lower corruption levels or whether in countries with low corruption ACAs are just more likely to be implemented. I therefore use a two-way-fixed-effects model, that is, a regression including both unit (country) and period (year) dummies. The advantage of this model is that it not only controls for all country-specific confounding variables which are consistent over time (e.g. culture) and for time shocks (such as the Asian Crisis), but that it effectively mimics a difference-in-differences design (Angrist and Pischke 2009; Brüderl 2005; Wooldridge 2008).

Figure 2 provides a graphical illustration of the difference-in-differences approach. The idea behind the approach is that we do not only calculate the difference in corruption levels before and after the implementation of an ACA in our treatment country, but also compare it with the change in corruption that countries without an ACA have had. If we do not compare it with the control group, we might wrongly attribute a general change in corruption levels to the ACA. If there is, however, a difference between the differences of the treatment and control groups (therefore difference-in-differences) we can treat this as the effect of ACAs on corruption. On the condition that we can confirm both the common trend and the conditional independence assumptions, the difference-in-differences approach will therefore provide the causal impact of the "treatment" ACA on the "outcome" corruption level within a country.

Figure 2. Illustration of the Difference-in-Differences Approach



The remaining part of my methodology is structured as follows. After providing a brief overview of the unit of analysis I will first discuss the dependent variable, followed by the explanatory variable(s). Afterwards, I will introduce a vector of control variables that should account for the conditional independence assumption. Finally, I will describe my controls for statistical dependency, explain how I intend to test the common trends assumption, and present my strategy of analysis.

4.1 Units of Analysis

To empirically test the effect of ACAs on corruption, I will compare 172 countries over a period of 17 years, from 1996 to 2012. Although this time frame is rather short, it is, fortunately, very representative: out of 143 ACAs globally, 118 (82.5%) were created after 1996. These 118 countries with ACAs created after 1996 will serve as our treatment group. The control group is made up of the 55 countries that to date have not had an ACA. The 25

countries that had created their ACAs before 1997 are excluded from the sample. This is necessary because the difference-in-differences model calculates not only the differences *between* our treatment and control groups, but also the differences between the pre- and post-treatment values of corruption *within* every country. Thus, in a sense, every country serves as its own control group (Wooldridge 2008). In countries that already had their "treatment" – the creation of an ACA – before 1997, however, we cannot compare the post- with the pre-treatment level of corruption, since the latter is not available. Unfortunately, these 25 countries thus have to be excluded.

4.2 Dependent Variable

One of the central questions of this thesis is what ACA effectiveness means. So far, I have argued that it means curbing corruption, that is, "the use of public office for private gain" (World Bank 1997). Some scholars, such as Johnsøn *et al.* (2012: 11), argue that this assessment is not fair since it "only measures parts of what constitutes an effective ACA." As an alternative Johnsøn *et al.* as well as Quah (2009) propose using measures such as the number of successful prosecutions to assess effectiveness. Apart from the fact that this measurement is less than straightforward, often not in the interest of the ruling class, de facto unavailable, and probably highly correlated with the level of corruption in a country (Meagher 2005: 80), I disagree that the corruption level is an unfair yardstick. Reducing corruption is *the* main task of ACAs. It is what constitutes them. It should thus be their benchmark. At the end of the day, it is not relevant how many cases an ACA has won or how many leaflets it has handed out, if this does not curb corruption. But more importantly, often ACAs *have* reduced corruption levels *quickly and measurably*[6]. Just because most agencies have failed their mission (for above-discussed reasons), that does not excuse them from being assessed according to it.

This, however, raises the crucial and heavily debated question of how to measure the level of corruption. Obviously, given corruption's clandestine nature it is a Herculean task. Apart

[6]For example in Rwanda the Control of Corruption score has increased by one full unit in less than ten years after the introduction of an ACA.

from a newer generation of indirect (Reinikka and Svensson 2003; Sequeira 2012) and experience-based measures (e.g. Transparency International's (TI) Corruption Barometer), which are either only applicable to micro-level case studies or too short in coverage, the main means to measure corruption are perception-based indicators. Perception-based corruption indicators are, as the name indicates, based on the perception of corruption in a given country among citizens and experts (June *et al.* 2008: 9). The most commonly used indicators are TI's Corruption Perception Index, the corruption index that forms part of Political Risk Services' International Country Risk Guide (ICRG), and the World Governance Indicators' Control of Corruption Index produced by Kaufmann, Kraay, and Mastruzzi.

Perception-based indicators have been criticised for several reasons. First, they are often biased towards opinions of businesses, which might a) not be very representative and b) be particularly prone to a halo effect, that is, perceiving better growing countries as less corrupt than poorly growing economies. However, given the importance of entrepreneurs in the political settlement framework and the fact that development indicates that there is little "market-restricting" and predatory corruption, the development-biased overrepresented perception of businesses might not be such a big problem after all. The second big issue is the so-called "perverse corruption measurement problem" (Johnsøn and Mason 2013: 2). Although a country's anti-corruption drive might have reduced actual corruption, its increased visibility might amplify the negative perception of corruption. This would thus make an effective purge against corruption, as well as an effective ACA, look inefficient. Not wanting to talk this problem down, three aspects might alleviate the problem: a) in many developing countries corruption is so commonplace that new corruption scandals can hardly decrease the already poor perception –effective working ACAs are more likely to seriously worsen the perception in *developed* countries, where people do not expect corruption as much; b) the model captures the post-treatment outcomes not directly after the treatment (such as an first-difference estimator) but for a longer trend and is thus likely to omit initial aggravation; c) it seems like in most cases the success of ACAs was actually reflected in better perception scores. Moreover, perception-based indicators have two big advantages compared to other corruption indicators: they are available for a large number of countries, and perceptions – as explained in the collective-action model – are central to the logic of systemic corruption. Furthermore, studies by Fisman and Miguel (2007) and Barr and Serra

(2010) find that perception indicators and actual corrupt practices – measured in lab experiments or as the non-payment of parking tickets by United Nations diplomats in New York City – correlate highly.

Despite the limitation discussed above, I have decided to operationalise corruption through the WGI's control of corruption index, abbreviated here as CoC (Kaufmann *et al.* 2014). It is available annually[7] since 1996 and measures "the exercise of public power for private gain, including both petty and grand corruption, and state capture" (Kaufmann 2005: 83). The CoC score ranges from -2.5 (high corruption) to 2.5 (no corruption). There are two reasons why I chose to use the CoC as sole measurement of corruption. First, because there are no true alternatives: TI's Corruption Perception Index is not applicable to panel data due to changing methodologies and the ICRG corruption index measures the political risk of corruption and not the corruption level (Lambsdorff 2005: 5). Second, the CoC is probably the statistically most sound perception-index available (Arndt and Oman 2006: 42). This should not, however, imply that we should think ourselves safe: the CoC has serious limitations. Although Kaufmann and colleagues (2002; 2005; 2007) have vigorously defended their indicators, arguing that they are reliable, comparable over time, and that their aggregation method actually reduces measurement errors, doubts remain. The most thorough critique comes from Arndt and Oman (2006). In a sophisticated analysis, the authors come to the conclusion that the WGI includes the following severe problems:

> *"i) the likelihood of correlation of errors among the 37 sources from which the composite WGI indicators are constructed, which significantly limits the statistical legitimacy of using them to compare countries' scores; ii) their lack of comparability over time; iii) sample bias; and iv) insufficient transparency" (Arndt and Oman 2006: 49).*

I fully acknowledge these potential limitations and that the results produced by this research design have to be analysed and interpreted with great caution.

[7] In fact, in the first six years data is only available bi-yearly. Therefore, I interpolated the years 1997, 1999, and 2001 with the mean of the respective adjacent years.

4.3 Explanatory Variables

The treatment variable used in this study is the ACA-dummy. It is coded "1" if a country has an ACA in a certain year and "0" if it does not. In this thesis, ACAs are defined as "public (funded) bodies of a durable nature, with a specific mission to fight corruption and reducing the opportunity structures propitious for its occurrence in society through preventive and/or repressive measures" (De Sousa 2010: 5). Using this definition and based on a list produced by the KPK, the Indonesian Corruption Eradication Commission (2012), and my own research, I have created a global ACA dataset, including information such as the name and starting year of the respective agency (see Annex). In total, 118 countries have introduced ACAs in the study period.

As discussed in section 3.3, I argue that the impact of an ACA on corruption depends on whether it is located in a cohesive or fragmented political settlement. To account for this moderation, I interact the predictor variable, the ACA-dummy, with the moderator variable, the political fragmentation variable. Given the rather complex nature of political settlements and their level of fragmentation, it is difficult to measure political settlement fragmentation directly. I have therefore decided to proxy it with a "economic convergence" variable. It is coded "0" if a country is a developed, that is, a "high-income" country in terms of the World Bank. Developing countries ("low-income" to "upper middle-income" countries) are divided into two groups: whether over the time period from 1996-2007 they have been growing faster ("converging", coded "1") or slower ("diverging", coded "2") than the average advanced country (= 2.4% annual GDP per capita growth[8]). The growth rate is based on own calculations with GDP per capita data from the World Development Indicators (2014).

The decision to use convergence as a proxy for political settlement fragmentation is based on theoretical and empirical grounds. In his work on "Governance, Economic Growth and

[8] It should be noted at this point that the quality of developing country GDP data is often very poor. Morten Jerven (2013) illustrates this in great detail for the case of African GDP data in his recent book "Poor Numbers". Often, tremendous jumps in GDP per capita levels are obtained simply by changing the base year for GDP calculation (as a result of a base year change, Ghana's GDP per capita almost doubled in 2010). Thus, we have to be aware that the above-drawn distinction between diverging and converging developing countries might not reflect the actual distinction but an artifact of poor data.

Development since the 1960s" Khan (2006b) has analysed why some developing countries diverge while others converge economically. He concluded that "growth-enhancing governance", rather than "good governance", capabilities were the distinguishing feature. Converging country states, in contrast to diverging country states, were capable of providing four "goods": the protection of and investment in productive property; the facilitation of technological adaption and learning; the opportunity and compulsion for entrepreneurs to be productive; and the provision of political stability via off-budget transfers. Abridged, converging economies grew fast(er) because of the state's capacity to coordinate agents and to provide stability. Importantly, according to Khan (2006b: 22), this capacity of converging states is based on the cohesiveness of their political settlements. The rationale is similar to that detailed in section 3.3 for some states' capacity to curb corruption. When factional fragmentation is small, there will be less rent-competition and therefore more stability. As a result, the state is more capable to coordinate rents centrally and has greater incentives to invest in productive companies. It therefore has the growth-enhancing governance capabilities necessary to support rapid development. Both fast economic convergence and the control of market- and state-constraining corruption thus have a common denominator: a cohesive political settlement. Hence, theoretically, the convergence variable is a good proxy for political settlement fragmentation.

Furthermore, empirical observations support this proxy. First, the large literature on developmental states has provided evidence that the state's capacity to coordinate and provide stability as well as the cohesiveness of the state was central to the successful economic development of most countries (Amsden 1989; Chang 2006; Evans 1995; Johnson 1982; Kohli 2004; Wade 1990). The second potential evidence is that ACAs have been most effective in "developmental" developing countries, thus, countries both centralised politically *and* converging economically, such as Singapore, Hong Kong, Botswana or Rwanda. Finally, Meisel and Ould Audia (2008) provide strong statistical support for Khan's growth-enhancing governance capabilities. Applying canonical variate analysis to their comprehensive "Institutional Profiles" database, the authors were able to analyse what institutional factors differentiate converging from diverging countries. Consistent with Khan's elaboration, Meisel and Ould Audia found "the family of indicators that mark the State's capacity to co-ordinate agents and improve the security of their anticipations as the

one that differentiates most significantly between these groups" (2008: 21). In other words, growth-enhancing governance capabilities typical to cohesive political settlements were found in converging but not in diverging developing countries.

Concluding, I argue that the converging variable is a theoretically and empirically sound proxy for the level of political settlement fragmentation. Whether one attaches credence to this argumentation, however, is obviously central to whether one believes that the results of this study are valid.

4.4 Control Variables

In order to receive causal estimates from our model, the conditional independence assumption has to hold. This implies that we have to avoid spurious correlation and omit any confounding variables. Spurious relationships occur when two variables are actually not connected, but seem to be due to the absence of a variable correlated with both. The typical example is that of the high correlation between a stork population and the (human) birth rate of a region. Obviously both are not causally linked, but the rural character of the region is the omitted variable causing both. To avoid omitted variable bias, we have to control for all variables which might be both correlated with the corruption level of a country and the likelihood of introducing an ACA. Fortunately, through the inclusion of fixed effects, all potential time-invariant confounders and time shocks are already accounted for. Thus, we only have to control for potential time-variant confounding variables. Based on these criteria and selected according to theoretical reflections and empirical findings, I control for the following five variables[9]: official development assistance per capita in US$, trade (as % of GDP), foreign direct investment inflows (as % of GDP), total natural resource rents (as % of GDP), and finally the regime type of a country, where -10 denotes a "perfect" autocracy and +10 corresponds a "perfect" democracy.

[9] Except for the regime type variable, which is taken from Marshall and Jaggers (2014), data for all variables are derived from the World Bank's World Development Indicators (2014).

A further variable that should be controlled for is whether a country implemented other anti-corruption policies simultaneously to an ACA. This is important because their effect on corruption – provided they were not implemented in the control group countries – would be attributed to the ACA implementation. As a result, our estimations would likely be biased upwards, that is, making ACAs look more effective than they are. Unfortunately, comprehensive and detailed data for other anti-corruption measures is not readily available on such a scale and difficult to compile. ACAs, however, are usually part of an overall anti-corruption strategy based on the same principal-agent logic. As they should interact by design, it might thus be illusory to think that one can unravel the exact impact of each intervention separately.

4.5 Sensitivity Analysis and Controls for Statistical Dependency

The key identifying assumption of difference-in-differences models is that trends would be the same for treatment and control groups in the absence of the treatment. While we cannot test this directly, knowing whether trends differed before the treatment can give us a sound indication. To test this I have decided to perform a so-called "placebo-test". In essence, I generate a "fake" treatment that mimics the ACA treatment, only that it is "implemented" five years before the ACA actually was. Consequently, the placebo should not have any significant impact on the corruption level. If it does, that is, if the placebo difference-in-differences estimate is different from 0, the trends are not parallel, and our original difference-in-differences estimator is likely to be biased.

Moreover, since panel data consists both of a time-series and cross-sectional dimension, it is prone to autocorrelation and heteroscedasticity. While this does not affect the size of the coefficients, it usually leads to an underestimation of the standard errors, implying an overestimation of statistical significance. To identify whether this is the case, I performed both a Wooldridge test for autocorrelation in panel data and a modified Wald test for groupwise heteroscedasticity. Both tests reject the null hypothesis, suggesting both serial correlation and heteroscedasticity. To address this problem all models in the analysis are estimated with autocorrelation and heteroscedasticity consistent ("robust") standard errors.

4.6 Strategy of Analysis

The following analysis will consist of five models. All will include two-way-fixed-effects and robust standard errors. Apart from this, Model 1 only includes the dependent variable, control of corruption (CoC), and the treatment variable, the ACA dummy. Model 2 adds to this the five control variables. Model 3 corresponds to Model 1, but includes the interaction term between the ACA dummy and the convergence moderator variable. Model 4 is the main model. It equals Model 3, but with the vector of control variables. Model 5, finally, is the placebo model discussed in section 4.5. The main model, Model 4, looks as follows:

$$\boldsymbol{CoC_{it} = \alpha + \beta_1 ACA_{it} + \beta_2 Conv_{it} + \beta_3 (ACA_{it} * Conv_{it}) + \beta_x X_{it} + \eta_t + \mu_i + \varepsilon_{it}}$$

$\boldsymbol{X_{it}}$ includes time-varying country-level covariates, $\boldsymbol{\eta_t}$ and $\boldsymbol{\mu_i}$ are year and country fixed-effects respectively, while $\boldsymbol{\varepsilon_{it}}$ denotes the error term. The statistical analysis was conducted in Stata 12.

5. Results

The results of the statistical analysis are summarised in Table 1. Positive coefficients denote an increase of the "control of corruption" or CoC (ranging from -2.5 to 2.5), thus implying less corruption. Conversely, negative coefficients signal more corruption. In Models 1 and 2 our ACA-treatment coefficients are highly insignificant, both when excluding and including control variables. This suggests that on an aggregate level the introduction of an ACA in a country does not affect the perception of corruption. However, the Interaction Models 3 and 4 provide evidence that we get more significant results if we disaggregate our sample into advanced, converging developing, and diverging developing countries. The following paragraphs will provide a short guidance[10] on how to read and interpret the interactions found in Models 3 to 5.

[10]This guidance is based on Kuha and Lauderdale (2013).

Table 1. Base, Interaction, and Placebo Two-Way-Fixed-Effects Models

	Base Models		**Interaction Models**		**Placebo Model**
	(1)	(2)	(3)	(4)	(5)
Explanatory Variables					
ACA	0.016	0.012	-0.075**	-0.063*	-0.450*
	(0.014)	(0.015)	(0.034)	(0.037)	(0.259)
ACA*Converging			0.128***	0.104**	0.207
			(0.036)	(0.041)	(0.172)
ACA*Diverging			0.071*	0.065	0.158
			(0.037)	(0.041)	(0.171)
Control Variables					
Trade		0.001***		0.001***	0.004*
		(0.0003)		(0.0003)	(0.002)
Natural Resource Rents		-0.01***		-0.004***	-0.0111*
		(0.0008)		(0.0008)	(0.005)
ODA per capita		0.001***		0.001***	0.001*
		(0.0001)		(0.000154)	(0.0007)
FDI Inflow		-0.0003		-0.0004	-0.008*
		(0.0007)		(0.0007)	(0.004)
Regime Type		0.012***		0.0120***	-0.007
		(0.002)		(0.002)	(0.013)
Constant	-0.015	-0.18***	-0.002	-0.179***	-0.015
	(0.016)	(0.029)	(0.016)	(0.029)	(0.343)
Observations	2,863	1,949	2,846	1,949	1,680
R-squared	0.000	0.074	0.005	0.078	0.078
Number of countries	172	127	171	127	118
Country FE	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Model 3 will serve as an illustration. To begin with, it is important to explain that the convergence moderator variable is not treated by Stata as a three categorial variable, but as a two dummy variable. In both dummies the advanced country category is the reference category (coded as "0") while converging and diverging developing countries are each coded as "1" in their respective dummy variable. Therefore, their interactions with the ACA-dummy and the resulting coefficients always have to be put in reference to the reference category "advanced countries". The formula below shows Model 3 in equation form[11] for the "converging-dummy"[12]:

$$\boldsymbol{CoC_{it} = \alpha + \beta_1 ACA_{it} + \beta_2 Conv_{it} + \beta_3 (ACA_{it} * Conv_{it})}$$

This equation can be rearranged so that we can easily interpret the coefficient of our predictor variable – the ACA-dummy – for a given kind of country type:

$$\boldsymbol{CoC_{it} = \alpha + \beta_2 Conv_{it} + (\beta_1 + \beta_3 Conv_{it}) ACA_{it}}$$

Now we can see that the effect of an ACA on corruption in our interaction model is a combination of two coefficients: $\boldsymbol{\beta_1 + \beta_3 Conv_{it}}$. From this part of the formula, we can extract what effect ACAs have in advanced countries or in converging developing countries. For advanced countries the converging-dummy takes the value of "0", thus, $\boldsymbol{\beta_1 + \beta_3 * 0 = \beta_1}$. Therefore, the implementation of an ACA in an advanced country *decreases* the CoC significantly at the 5%-level by **-0.075 points**. For converging developing countries, however, the value of the converging-dummy is "1", thus, $\boldsymbol{\beta_1 + \beta_3 * 1 = \beta_1 + \beta_3}$. Accordingly, the implementation of an ACA in a converging developing country increases the CoC significantly at the 1%-level by -0.075+0.128=**0.053 points.** By the same logic (however, using the "diverging-dummy"), the implementation of an ACA in a diverging

[11]For simplicity the fixed-effect and error terms were omitted from the equation (not from the actual model).

[12]Given the time-invariant character of the country type variable, $\boldsymbol{\beta_2 Conv_{it}}$was omitted out of the fixed-effects models presented in Table 1. This, however, is not a serious problem as $\boldsymbol{\beta_2 Conv_{it}}$is not necessary for testing our hypothesis, as explained below. $\boldsymbol{\beta_1 ACA}$ and $\boldsymbol{\beta_3}$ $(\boldsymbol{ACA_{it} * Conv_{it}})$ are the central coefficients of the models and remain interpretable. The time-invariant character of the country type variable is not a problem here, since it becomes time-variant as part of the interaction term.

developing country decreases the CoC significantly at the 10%-level by -0.075+0.071= **-0.004 points.**

The interpretation for Model 4 is essentially the same as for Model 3, only that now we control for the vector of potentially confounding variables. Furthermore, the strength and direction of the coefficients of interest have barely changed. The main change is that they have all lost one level of significance – with the diverging-interaction coefficient now insignificant. This is probably due to the loss of 50 countries compared to Model 3, which is to be accounted for by missing data in the control variables. Essentially copying the interpretation-schema from Model 3, although holding all other variables constant, Model 4 can be interpreted as follows. The implementation of an ACA in an advanced country *decreases* the CoC level significantly at the 10%-level by **-0.063**. The treatment effect in a converging developing country increases the CoC score significantly at the 5%-level by -0.063+0.104=**0.041 points.** Finally, the implementation of an ACA in a diverging developing country has no significant effect on our outcome level. Put simply, the interaction models provide evidence that ACAs worsen corruption perception in advanced countries, better it in converging developing countries, and have no effect in diverging developing countries.

Finally, the placebo model, Model 5, is an indicator for the unbiased nature of the results in Model 4. The coefficients of both our converging- and diverging-placebos are insignificant. This suggests that the common trend assumption for converging and diverging developing countries holds, thus, that their results in Model 4 are unbiased. However, the same is not true for the significant negative effect of ACAs in advanced countries. The negative coefficient of the placebo-advanced-country-interaction is even stronger and remains significant. We thus have to conclude that the negative coefficient in Model 4 is biased, meaning that we cannot attribute it to the implementation of an ACA, but rather to other factors and trends.

6. Discussion

Overall, the results provide broad evidence for the theoretical framework in general and the thesis' hypothesis in particular. Models 1 and 2 confirm the majority view of ACAs in the literature: on average, the introduction of ACAs does not have a significant impact on the corruption level in a country. At first glance, this finding seems to support the ACA-sceptical collective-action model and to discredit the theoretical foundation of ACAs, the principal-agent model.

However, the interaction models have shown us that we should not draw hasty conclusions. When disaggregating the impact of ACAs by convergence type, evidence suggests that ACAs can have significant impacts. The directions of the coefficients largely confirm our hypothesis. While the introduction of ACAs in converging developing countries significantly decreases corruption by 0,041 points, the introduction in diverging developing countries has either a small negative or no significant impact at all. Provided the manifestation "converging developing country" validly proxies a centralised political settlement, and "diverging developing country" a fragmented one, we can confirm our hypothesis: ACAs are likely to curb corruption in politically and institutionally centralised countries, while they are likely to fail in those with a fragmented political settlement. These findings are supported by the fact that the placebo sensitivity analysis has found no evidence to assume that they are biased.

One finding is particularly puzzling at first. The introduction of ACAs in developed countries actually increases the level of corruption. This contradicts all of the theoretical models discussed above. As reasoned in section 4.2, developed countries might be particularly prone to the perverse corruption perception measurement: exactly *because* ACAs function and reveal many corruption cases, citizens and experts perceive corruption as higher. However, the placebo test indicated that perhaps we should not worry too much: the negative results were highly biased, thus, they were probably not due to ACA creation but to other trends.

To summarise, this study provides tentative evidence for the hypothesis that ACAs can function effectively in developing countries with cohesive but not with fragmented political settlements. Yet, as detailed in section 4.2, especially the shortcomings of perception indicators in general and the WGI control of corruption indicator in particular might pose a

threat to the validity and reliability of this study. Before concluding the thesis, we should bear in mind these serious possible limitations.

7. Conclusion

While Anti-Corruption Agencies have successfully curbed corruption in some developing countries, they have failed in most. To date, no study has been able to explain this particular pattern. The only consistent finding is that ACAs were effective when supported by the political leadership and ineffective when they were not. However, the same studies do not explain away why some countries are blessed by "political will" while most are apparently not.

In this thesis, I have argued that the political settlement of a country is the key to understanding the success and failure of ACAs. Only in developing countries where power between social groups is not fragmented will the political leadership be interested and able to support an ACA. To test this hypothesis empirically, I compared 172 countries from 1996 to 2012 with a two-way-fixed-effects analysis. Provided central assumptions were met, this particular difference-in-differences approach could identify the causal impact of ACA creations on the perception of corruption in a country. Arguing that the convergence or divergence of a developing country's economy to industrialised economies is a valid proxy for the fragmentation of political settlements, the thesis provided tentative evidence for our hypothesis: ACAs are likely to curb corruption in politically cohesive settlements but not in fragmented ones. These findings are far from robust, however. In order to be regarded as robust, the study has to be repeated once less limited measurements of corruption are available and more detailed ACA case studies with a focus on political settlements have to be conducted.

Given the severe potential limitations of the corruption data used in this study and the possibility that the convergence variable is not a valid proxy, we have to avoid giving policy advice incautiously. Nevertheless, based on the tentative evidence and the underlying theoretical framework, we might carefully attempt to derive some policy implications. First,

if there is no domestic political support for ACAs, donors should not demand them. Rather, donors should put more effort into analysing and understanding countries' political settlements. Thus, if a country with a relatively centralised and stable political settlement honestly requests technical and financial support for building an ACA, donors should help. In countries with a strongly fragmented political settlement, however, the same efforts will likely be fruitless. As Khan proposes (2002, 23), donors should rather try to help fragmented developing country states to increase their political stability and to make them less dependent on their patron-client networks. This, he argues, could be promoted by more donor-financed official state spending on transparent social programs and redistribution. Only when this approach was successful at increasing the political stability and legitimacy of the state, and when the government believes it is feasible, should donors think about supporting the implementation of an Anti-Corruption Agency.

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Annex: List of Anti-Corruption Agencies

Country	ACA	Name	Establishment
Afghanistan	Yes	High Office of Oversight and Anti-Corruption	2008
Albania	Yes	Governmental Commission for the Fight against Corruption	1999
Algeria	Yes	Organe National de Prévention et de Lutte Contre La Corruption	2011
Andorra	Yes	UPLC (Anti-Corruption Unit)	2008
Angola	*No*	(only in law 1995 – not established)	
Antigua and Barbuda	Yes	Integrity Commission	2004
Argentina	Yes	Oficina Anticorrupción	1999
Armenia	Yes	Anti-Corruption Council	2004
Aruba	*No*		
Australia	Yes	Independent Commission Against Corruption (NSW)	1989
Austria	Yes	Federal Bureau of Anti-Corruption	2010
Azerbaijan	Yes	Commission on Combating Corruption	2004
Bahamas	*No*		
Bahrain	*No*		
Bangladesh	Yes	Independent Anti-Corruption Commission (IACC)	2004
Barbados	*No*		
Belarus	Yes	Department on Fighting Against Corruption of Prosecutor's Office	1997
Belgium	Yes	Central Office for the Repression of Corruption (O.C.R.C.)	1998
Belize	Yes	Integrity Commission	1994
Benin	Yes	Observatoire de Lutte contre la Corruption	2004
Bermuda	*No*		
Bhutan	Yes	Anti-Corruption Commission (ACC)	2006

Country	ACA	Name	Establishment
Bolivia	Yes	Ministry of Institutional Transparency and Fight against Corruption	2006
Bosnia and Herzegovina	Yes	Anti-Fraud Unit/ Anti-Crime and Corruption Unit	1998
Botswana	Yes	Directorate of Corruption and Economic Crime	1994
Brazil	Yes	Comptroller General	2003
Brunei	Yes	Anti-Corruption Bureau	1982
Bulgaria	Yes	Countering Organized Crime and Corruption of the Supreme Prosecutor's Office	2006
Burkina Faso	Yes	High Anti- Corruption Coordination Authority (HACLC)	2003
Burundi	Yes	Special Brigade for Anti-Corruption	2006
Cambodia	Yes	Anti-Corruption Unit	1999
Cameroon	Yes	National Anti-Corruption Commission	2007
Canada	*No*	Office of the Public Sector Integrity Commission of Canada	2007
Cape Verde	*No*		
Cayman Island	Yes	Anti-Corruption Commission	2008
Central African Republic	Yes	Comité national de lutte contre la corruption en République centrafricaine	2008
Chad	*No*		
Chile	Yes	Specialized Anti-corruption Unit of the National (General) Prosecutor	2003
China	Yes	National Bureau of Corruption Prevention (NBCP)	2007
Colombia	Yes	Programa Presidencial de Lucha contra la Corrupción	1998
Comoros	Yes	National Commission for Prevention and the Fight Against Corruption	2011
Congo, Dem Rep	Yes	Commission of Ethics and Struggle against the Corruption	2003
Congo, Rep.	Yes	National Commission Against Corruption, Extortion and Fraud	2007
Costa Rica	Yes	Procuraduría de la Ética Pública	2002

Country	ACA	Name	Establishment
Cote d'Ivoire	*No*		
Croatia	Yes	Office for the Suppression of Corruption and Organized Crime	2001
Cuba	Yes	Comptroller General's Office	2009
Cyprus	*No*		
Czech Republic	*No*		
Denmark	Yes	Public Prosecutor for Serious Economic Crime	1973
Djibouti	*No*		
Dominca	Yes	Integrity Commission	2008
Dominican Republic	Yes	Department for the Prevention of Corruption	1997
Ecuador	Yes	Commission for the Civic Control of Corruption	1997
Egypt	Yes	Several	Before 1996
El Salvador	Yes	Government Ethics Tribunal	2006
Equatorial Guinea	*No*		
Eritrea	*No*		
Estonia	*No*		
Ethiopia	Yes	Federal Ethics and Anti-Corruption Commission	2001
Fiji	Yes	Independent Commission against Corruption	2007
Finnland	Yes	Criminal Investigation of Corruption	1998
France	Yes	Central Service for Corruption Prevention （SCPC）	1993
Gabon	Yes	National Commission to Fight Against Illicit Enrichment (CNLCEI)	2003
Gambia	Yes	Anti-Corruption Commission	2004
Georgia	*No*	Anti-Corruption Body has no prosecution powers	
Germany	*No*	Not for all of Germany	
Ghana	Yes	Commission on Human Rights and Administrative Justice	1993

Country	ACA	Name	Establishment
		Serious Fraud Office	
Greece	*No*		
Greenland	*No*		
Grenada	*No*		
Guatemala	Yes	Comisión por la Transparencia y Contra la Corrupción	2002
Guinea	Yes	National Committee against corruption/(now) National Agency for fight against corruption	2000
Guinea-Buissau	Yes	Committee against Corruption	1995
Guyana	Yes	Integrity Commission	2004
Haiti	Yes	Unité de Lutte Contre la Corruption	2004
Honduras	Yes	National Anti Corruption Council	2005
Hong Kong	Yes	Independent Commission Against Corruption	1974
Hungary	Yes	Anti-Corruption Unit	2002
Iceland	*No*		
India	Yes	Central Bureau of Investigation	1963
Indonesia	Yes	Corruption Eradication Commission	2003
Iran	*No*		
Iraq	Yes	Commission of Integrity	2004
Ireland	Yes	Criminal Assets Bureau	2005
Israel	*No*		
Italy	Yes	Anti-Corruption and Transparency Service	2008
Jamaica	Yes	Commission for the Prevention of Corruption	2003
Japan	*No*		
Jordan	Yes	Anti-Corruption Commission	2006
Kazakhstan	Yes	Agency for Fighting Economic and Corruption Crimes	2003

Country	ACA	Name	Establishment
Kenya	Yes	Kenya Anti-Corruption Commission	2003
Kiribati	*No*		
Korea (Republic)	Yes	Anti-Corruption and Civil Rights Commission	1999
Kosovo	Yes	Anti-Corruption Agency	2007
Kuwait	*No*		
Kyrgyzstan	Yes	National Agency on Corruption Prevention	2005
Lao	Yes	PDR Government Inspection Authority	2001
Latvia	Yes	Corruption Prevention and Combating Bureau	2002
Lebanon	*No*		
Lesotho	Yes	Directorate on Corruption and Economic Offence	1999
Liberia	Yes	Anti-Corruption Commission	2008
Libya	*No*		
Liechtenstein	*No*		
Lithuania	Yes	Special Investigation Service	1997
Luxembourg	Yes	Corruption Prevention Committee	2007
Macao (SAR China)	Yes	Commission Against Corruption	1999
Macedonia	Yes	State Commission for Prevention of Corruption	2002
Madagascar	Yes	Independent Anti-Corruption Bureau	2004
Malawi	Yes	Anti-Corruption Bureau	1997
Malaysia	Yes	Malaysian Anti-Corruption Commission	1967
Maldives	Yes	Anti-Corruption Commission	2009
Mali	Yes	National Anti-Corruption Commission	2001
Malta	Yes	Maltese Permanent Commission Against Corruption	1988
Marshall Islands	Yes	**Anti-Corruption Unit in the Auditor General's Office**	**2012**
Mauritania	Yes	**National Observatory for the Fight Against Corruption**	**2012**

Country	ACA	Name	Establishment
Mauritius	Yes	Commission Against Corruption	2002
Mexico	Yes	Inter-ministerial Commission for Transparency and the Fight Against Corruption	2000
Micronesia	*No*		
Moldova	Yes	Centre for Fighting Economic Crimes and Corruption	2002
Monaco	*No*		
Mongolia	Yes	Independent Authority Against Corruption	2006
Montenegro	Yes	Directorate for Anti-Corruption Initiative	2004
Morocco	Yes	Central Authority for Corruption Prevention	2007
Mozambique	Yes	Central Office for the Fight against Corruption	2004
Myanmar	*No*		
Namibia	Yes	Anti-Corruption Commission	2006
Nauru	*No*		
Nepal	Yes	Commission for the Investigation of Abuse of Authority	1991
Netherlands	Yes	The Rijksrecherche	1993
New Zealand	*No*		
Nicaragua	Yes	Public Ethics Office	2002
Niger	Yes	High Authority Against Corruption	2011
Nigeria	Yes	Economic and Financial Crimes Commission (EFCC)	2003
Niue	*No*		
Norway	Yes	National Authority for Investigation and Prosecution of Economic and Environmental Crime in Norway	1989
Oman	*No*		
Pakistan	Yes	National Accountability Bureau	1999
Palau	Yes	Office of Special Prosecutor	1989
Palestinian	Yes	Territory Anti-Corruption Commission	2010

Country	ACA	Name	Establishment
Panama	Yes	National Council for Transparency against Corruption	2004
Papua	Yes	New Guinea	
Paraguay	Yes	Office of the Comptroller General	2002
Peru	Yes	High Level Anti-Corruption Commission (different name before)	2001
Philippines	Yes	Office of the Ombudsman	1988
Poland	Yes	Central Anti-Corruption Bureau	2006
Portugal	Yes	Central Criminal Investigation and Prosecution Department	1998
Qatar	Yes	Agency for Administrative Control and Transparency	2011
Romania	Yes	National Anti-Corruption Directorate	2002
Russian	Yes	Federation	
Rwanda	Yes	Office of the Ombudsman	2003
Saint Kitts	*No*		
Saint Lucia	Yes	Integrity Commission	2002
Saint Vincent	*No*		
Samoa	*No*		
San Marino	*No*		
Sao Tome	*No*		
Saudi Arabia	Yes	Anti-Corruption Commission	2012
Senegal	Yes	National Commission Against Non-Transparency, Corruption and Extortion	2003
Serbia	Yes	Anti-Corruption Agency	2010
Seychelles	Yes	Office of the Ombudsman	1993
Sierra	Yes	Leone Anti-Corruption Commission	2000
Singapore	Yes	Corrupt Practices Investigation Bureau	1952
Slovakia	Yes	Commission for the Prevention of Corruption	2004

Country	ACA	Name	Establishment
Slovenia	Yes	Commission for the Prevention of Corruption	2004
Solomon Islands	*No*		
Somalia	*No*		
Somaliland	Yes	Good Governance and Anti-Corruption Commission	2010
South Africa	Yes	Special Investigating Unit	2001
South Sudan	Yes	South Sudan Anti-Corruption Commission	2009
Spain Special	Yes	Prosecutor's Office for the Repression of Economic Offences related to Corruption 1996	
Sri Lanka	Yes	Commission to Investigate Allegations of Bribery or Corruption	1994
Sudan (Republic of)	*No*		
Suriname	*No*		
Swaziland	Yes	Anti-corruption Commission	2006
Sweden	Yes	National Anti-Corruption Unit	2003
Switzerland	*No*		
Syrian Arab Republic	*No*		
Tajikistan	Yes	Agency for State Financial Control and Combating Corruption	2004
Tanzania	Yes	Prevention and Combating of Corruption Bureau	2007
TFYR Macedonia	Yes	State Commission for Prevention of Corruption	2002
Thailand	Yes	National Anti-Corruption Commission	1999
Timor-Leste	Yes	Anti-Corruption Commission	2010
Togo	Yes	The National Commission to Combat Corruption and Economic Sabotage	2001
Tokelau	*No*		
Tonga	Yes	Anti-Corruption Commission	2008
Trinidad and Tobago	Yes	The Integrity Commission of Trinidad and Tobago	1976

Country	ACA	Name	Establishment
Tunisia	Yes	**Anti-Corruption Commission**	**2012**
Turkey	*No*		
Turkmenistan	*No*		
Tuvalu	*No*		
Uganda	Yes	Inspectorate of Government of Uganda	1986
Ukraine	Yes	Interregional Commission against Corruption	2005
United	Yes	Arab Emirates	
United	Yes	Kingdom Serious Fraud Office	1988
United States of America	Yes	Public Integrity Section, Department of Justice	1976
Uruguay	Yes	Transparency and Public Ethics Board	1998
Uzbekistan	*No*		
Vanuatu	*No*		
Venezuela	Yes	Ethics Council (Poder Cuidadano)	1999
Vietnam	Yes	Central Steering Committee for Anti-Corruption	2007
West Bank	Yes	Anti-Corruption Commission	2010
Yemen	Yes	Supreme National Authority for Combating Corruption	2006
Zambia	Yes	Anti-Corruption Commission	1980
Zimbabwe	Yes	Anti-Corruption Commission	2005