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WHO IS CORRUPT IN ETHIOPIA?

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EXECUTIVE SUMMARY

Corruption is an economy-wide problem adversely affecting all economies and societies around the world. To combat corruption several legal and regulatory frameworks and conventions have been formulated at national, regional and global levels. Despite the anti-corruption policies, laws and institutions initiated so far, corruption around the world is generally increasing. Entrusted bodies are more systematically involved in corruption than ever. This study was aimed to assess the level and engagement of entrusted bodies in corruption and compare Ethiopia with the rest of the world.

Datasets and methods

The study used secondary data from the 7th round (2017-2022) of the World Values Survey (WVS) covering 94,183 respondents worldwide and 1,230 in Ethiopia in 64 sample countries. The WVS data was utilized to measure corruption scale and entrusted bodies' engagement in corruption using Multidimensional Corruption index (MCI) introduced in this study. The MCI is measured as a composite index of the involvement of five entrusted bodies in corruption: state authorities, business executives, local authorities, public service providers, and journalists and the media.

The study also used Corruption Perception Index (CPI) data from Transparency International (TI) for the period 2012-2023. The CPI was utilized to measure public sector corruption in 180 countries. The development and governance costs of public sector corruption were also investigated using the data on 17 development and governance indicators collected from different official international sources. Both parametric and non-parametric methods including figures, pairwise correlations, aggregations (or geometric means) and Blinder–Oaxaca decomposition were employed to analyze data.

Key findings

1. There has been no significant difference in the world average public sector corruption over the years. Ethiopia is one of the highly corrupt countries ranked 98th in 2023 with a PCI of 37 percent. There has been a rapid rise of public sector corruption in Ethiopia over the last three years (2021-2023).
2. The world is perceived to be highly corrupt. A vast majority of respondents around the world perceive that the corruption level in their country is high or very high. Similarly, a solid majority of respondents in Ethiopia perceive that

corruption is very high. Compared to the world average, the level of corruption in Ethiopia is relatively higher.

3. A solid majority of respondents in 64 sample countries perceive that most or all state and local authorities, business executives, and journalists and the media are involved in corruption. Similarly, a vast majority of Ethiopians perceive that most or all the entrusted bodies are involved in corruption.
4. Involvement in corruption around the world is relatively higher by state authorities followed by business executives, and local authorities. The involvement of entrusted bodies in Ethiopia is not significantly different from the global average. Corruption in Ethiopia is an economy-wide problem, well-organized, and systematically operated. All entrusted bodies in Ethiopia are highly corrupt. Multidimensional corruption in urban Ethiopia is perceived to be higher than in rural areas.
5. Public sector corruption adversely and strongly affects socioeconomic progress and governance in Ethiopia and around the world. It is strongly associated with economic growth, economic quality, human development, living conditions of citizens, achievement of the Sustainable Development Goals (SDGs), globalization, environmental performance, enterprise conditions, investment environment, infrastructure and market access, and gender equality. High public sector corruption is also associated with voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and state fragility.

Concluding remarks

Public sector corruption in Ethiopia is increasingly very high. Entrusted bodies are well-organized and systematically involved in corruption. The anti-corruption laws and institutions have not been effective so far in controlling corruption. Public sector corruption has strongly affected socioeconomic development and governance. The evidence calls for the urgent need to revitalize and enforce anti-corruption policies, laws, and institutions to fight against corruption.

1. INTRODUCTION

Corruption⁴ can be defined as dishonest behavior or depravity by powerful people or entrusted bodies. It is the abuse of entrusted power for private gain. Corrupt behavior would include bribery, extortion, fraud, embezzlement, nepotism, cronyism, appropriation of public assets and property for private use, and influence peddling (Myint, 2000).

Corruption is economywide and can happen in business, government, the courts, the media, and civil society, as well as across all sectors. Corruption can take many forms and be practiced with unethical behaviors in which politicians or state authorities at different levels (local, regional federal) misuse public money or grant public jobs or contracts to their intimates (sponsors, friends and families); public service providers demand or take money or favors in exchange for the public services; and corporations or business executives bribe officials to get profitable deals (TI, 2023). Corruption happens in the shadows, often facilitated by professional enablers such as bankers, lawyers, accountants, real estate agents, opaque financial systems that allow corruption to flourish and the corrupt to hide their unlawful wealth. Corruption adapts to different contexts and changing circumstances and evolves in response to changes in rules, legislation, and technology. Exposing corruption and detecting the corrupt to account can only happen if we understand the way corruption works and the systems that enable it (TI, 2022).

Corruption is a global phenomenon affecting all societies and economies in multiple dimensions. The United Nations (UN) convention against corruption recognizes that corruption is a serious problem threatening stability and security of societies, undermining the institutions and values of democracy, ethical values, and justice, and jeopardizing sustainable development and the rule of law (UN, 2004). The convention is further concerned about the link between corruption and other forms of crime, its transnational and global nature affecting all societies and economies, and the need for international cooperation to control and prevent it. The UN convention is aimed (a) to promote and strengthen measures to prevent and

⁴ Types of corruption can be petty, grand, or political (TI, 2023). Petty corruption is everyday abuse of entrusted power by public officials in their interactions with ordinary citizens, who often are trying to access basic goods or services. Grand corruption is the abuse of high-level power that benefits the few at the expense of the many and causes serious and widespread harm to individuals and society. Political corruption, on the other hand, is manipulation of policies, institutions, and rules of procedure in the allocation of resources and financing by political decision makers, who abuse their position to sustain their power, status, and wealth.

combat corruption more efficiently and effectively; (b) to promote, facilitate and support international cooperation and technical assistance in the prevention of and fight against corruption; and (c) to promote integrity, accountability and proper management of public affairs and public property.

In line with this, the African Union (AU) is concerned about the negative effects of corruption on the political, economic, social and cultural stability of African States, and its devastating effects on the economic and social progress of the African Peoples (AU, 2003). The convention acknowledges that corruption undermines economic development and accountability and transparency in the management of public affairs. The AU convention is aimed (a) to prevent detect, punish, and eradicate corruption and related offences in the public and private sectors; (b) promote, facilitate, and regulate cooperation to ensure the effectiveness of measures and actions against corruption; and (c) to coordinate and harmonize policies and legislation between state parties.

Ethiopia established the Federal Ethics and Anti-Corruption Commission in 2001 with Proclamation No. 235/2001 and revised it in 2005 and amended the revised version in 2015 (FDRE, 2001; FDRE, 2005; FDRE, 2015). It has also ratified the AU Convention on Preventing and Combating Corruption in 2007 (Proclamation No. 545/2007) and the UN Convention against Corruption (FDRE, 2007). The proclamation recognizes that corruption and impropriety hinder social, economic, and political development, the need to check corruption and impropriety, the necessity to create a society that combats corruption and impropriety; and the urgent need to establish an independent government body capable of investigating and prosecuting, checking, and preventing corruption through the promotion of ethical values in Ethiopia.

Other related rules and regulations were also proclaimed in Ethiopia. Proclamations on the special procedure and rules of evidence on anti-corruption (Proclamation No. 236/2001), amendment of the anti-corruption special procedure and rules of evidence (Proclamation 23912001), disclosure and registration of assets (Proclamation No. 668/2010), protection of witnesses, and whistleblowers of criminal offences (Proclamation No. 699/2010) are some of the legal and regulatory frameworks formulated to fight against corruption and to protect ethical values of the society.

The evidence on corruption around the world adequately verifies the need to assess its dynamics, drivers, development costs, operations, and methods of prevention and control. The mismatch among anti-corruption laws and institutions, the outcomes of the fight against corruption, and the extent to which governments

are committed to fight against corruption are important areas of investigation deemed to be relevant for anti-corruption initiatives.

This study was generally aimed to assess corruption and its operations, systems, and economic and governance costs around the world. The study specifically addresses the following research questions:

1. How is the state of public sector corruption around the world?
2. Where is Ethiopia's relative position in public sector corruption?
3. Who is involved in corruption?
4. How entrusted bodies are perceived across regional states of Ethiopia?
5. Which countries/economies are clean/highly corrupt?
6. Is corruption in Ethiopia systematic (well-organized) or chaotic?
7. Are anti-corruption measures in Ethiopia effective?
8. Which development and governance issues are more impacted by corruption?

2. METHODOLOGY

2.1. Empirical Review

Despite the national, regional, and global conventions on corruption and the establishment of legal and regulatory foundations, rules, and procedures against corruption, the world is still highly corrupt. Over the last decade, there have been no significant global outcomes of fighting against public sector corruption around the world (TI, 2023). The vast majority (90%) of respondents around the world perceive that the level of corruption in their country is high or very high (WVS, 2020). Most entrusted bodies (such as state authorities, local authorities, business executives, public service providers, and journalists and the media) around the world are perceived as corrupt. Similarly, the vast majority (80.4%) of Ethiopians perceive that most or all the entrusted bodies in Ethiopia are involved in corruption.

Multidimensional development costs of corruption identified by the UNDP show that up to 25 percent of governments public spending is lost to corruption around the world (UNDP, 2022). About 1.6 percent of the deaths of children under 5 (more than 140,000 a year) are caused by corruption. Around 28 percent of all health industry corruption cases are related to medical equipment in Europe where one-in-five pay bribes are recorded for healthcare. In African countries, governments spend 25 percent less on health and 58 percent less on education due to corruption. Moreover, corruption undermines the stability of societies; jeopardizes social, economic, and political development; and in crises, diverts funds from essential services.

Corruption has economic, social, political, and environmental costs (TI, 2023). Corruption erodes trust; weakens democracy; increases poverty and inequality; and decreases accountability and political responsiveness. It particularly causes dysfunctionality of the public and the private sectors, failures in infrastructure, partial justice, organized crime and terrorism, diminished state capacity, violations of human rights, conflicts and crimes, social division and environmental crisis, and public frustration and adversity among citizens.

Empirical evidence shows the presence significant and systematic link between high levels of corruption and indicators of economic development. It creates inefficiencies in the operation of markets, distorts the composition of public expenditure by focusing spending on activities likely to yield large bribes, and reduces the level of foreign direct investment (FDI) by adding costs and creating

uncertainty (U4 Expert Answer, 2023). The economic costs of corruption vary according to the scale and frequency of corrupt transactions and which part of the economy and population are most affected. In a fragile, unbalanced, stagnant economy, the economic costs of high levels of corruption are intolerable.

Corruption adversely affects economic growth and income (Svensson, 2005). Corruption is negatively associated with some salient features of countries such as human capital, trade openness, and freedom of media. It is also positively associated with the difficulty of entry to business caused by entry regulations. Corruption adversely affects economic growth, the level of GDP per capita, investment activity, international trade, and price stability (Dreher & Herzfeld, 2005). Moreover, it biases the composition of government expenditures. More than \$2.6 trillion (5% of global GDP) is lost to corruption annually around the world (Hartmann & Ferreyra, 2022). Corruption and crime substantially reduce sales growth of firms (Gaviria, 2002). Corruption and crime reduce firm competitiveness and are unlikely to have any positive effects at the firm level. Corruption and conflict fuel each other. Corruption has become a fundamental threat to peace and security (TI, 2022).

2.2. Conceptual Framework

The relationship between corruption and economic growth is not uniform (Zhang, et al., 2023). Corruption can impact economic growth in many ways, both positively and negatively (Dong & Torgler, 2010). Its overall effect is the sum of all its individual effects.

The impediment of corruption to economic growth diminishes as defects or system deficiencies increase (Aidt, 2009; Meon & Weill, 2010). When system deficiencies are severe resulting in extreme inefficiency, corruption can promote economic growth. On the other hand, corruption hampers economic growth when the government's management system is relatively perfect. It has no effect when the government's management system is poor (Aidt et al., 2008). Under certain conditions, society may benefit from a certain level of corruption. In such cases, anti-corruption measures may reduce the efforts of competent officials more than those of lower ability (Zheng, 2015).

Under the maximization of economic growth, however, the level of corruption is significantly greater than zero (Méndez & Sepúlveda, 2006). When the level of corruption is low, it promotes economic growth. Corruption has a threshold value at which it inhibits economic growth (Alfada, 2019).

2.3. Datasets

Transparency International (TI) reports the Corruption Perception Index (CPI) of 180 countries and territories around the world and ranks them according to their perceived levels of public sector corruption. The CPI is scored on a scale of 0 (highly corrupt) to 100 (very clean).

Unlike the CPI reported by the TI, this study utilized social survey datasets collected by the World Values Survey (WVS) in the 7th round (2017-2022) (Table 2.1). The WVS data was collected by using a full probability sample of the population aged 18 years and older (Haerpfer et al., 2022; Haerpfer et al., 2022). It employs a representative comparative social survey that is conducted globally within 5 years. The WVS is devoted to the scientific and academic study of the social, political, economic, religious and cultural values of people in 64 sample countries around the world. The sample type preferable for using the WVS is a full probability sample of the population aged 18 years and older.

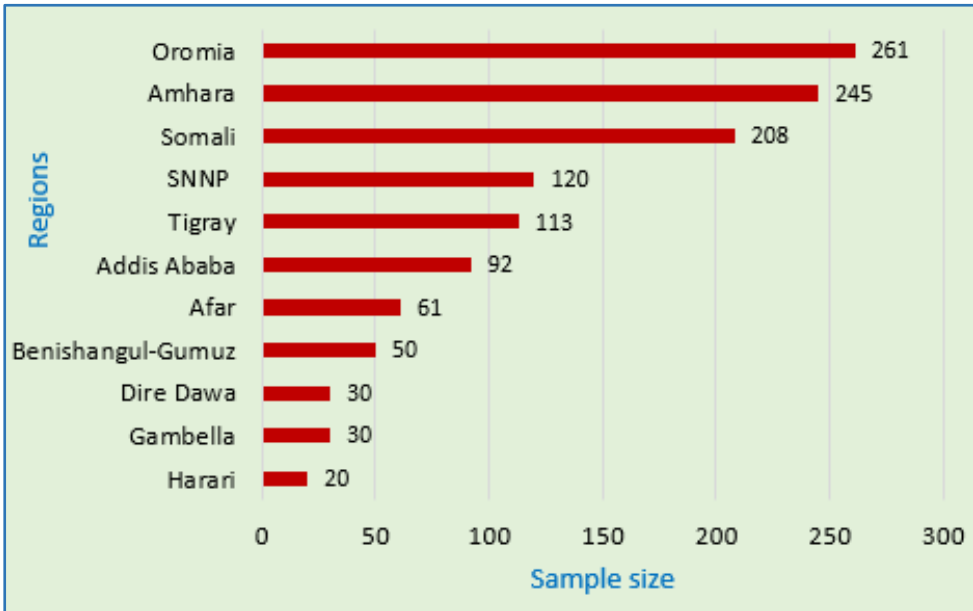
Table 2.1: Distribution of WVS samples by gender and place of residence

Group	Sample size (2017-2022)	
	World	Ethiopia
Male	44,403	622
Female	49,780	608
Rural	64,722	296
Urban	29,519	934
Total	94,183	1,230

Source: Authors' compilation form data in WVS (2017-2022).

Ethiopia was covered by the 7th round survey of the WVS. Around 1,230 representative respondents were selected from all regions and two city administrations in the country (Figure 2.1). The observations were utilized to conduct a comparative analysis in the regional states of Ethiopia.

Figure 2.1: Regional distribution of WVS samples in Ethiopia



Source: Authors' computation from data WVS (2020)

The study also utilized data from World Development Indicators (WDI) and WGI (Worldwide Governance Indicators) of the World Bank, HDI (Human Development Index) and GII (Gender Inequality Index) of the UNDP, SDG progress index of the UN, Globalization Index of the KSEI (KOF Swiss Economic Institute), LPI (Legatum Property Index) of the Legatum Institute (LI), FSI (Fragile States Index) of the FFP (Fund for Peace), and EPI (Environmental Performance Index) of the YCELP (Yale Center for Environmental Law and Policy).

2.4. Methods of Data Analysis

The CPI reported by the TI measures public sector corruption (1= highly corrupt, 100=clean). Other two new measures of corruption are introduced in this study. The scale of corruption measures the level of public and private sector corruption perceived in a country (1=clean, 100=highly corrupt). The Multidimensional Corruption Index (MCI), on the other hand, is another new measure of corruption among entrusted bodies. The MCI is the first of its kind to measure the involvement of entrusted bodies in corruption in both the public and the private sectors.

The EEA Multidimensional Corruption Index (MCI) is aggregated at two stages. First individual responses on the engagement of the entrusted bodies in corruption were aggregated as a geometric mean as follows:

$$MCI_i = (x_{1,i} * x_{2,i} * \dots * x_{n,i})^{\frac{1}{n}} \quad (1)$$

where MCI_{it} is the MCI for respondent i ; $x_{1,i}$ to $x_{n,i}$ are the MCI for entrusted bodies by respondent i ; and n is the number of entrusted bodies under investigation. In the second stage, country aggregates are estimated as an arithmetic mean of individual indices. Based on the two kinds of aggregates, analysis was conducted at individual, regional, country, and global levels.

To measure changes in MCI between two groups, there are two kinds of methods to decompose aggregate variables, decomposition based on micro and macro data. The Blinder-Oaxaca decomposition approach is the widely employed method using micro data. Gaps or differences (R) between groups (e.g., region, gender, place of residence, and other variables) can be measured using this decomposition method.

Given two groups, A and B ; an outcome variable, Y ; and a set of predictors, the mean outcome difference is estimated as (Blinder, 1973; Oaxaca, 1973; Oaxaca & Mansom, 1994),

$$R = E(Y_A) - E(Y_B) \quad (2)$$

where $E(Y)$ denotes the expected value of the outcome variable; and is accounted for by group differences in the predictors.

Based on the Blinder–Oaxaca decomposition for linear regression model

$$Y_t = X_t' \beta_e + \epsilon_\ell, \quad E(\epsilon = 0 \quad \ell \in (A, B)) \quad (3)$$

where X is a vector containing the predictors and a constant, β contains the slope parameters and the intercept, and ϵ_ℓ is the error.

The mean outcome difference can be expressed as the difference in the linear prediction at the group-specific means of the regressors:

$$R = E(Y_A) - E(Y_B) = E(X_B)' \beta_A - E(X_B)' \beta_B \quad (4)$$

To identify the contribution of group differences in predictors to the overall outcome difference, this equation can be rearranged and reduced to,

$$R = E + C + I \quad (5)$$

The first component, $E = \{E(X_A) - E(X_B)\}' B_B$, amounts to the part of the differential that is explained by group differences in the predictors (the “endowments effect”). The second component, $C = E(X_B)'(B_A - B_B)$, measures the unexplained effect or the contribution of differences in the coefficients (including differences in the intercept). The third component, $I = \{E(X_A) - E(X_B)\}'(B_A - B_B)$, is an interaction term accounting for the simultaneous interaction of differences in endowments (E) and coefficients (C) between the two groups. This decomposition is formulated from the viewpoint of group B which means, the group differences in the predictors are weighted by the coefficients of group B to determine the endowments effect (E). The E component measures the expected change in group B’s mean outcome if group B had group A’s predictor levels. Similarly, for the C component (the “coefficients effect”), the differences in coefficients are weighted by group B’s predictor levels. The C component measures the expected change in group B’s mean outcome if group B had group A’s coefficients. Accordingly, the differential can also be expressed from the viewpoint of group A, yielding the reverse threefold decomposition.

2.5. Definition of Variables

2.5.1. Measures of corruption

Corruption Perception Index (CPI): It is a measure of public sector corruption reported by Transparency International (TI) since 2012. Higher (near to 100%) and lower values (near 1%), respectively, show clean and high corruption.

Level of Corruption: The overall perception level of corruption in a country is measured by a 10-point rating scale varying from 1 (clean) to 10 (abundant). This measures the level of corruption in a country as perceived by respondents surveyed by the World Values Survey (WVS) which is rescaled out of 100 percent.

Entrusted Body: Entrusted body refers to a person or an organization under a charge or duty who is delivered authority or responsibility over something or someone. In this study five entrusted bodies are considered: (1) State authorities; (2)

Business executives; (3) Local authorities; (4) Public service providers; and (5) Journalists and the media.

State Authorities: State authorities are government entities or bodies that have the power to create, enforce, and interpret laws.

Business Executives: Business executives are entities in charge of their business organization to create and review goals for the company.

Local Authorities: Local authorities are parts of an organization that are officially responsible for all the public services and facilities in a particular area.

Public Service Providers: Public service providers refer employees or operators designated to offer public services to the public without discrimination.

Journalist and the Media: A journalist is someone who collects and writes news, stories, and articles for newspapers, magazines, radio, and television. The media refers to entities of both the press/physical and electronic communication channels.

Multidimensional Corruption Index (MCI): The MCI measures the perception of respondents on the involvement of the five entrusted bodies in corruption. Corruption in this case was measured by a 4-scale numerical rating of respondents' perception of the involvement of the entrusted bodies in corruption as 1 (none of them), 2 (few of them), 3 (most of them), or 4 (all of them). The responses were standardized as a percentage and aggregated to estimate the overall MCI at the respondent and country level.

2.5.2. Development indicators

The systematic dynamic link between development indicators and CPI was measured by the following 11 variables.

GDP per Capita: It measures the economic output of a nation per person and seeks to determine the prosperity of a nation by economic growth per person per year in that nation. In this study, it is measured in the 2017 constant international dollar (int.\$). Corruption is expected to severely affect the economic progress of nations.

Human Development: The Human Development Index (HDI) measures a nation's health, education, and standard of living. It has been published by the United Nations Development Program (UNDP) since 1990 covering 197 countries and economies around the world. Corruption is expected to adversely affect the social progress of nations measured by the HDI.

Economic Quality: Economic quality is an aggregate measure of the macroeconomy of nations estimated and reported by the Legatum Prosperity Index (LPI). It measures how well an economy is equipped to generate wealth sustainably and with the full engagement of the workforce. It is an index measuring fiscal sustainability, macroeconomic stability, productivity and competitiveness, dynamism, and labor force participation. Corruption is expected to adversely affect the economic quality of nations.

Globalization: Globalization measures the extent of connectedness and interdependence of the world in trade, technology, and socioeconomic changes. It is generally expected to enhance the socioeconomic development of nations around the world.

SDGs progress index: The progress of the 17 Sustainable Development Goals (SDGs), also known as Agenda 2030, is measured by the SDG progress index. The overall SDGs score measures the total progress of nations towards achieving all 17 SDGs. Corruption is expected to adversely affect the achievement of SDGs.

Enterprise Condition: This indicator is estimated and reported by the Legatum Institute (LI) to measure the degree to which regulations enable businesses to start, compete, and expand. It measures the state of enterprise and private sector conditions of countries based on domestic market contestability, environment for business creation, burden of regulations, labor market flexibility, and price distortions. Enterprise condition is expected to be adversely affected by corruption.

Investment Environment: This indicator is reported by the LI to measure the extent to which investments are adequately protected and are readily accessible. It measures the state of property rights, investor protection, contract enforcement, financing ecosystem, and restrictions on international investment.

Infrastructure and Market Access: This indicator is reported by the LI to measure the quality of infrastructure that enables trade, and distortions in the market for goods and services. It is an aggregate index of communications, energy, water, transport, border administration, open market scale, import tariff barriers, and market distortions. Corruption is expected to adversely affect infrastructure and market access.

Living Conditions: This indicator is reported by the LI to measure the degree to which a reasonable quality of life is experienced by all, including material resources, nutrition, access to basic services, shelter, and connectivity or networking. Corruption is expected to adversely affect living conditions.

Environmental Performance Index (EPI): The EPI, developed by the Yale Center for Environmental Law and Policy (YCELP), provides a summary of the state

of sustainability around the world. It measures the performance of a government on environmental quality and resource use efficiency in terms of climate change, environmental health, and ecosystem vitality. Corruption is expected to severely affect the environmental performance of nations.

Gender Inequality: The Gender Inequality Index (GII) was introduced by the UNDP to measure gender disparity. It is a composite measure to quantify the loss of achievements within a country due to gender inequality in terms of reproductive health, empowerment, and labor market participation. Corruption is expected to widen gender inequality.

2.5.3. *Governance indicators*

The Worldwide Governance Indicators (WGI) is a research dataset summarizing the views on the quality of governance provided by enterprises, citizens, and expert survey respondents in industrialized and developing countries. It has been produced by the World Bank since 1996 covering 214 countries and territories around the world. The WGI and Fragile States Index (FSI) are used as governance indicators measuring the systematic link between public sector corruption (CPI) and governance. These indicators are defined below.

Voice and Accountability: Voice and accountability is an indicator of governance developed by the World Bank known as the WGI. It measures perceptions on the participation of citizens in government elections, as well as freedom of expression, association, and free media.

Political Stability and Absence of Violence: This is the other indicator of governance developed by the World Bank used to capture the likelihood of a government to be destabilized or overthrown by unconstitutional means.

Government Effectiveness: Government effectiveness is one of the WGI used to capture the quality of public services, the quality of the civil service and its independence from political interference, the quality of policy formulation and implementation, and the credibility of government and its commitment to such policies.

Regulatory Quality: Regulatory quality is one of the WGI used to capture the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.

Rule of Law: The last pillar of governance is used to capture the extent of confidence of agents in and abide by the rules of society, including the quality of contract enforcement, property rights, the police, and the courts.

Fragile States Index (FSI): The FSI, developed by the Fund for Peace (FFP), is a measure of risk and the vulnerability of states to collapse. It is an aggregate index of three cohesion factors (security apparatus, factionalized elites, and group grievance), three economic factors (economy, economic inequality, and human flight and brain drain), three political factors (state legitimacy, public services, and human rights), two social factors (demographic pressure, and refugees and IDPs), and external intervention. It is used to capture the pressures that states experience and their capacity to manage these pressures. The fragility status⁵ of countries is categorized into 4 as sustainable (<40), stable (40-70), warning (70.100) and alert (100-120).

⁵ For ease of comparison using standard measures used in other indicators in this study, the FSI scores are rescaled to 100%.

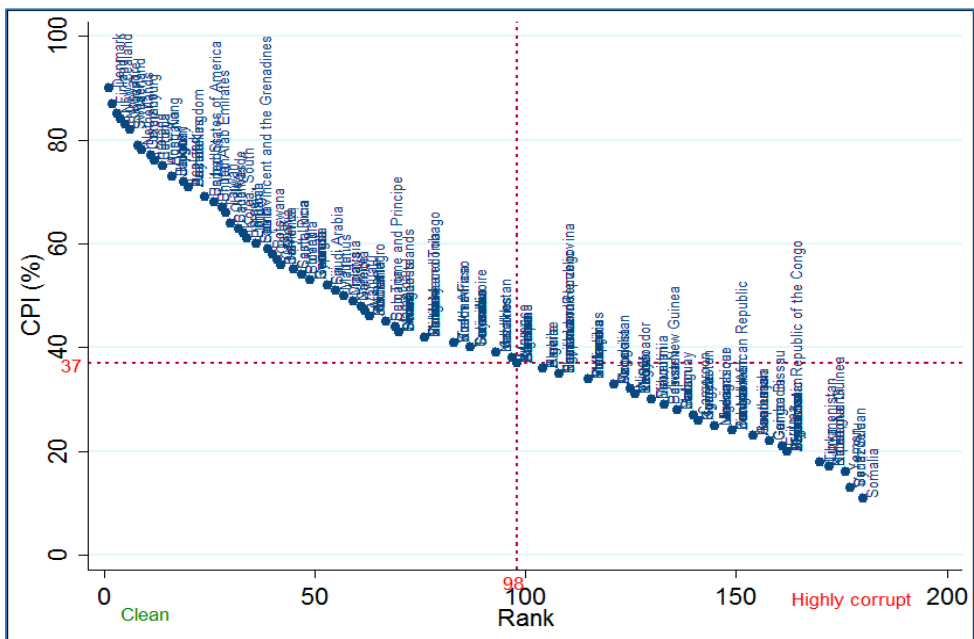
3. THE STATE OF CORRUPTION

Three measures of corruption and the corruption system are investigated and reported under this section.

3.1. Public Sector Corruption

Transparency International (TI) measures the Corruption Perception Index (CPI) of public sector corruption for around 181 countries and territories worldwide. It ranks these countries with their CPI every year. In 2023, the top 10 countries clean from corruption are Denmark, Finland, New Zealand, Norway, Singapore, Switzerland, Sweden, Netherlands, Luxemburg, and Germany (Figure 3.1). Except for Singapore, all of them are countries in Western Europe with a CPI of 78 to 90 percent. On the other hand, the bottom 10 highly corrupt countries are Turkmenistan, North Korea, Nicaragua, Haiti, Equatorial Guinea, Yemen, Syria, Venezuela, South Sudan, and Somalia with CPI of 11 to 18 percent. In 2023, Ethiopia is ranked 98th with a CPI of 37 percent, indicating the very high corruption.

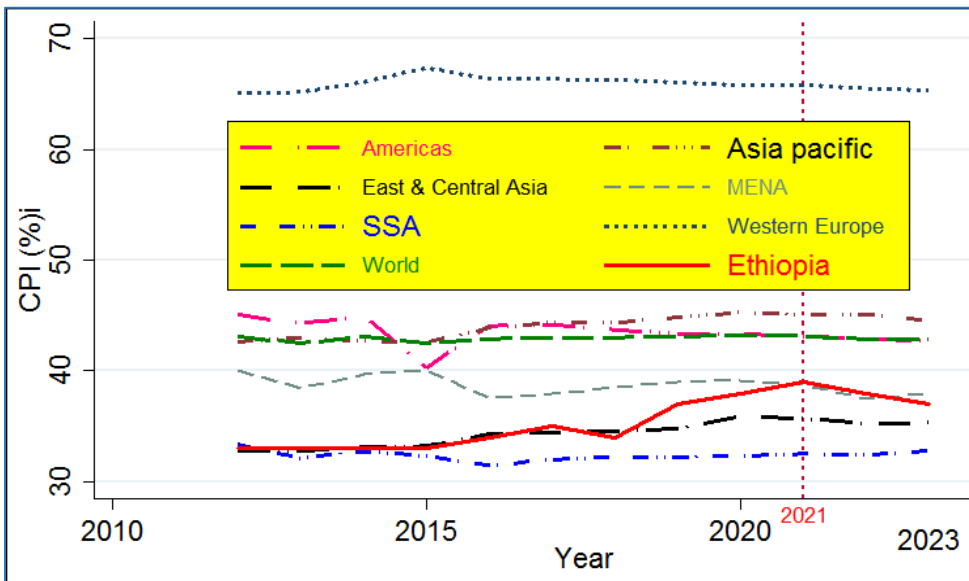
Figure 3.1: Countries ranked with their CPI (2023)



Source: Authors' computation from data in TI (2023)

Public sector corruption significantly varies across regions of the world (Figure 3.2). The top region relatively clean from public sector corruption was Western Europe. The bottom highly corrupt regions are Sub-Saharan Africa (SSA), followed by East and Central Asia, and the Middle East and North Africa (MENA). There has been no significant difference in the world average public sector corruption over the years. Ethiopia, slightly better than the SSA average, had shown consistent improvement in controlling public sector corruption until 2021. However, there has been a rapid increase in public sector corruption over the last three years (2021-2023). Domestic conflicts and political violence widely prevailed since 2019 are expected to create a favorable environment the corrupt practices.

Figure 3.2: Dynamics of public sector corruption around the world

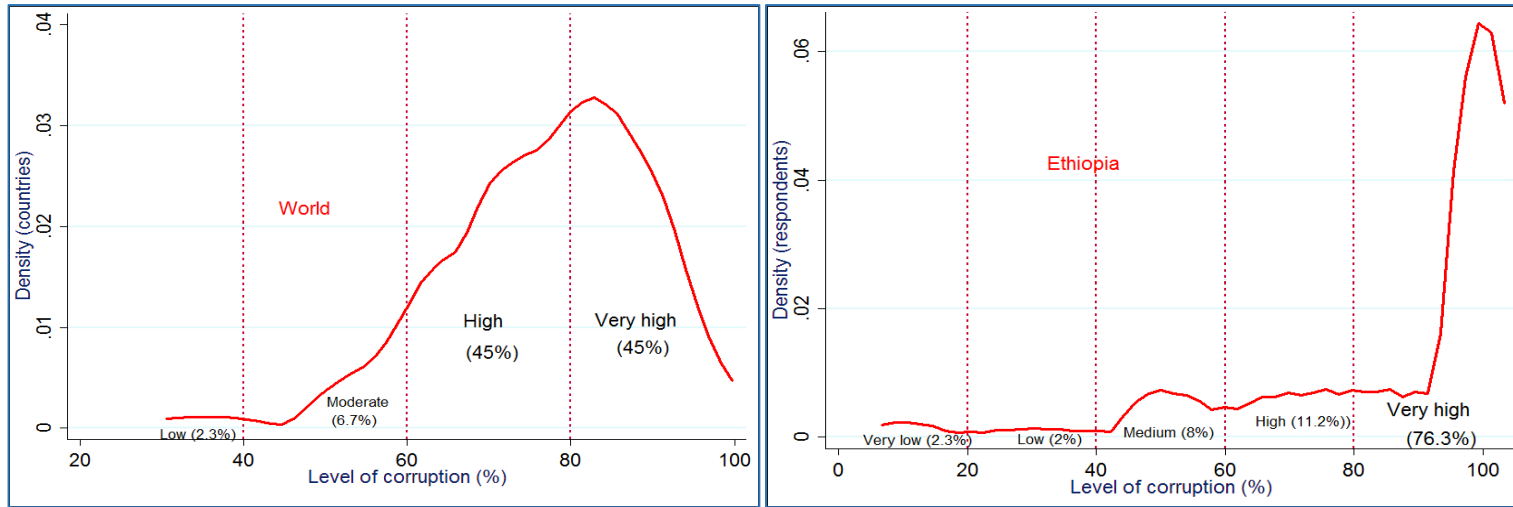


Source: Authors' staff computation from data in TI (2012-2023)

3.2. Level of Corruption

The scale or level of total corruption shows that the vast majority (90%) of respondents around the world perceive that the corruption level in their country is high or very high (45%) (left panel of Figure 3.3). Similarly, a solid majority (76.3%) of respondents in Ethiopia perceive that corruption is very high (right panel of figure). Compared to the world average, the level of corruption in Ethiopia is relatively higher. A smaller minority of the respondents perceive corruption in Ethiopia is medium (8%) or high (11.2%). The results generally show that the world is perceived to be highly corrupt.

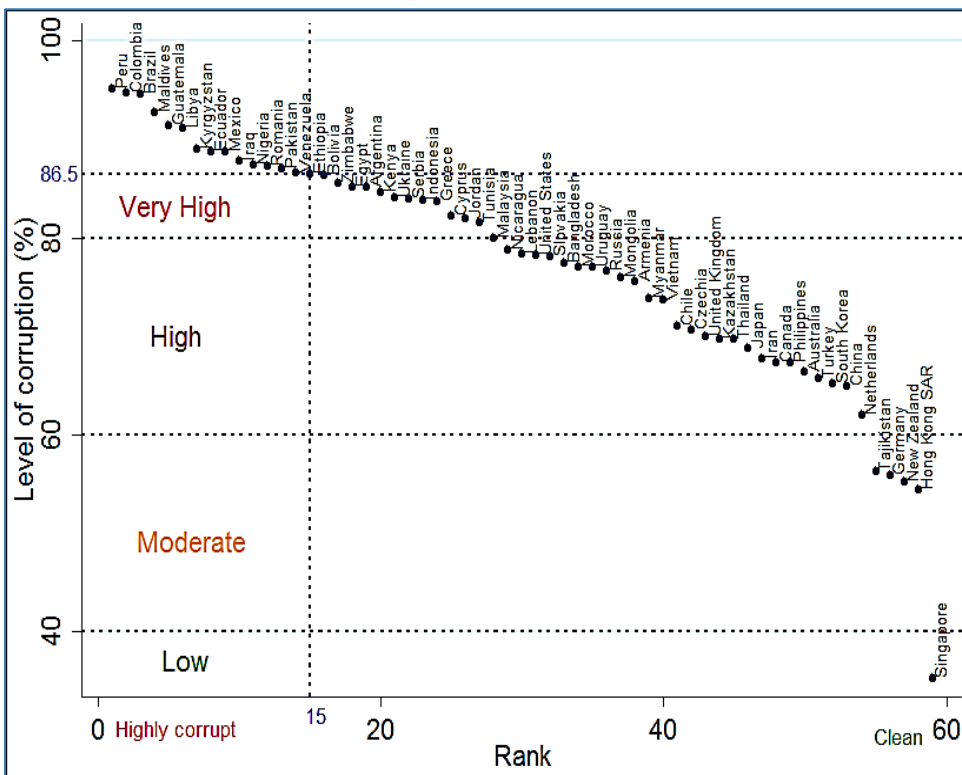
Figure 3.3: Levels of corruption perception around the world



Source: Authors' computation from data in WVS (2020)

Most of the top 10 countries/territories with very high levels of corruption are in Latin America and Asia, including Peru, Colombia, Brazil, Maldives, and Guatemala (Figure 3.4). The level of corruption in Ethiopia is also very high (86.5%) which is comparable to those countries perceived as highly corrupt. Countries/territories with relatively lower levels of corruption include Singapore, Hong Kong, New Zealand, Germany, and Tajikistan. In 2020, Ethiopia was ranked 15th with 85.6 percent level of total corruption. Among the sample countries, Ethiopia is grouped as a highly corrupt country.

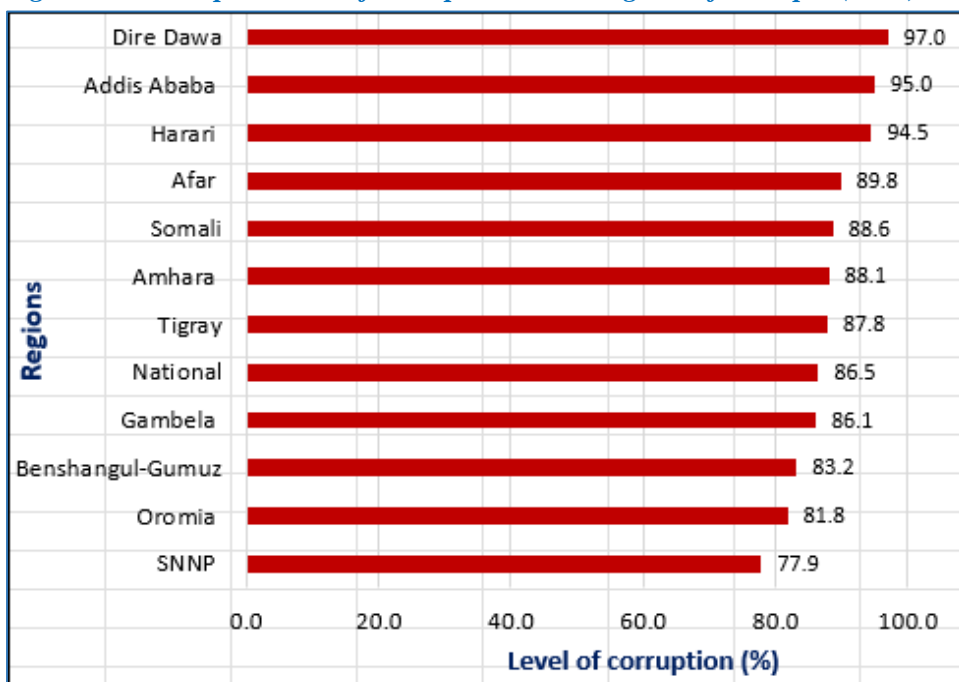
Figure 3.4: Relative level of corruption status around the world (2020)



Source: Authors' computation from data in WVS (2020)

Though Ethiopia is identified as a country with a very high level of corruption, the distribution of corruption across regional states slightly varies (Figure 3.5). The level of corruption in the SNNP region is high, but very high (over 80%) in all other regions. Corruption is particularly very high in urban areas of Ethiopia (Dire Dawa, Addis Ababa, and Harari). This suggests that the level of corruption in Ethiopia is generally very high across regions and urban centers.

Figure 3.5: Perception level of corruption across regions of Ethiopia (2020)



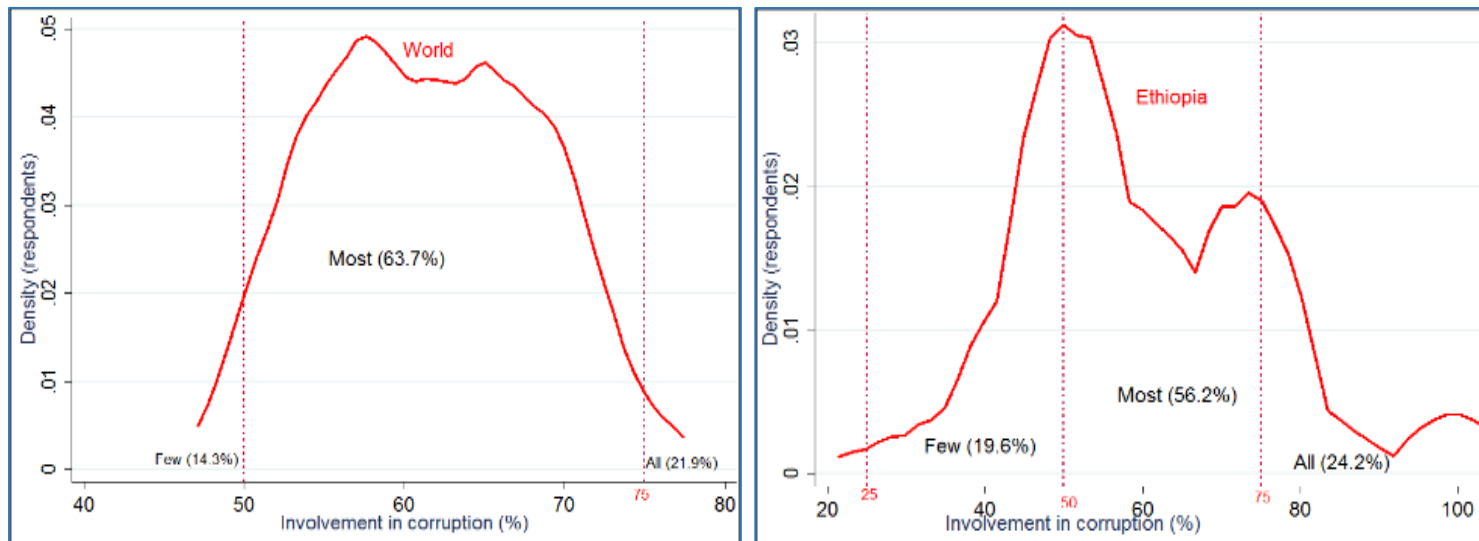
Source: Authors' computation from data in WVS (2020)

3.3. Multidimensional Corruption

Entrusted bodies are motivated to engage in corruption to gain additional personal benefits when they have sufficient discretionary power, when economic rent exceeds salary levels, and when corruption detection and punishment are minimal (Yin and Nie, 2020). Involvement of entrusted bodies in corruption is determined by the anti-corruption laws and the commitment of the government to enforce these laws. The multidimensional corruption index (MCI) captures the extent to which entrusted bodies are involved in corruption.

The perception of respondents in Ethiopia and the rest of the world is consistent. Globally, a solid majority (85.6%) perceive that most (63.7%) or all (21.9%) of state and local authorities, business executives, and journalists and the media are involved in corruption (left panel of Figure 3.6). Similarly, most Ethiopians (80.4%) perceive that most or all these entrusted bodies are involved in corruption (right panel of the figure).

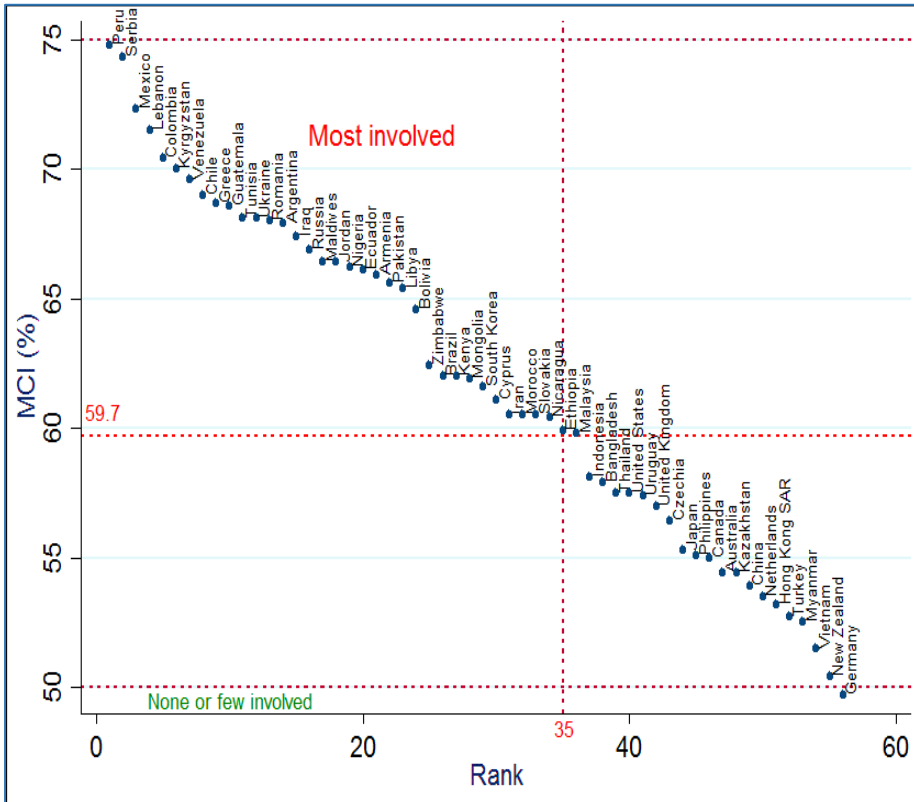
Figure 3.6: Distribution of involvement in corruption



Source: Authors' computation from data in WVS (2020)

The bottom five countries/territories highly involved in corruption are Peru, Serbia, Mexico, Lebanon, and Colombia (Figure 3.7). On the other hand, the top five countries/territories clean from corruption are Germany, New Zealand, Vietnam, Andorra, and Myanmar. In 2020, Ethiopia is ranked 35th with an MCI of 59.7 percent indicating that most of the entrusted bodies in Ethiopia are involved in corruption.

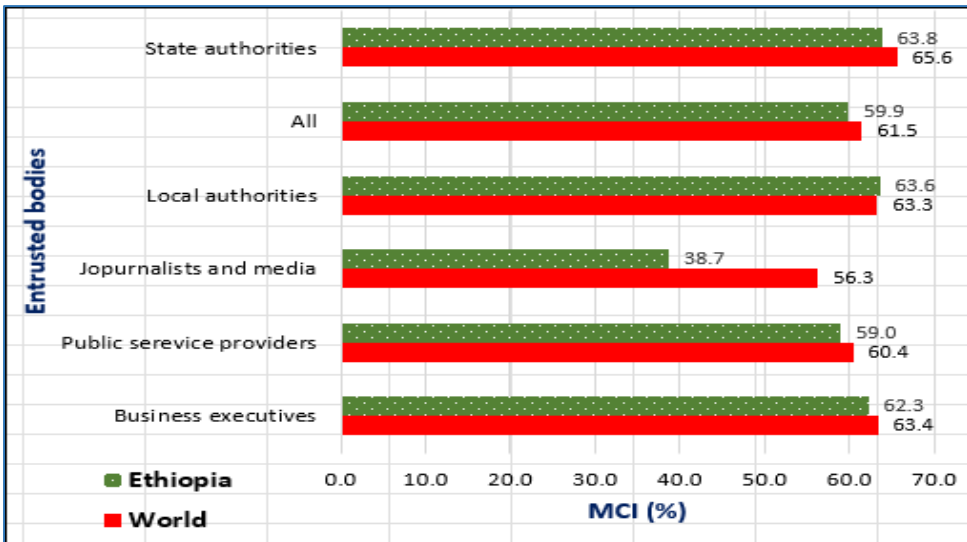
Figure 3.7: Ranking of countries with the MCI (2020)



Source: Authors' computation from data in WVS (2020)

Involvement in corruption around the world is relatively higher by state authorities (65.6%) followed by business executives (63.4%) and local authorities (63.3%) (Figure 3.8). Entrusted bodies in Ethiopia are not significantly different from the global average in their involvement in corruption. The level of involvement in Ethiopia above the overall national average (59.9%) is the corruption by state authorities (63.8%), local authorities (63.6%), and business executives (62.3%).

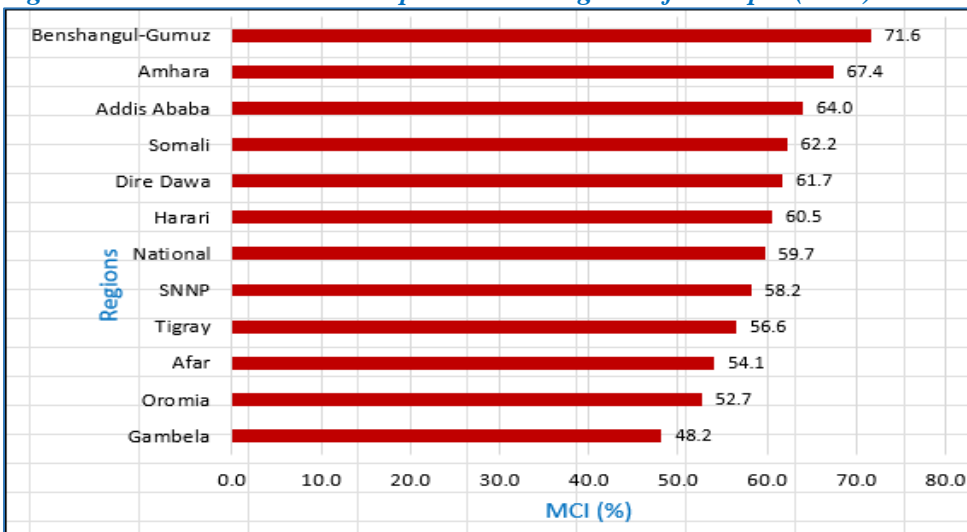
Figure 3.8: Involvement of entrusted bodies in corruption



Source: Authors' computation from data in WVS (2020)

Involvement in corruption in Ethiopia is differently perceived across regions (Figure 3.9). Corruption in Benishangul-Gumuz, Amhara, Addis Ababa, Somali, Dire Dawa, and Harari is relatively higher (above the national average). People in Gambella, Oromia, and Afar perceive that the involvement of entrusted bodies in corruption is relatively lower.

Figure 3.9: Involvement in corruption across regions of Ethiopia (2020)



Source: Authors' computation from data in WVS (2020)

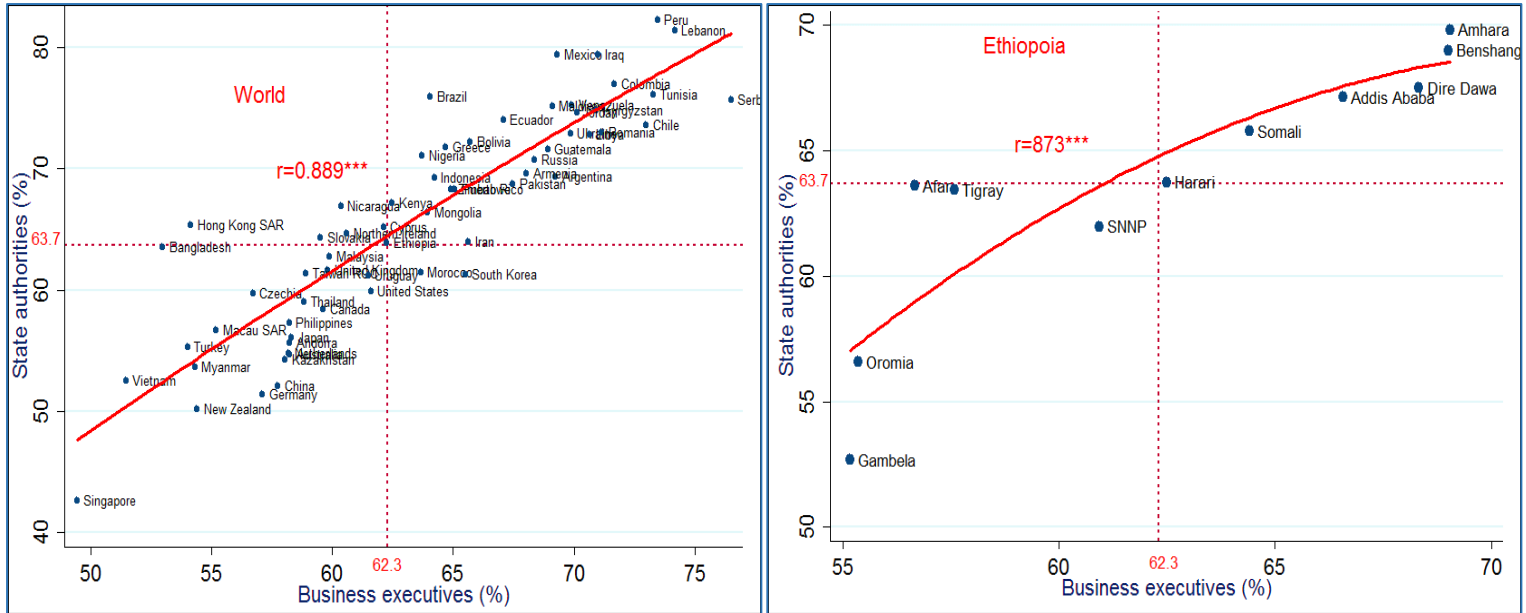
3.4. System of Corruption

Systemic corruption operated a system which can be contrasted with individual officials or agents who act corruptly within the system (Alcazar & Andrade, 2001). Systemic corruption is encouraged by factors such as conflicting incentives, discretionary powers; monopolistic powers; lack of transparency; low pay; and a culture of impunity.

Corruption in an economy might be well-organized or chaotic (Myint, 2000). Under a well-organized system of corruption, entrusted bodies have a good idea of whom they must bribe and how much to offer them. The results show that corruption is a well-organized and economy-wide problem in Ethiopia where corrupt practices of entrusted bodies reinforce one another in all regional states.

The well-organized corruption by entrusted bodies in Ethiopia is found to be consistent with the rest of the world. In 2020, corruption by business authorities is strongly and positively associated with the state authorities (Figure 3.10). State authorities are relatively perceived as less corrupt in Oromia, Gambella, and SNNP, all of which are below the national average (63.7%). On the other hand, corruption by state authorities and business executives is relatively perceived as more corrupt in Amhara, Benishangul Gumuz, Dire Dawa, Addis Ababa, and Somali, whose MCI is above the national and the world averages (63.7% and 62.3%). Overall, the results show that corruption in Ethiopia is economy-wide where both the public and the private sectors are well-organized and systematically involved.

Figure 3.10: State authorities and business executives jointly involved in corruption

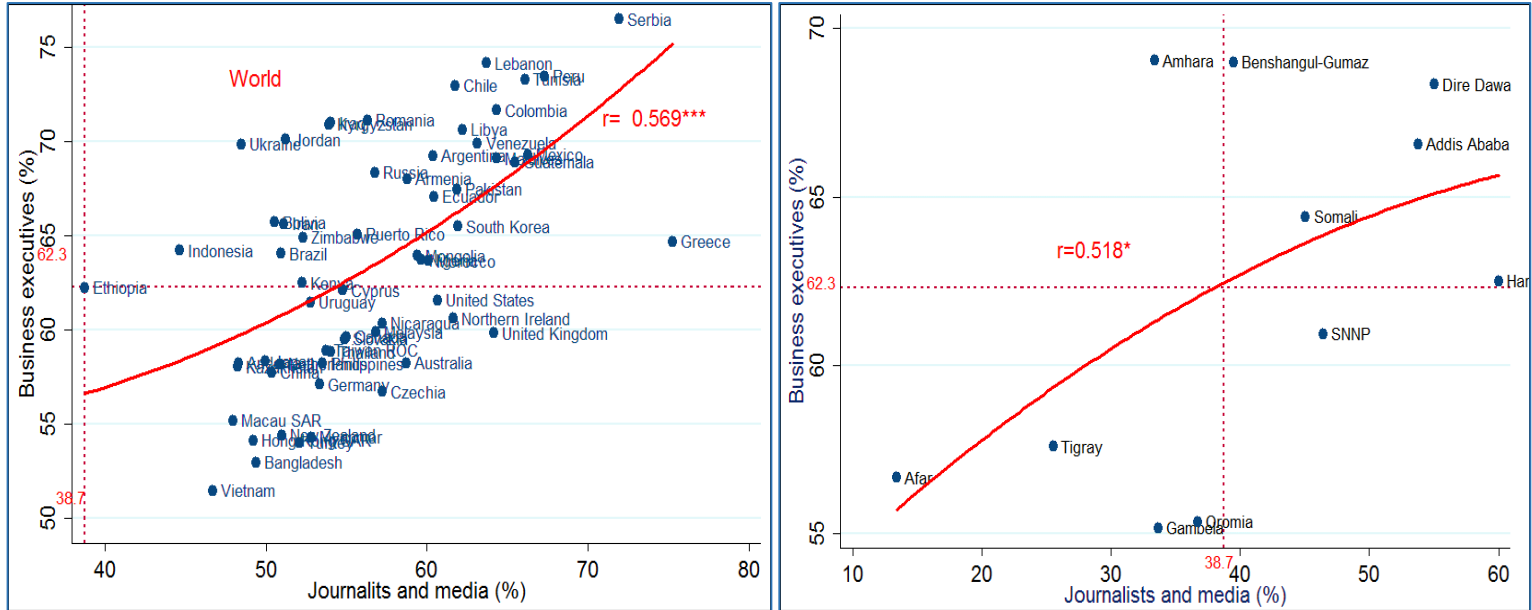


Source: Authors' computation from data in WVS (2020)

A nearly similar pattern of involvement in corruption is perceived between local authorities and public service providers around the world and across regional states of Ethiopia (Figure 3.11). Most local authorities in Benishangul Gumuz, Amhara, Addis Ababa, and Dire Dawa are perceived as highly involved in corruption (right panel of the figure). On the other hand, corruption by both local authorities and public service providers in Gambella, Afar, and Oromia are perceived as relatively less involved. Involvement in corruption by public service providers and local authorities is systematic and well-organized in Ethiopia.

Involvement in corruption by business executives, and journalists and the media in Ethiopia is not significantly different from the rest of the world. Corruption in the world by business executives increasingly grows with the involvement of journalists and the media in corruption (left panel of Figure 312). The regional distribution of corruption by journalists and the media significantly varies across regions of Ethiopia. Entrusted bodies in urban centers of Ethiopia (Harari, Dire Dawa, and Addis Ababa) are more involved in corruption, with MCI substantially higher than the national average (right panel of the figure).

Figure 3.12: Involvement in corruption by business executives and the media



Source: Authors' computation from data in WVS (2020)

The decomposition of involvement in corruption in rural and urban Ethiopia is significantly explained by the five entrusted bodies. Involvement in corruption in Ethiopia significantly varies by place of residence (Table 3.1). Corruption in urban areas is higher than in rural areas by 5.2 percent, which is caused by all the five entrusted bodies. Compared to their rural counterparts, entrusted bodies in urban Ethiopia are more involved in corruption. The highest difference in corruption between entrusted bodies in the two areas is more attributable to public service providers (1.17%), journalists and the media (1.13%), and local authorities (1.09%).

Table 3.1: Involvement in corruption in urban and rural Ethiopia (2020)

Entrusted bodies (Components)	Endowments (Explained)	Coefficients (Unexplained)	Interaction
State authorities	-0.84	0.81 ^{ns}	-0.05 ^{ns}
Business executives	-0.97	1.40	-0.10
Local authorities	-1.09	2.08	-0.19
Public service providers	-1.17	-4.42	0.40
Journalists and the media	-1.13	1.32	0.11
Constant		1.33	0.16
Total	-5.21	-0.123	
Differential		-5.17	
Prediction rural		58.49	
Prediction urban		63.66	
Adjusted R2 (rural)		0.976	
Adjusted R2 (urban)		0.993	
Observations (rural)		684	
Observations (urban)		259	
Observations (both)		943	

Note: ns denotes statistically not significant.

Source: Authors' computation from data in WVS (2020).

4. THE COSTS OF CORRUPTION

Corruption has several development and governance costs manifested in multiple dimensions. The empirical evidence generated by the UNDP verifies that high level of corruption adversely affects economic growth and GDP per capita, human development, global competitiveness, human rights, gender equality, and governance (UNDP, 2008). It also aggravates poverty, causes conflicts, and creates business obstacles. In this study, the systematic link between public sector corruption and development and governance costs are investigated and reported with 17 indicators.

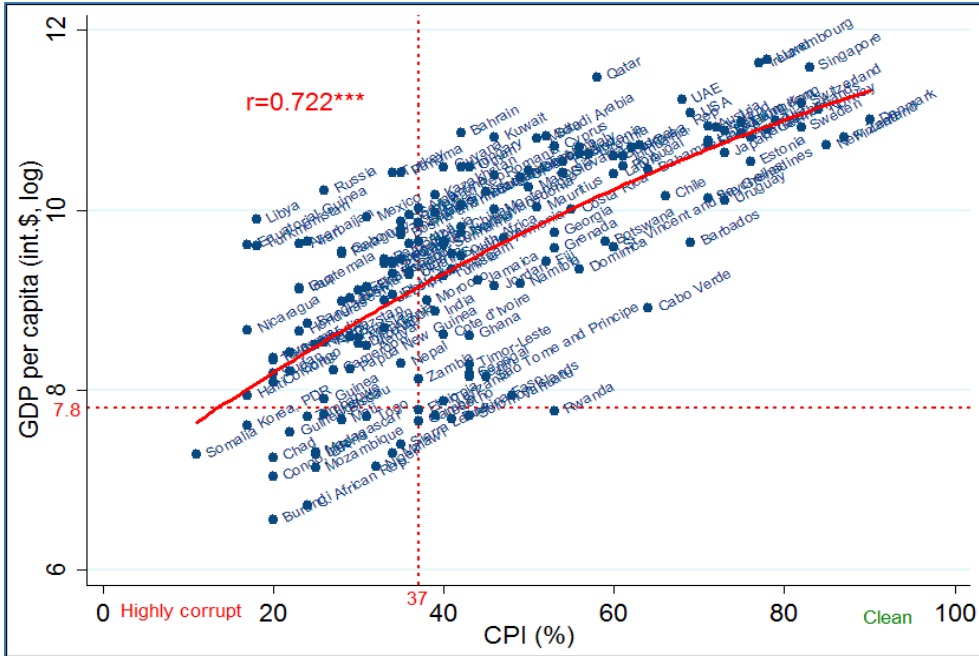
4.1. Development Costs

Corruption in general, and public sector corruption in particular, has several adverse effects on the economic and social progress of nations. Corruption is expected to adversely affect the economic growth and development of nations⁶. The systematic link between CPI and development indicators is investigated hereunder.

Economic growth: The standard of living measured by GDP per capita in this case is well significantly predicted by the public sector corruption. The systematic link between CPI and GDP per capita (constant 2017 int.\$) has a strong and significant association (Figure 4.1). Highly corrupt countries are less likely to realize economic growth and development. Public sector corruption and economic decline significantly reinforce each other. Countries with lower GDP per capita are more adversely affected by corruption. To state it differently, highly corrupt states are less likely to grow and develop. Ethiopia with 86.5 CPI has a very low GDP per capita (int\$ 2319.1), suggesting the need for strong commitment by the government to fight against corruption.

⁶ The variables suspected of being related to corruption may be causes or effects of corruption. The strength of their association with corruption is estimated but the direction of causality and the parametric relationship is not identified and estimated.

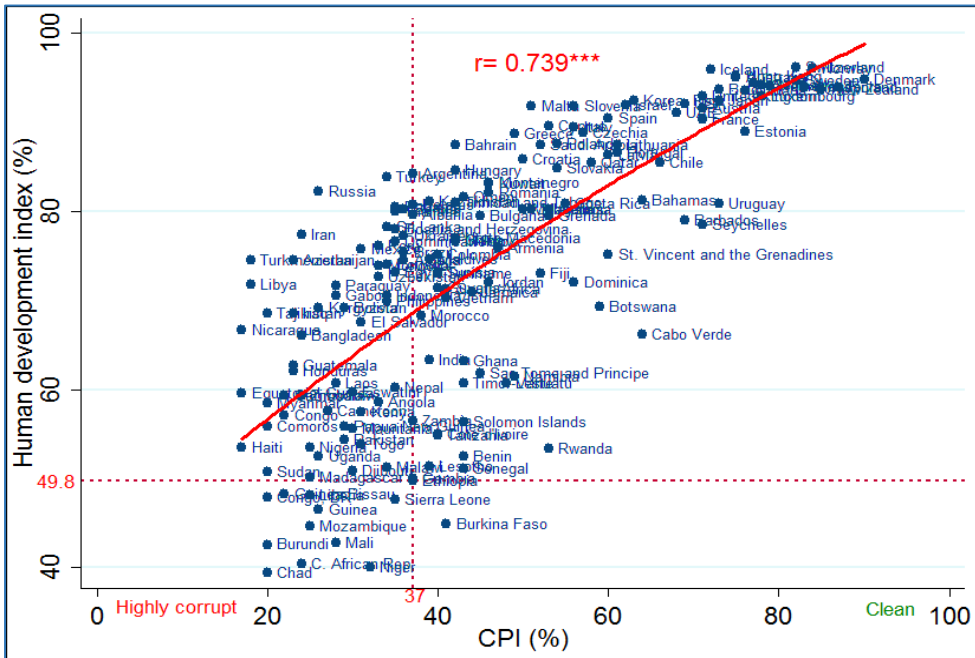
Figure 4.1: Economic growth of corrupt states is stagnated



Source: Authors’ computation from data in TI (2023) and the World Bank (2022)

Economic quality: Economic quality measures the macroeconomy of nations with fiscal sustainability, macroeconomic stability, productivity and competitiveness, dynamism, and labor force participation (LI, 2020). Corruption is strongly and inversely associated with the economic quality of nations (Figure 4.2). Nations with high public sector corruption are characterized by low economic quality that translates to macroeconomic instability, low productivity and competitiveness, and limited labor force participation. Ethiopia is characterized by a very low economic quality (42.5%) where macroeconomic instability has been the primary challenge to human welfare over the last five years.

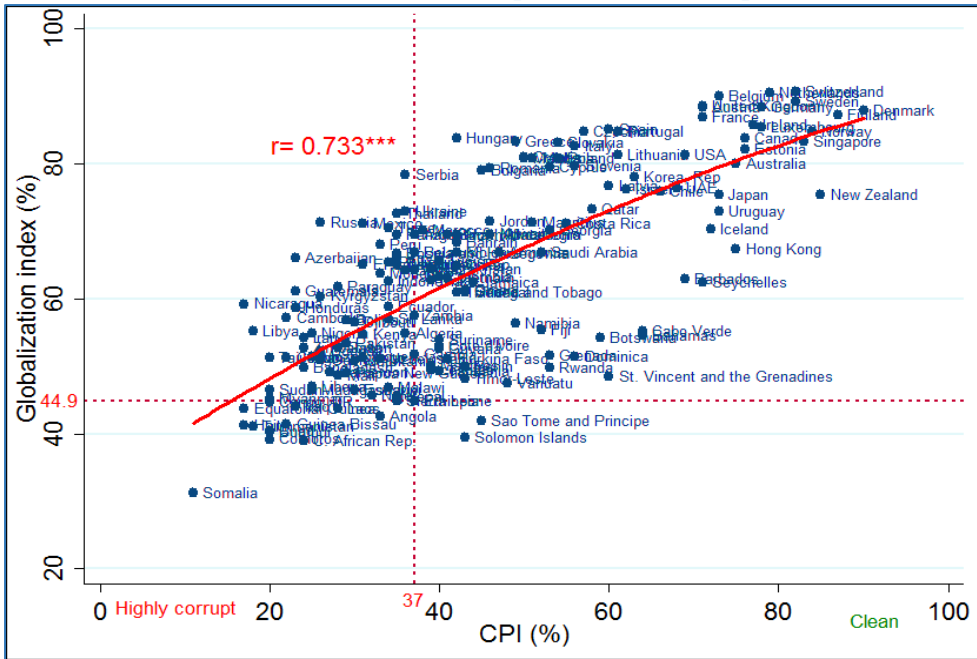
Figure 4.3: Human welfare deteriorates with increasing public sector corruption



Source: Authors' computation from data in TI (2023) and UNDP (2022)

SDG progress: The achievement of the SDGs is significantly associated with public sector corruption prevailed in countries around the world (Figure 4.4). Countries with low corruption (such as Germany, New Zealand, Singapore, and Netherlands) are in a better status in reaching the 17 SDGs. The SDGs achievement of Ethiopia with very high public sector corruption (37%) and SDG index (58%) is identified to limited SDG progress facing major challenges.

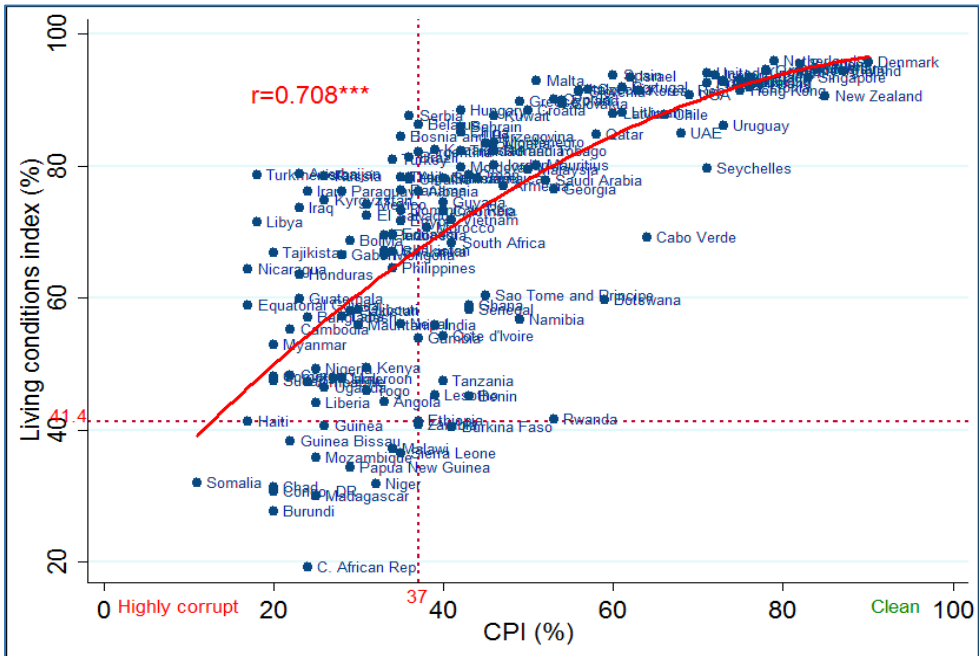
Figure 4.5: Globalization falls with rising public sector corruption



Source: Authors' computation from data in TI (2023) and KSEI (2020)

Living conditions: Corruption adversely affects the living conditions of citizens around the world (Figure 4.6). The quality of life experienced in Ethiopia (with an index of 41.4%) is adversely affected by corruption. Quality of life, measured by access to material resources, basic services, shelter/housing, nutrition, and food security, is significantly eroded by the high public sector corruption prevailed in the country.

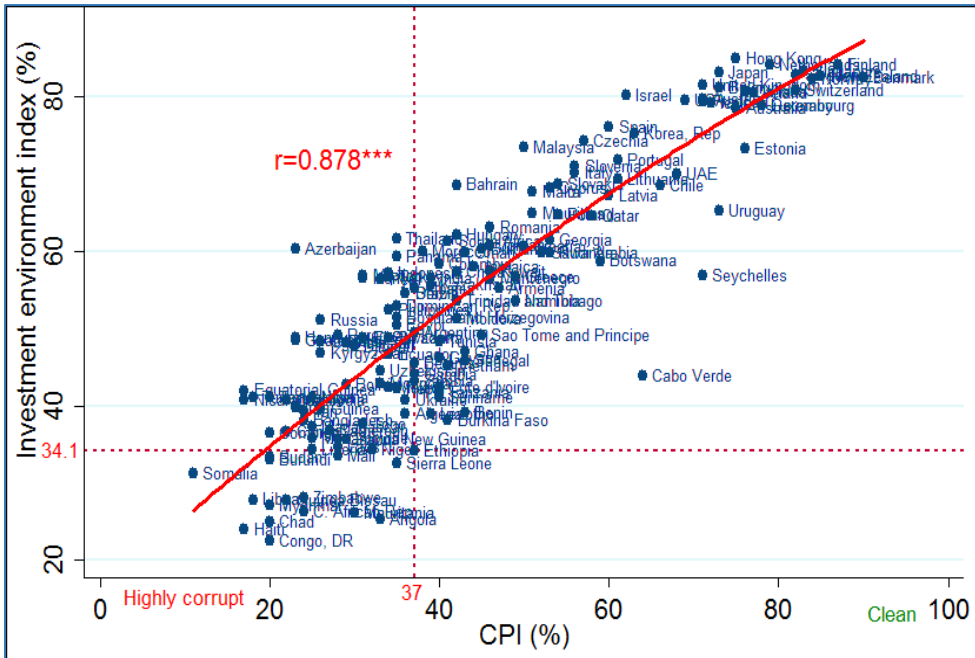
Figure 4.6: Living conditions erode with increasing public sector corruption



Source: Authors' computation from data in TI and LI (2023)

Enterprise condition: The business and private sector environment of countries is inversely associated with public sector corruption (Figure 4.7). It is costly to start, complete, and expand business in countries where public sector corruption is high. Business and private sector conditions in Ethiopia are bad (with an index of 41.5%) strongly constrained by the very high public sector corruption prevailing in the country. The business environment is mainly characterized by very low economic freedom in domestic/local markets, difficulty of business creation, high burden of inconsistent regulations, and high price distortions.

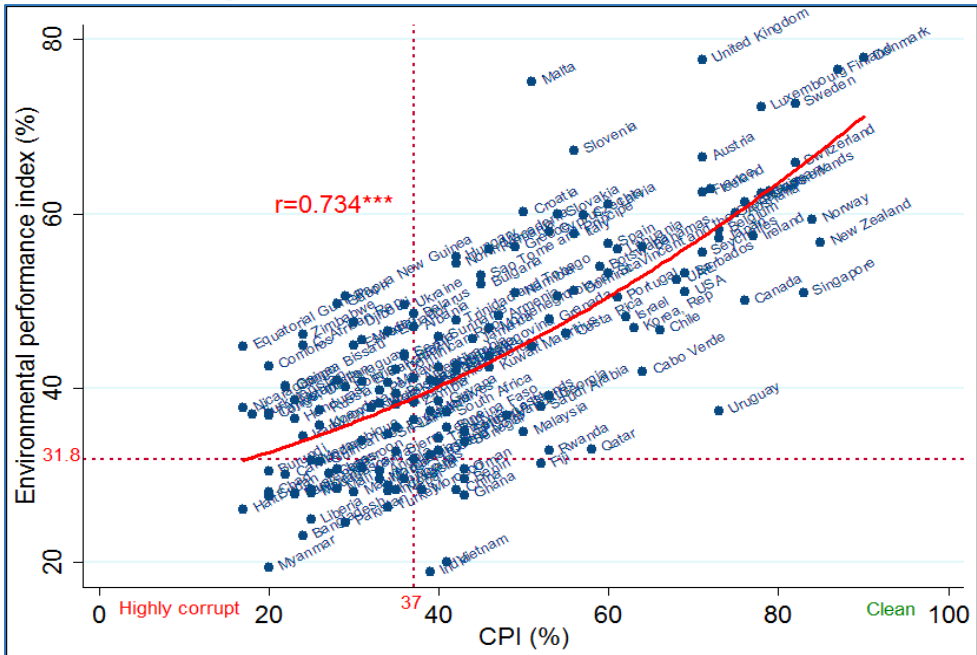
Figure 4.8: Security of investment environment falls with increasing public sector corruption



Source: Authors’ computation from data in TI and LI (2023)

Infrastructure and market access: Corruption creates market distortions and deteriorates the quality of infrastructure that enables trade. Corrupt states are characterized by poor-quality infrastructure and distorted markets (Figure 4.9). Access to marketing infrastructure such as communications, energy, imports, and market distortions in Ethiopia is low (30.9%) and serves as the primary sources of bribes.

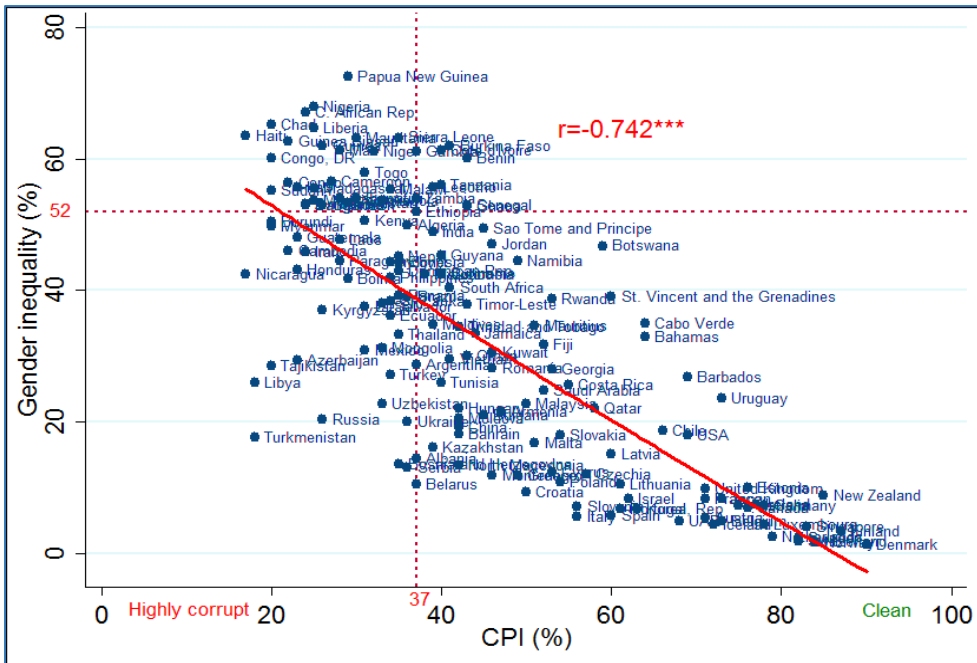
Figure 4.10: Environmental performance deteriorates with rising public sector corruption



Source: Authors’ computation from data in TI (2023) and YCELP (2022)

Gender inequality: Gender inequality is one of the salient features of corrupt states (Figure 4.11). Countries with very high public sector corruption tend to aggravate gender disparity between men and women in terms of reproductive health, empowerment, and labor market participation (Figure 4.11). Ethiopia, with very high public sector corruption, is characterized by high gender inequality (52%). Gender inequality widens with the high and increasing public sector corruption. The high public sector corruption coupled with the current domestic conflict and political violence in the country is expected to aggravate gender disparity in multiple dimensions.

Figure 4.11: Gender inequality rises with corruption



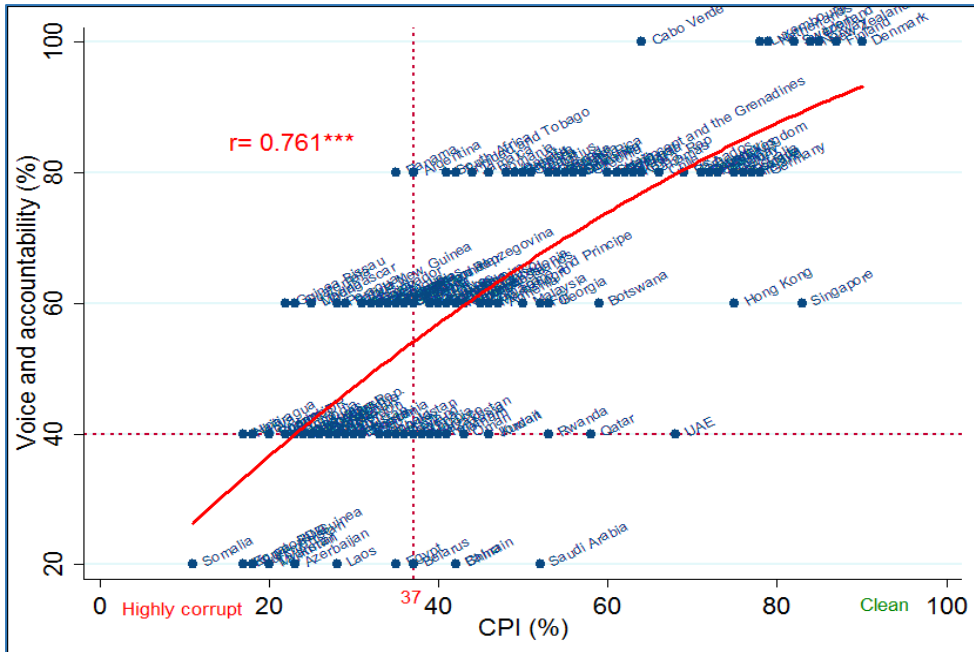
Source: Authors' computation from data in TI (2023) and UNDP (2022)

4.2. Governance Costs

The nexus between public sector corruption and its governance costs is measured by six indicators of governance.

Voice and accountability: The voice of citizens and the accountability of government officials is strongly associated with public sector corruption (Figure 4.12). High public sector corruption severely affects the political participation of citizens and denies accountability of public sector officials. Highly corrupt states are characterized by very low voice and accountability. Ethiopia, with very high public sector corruption, is characterized by very low voice and accountability (40%) translated to limited political participation in government elections, as well as freedom of expression, association, and free media.

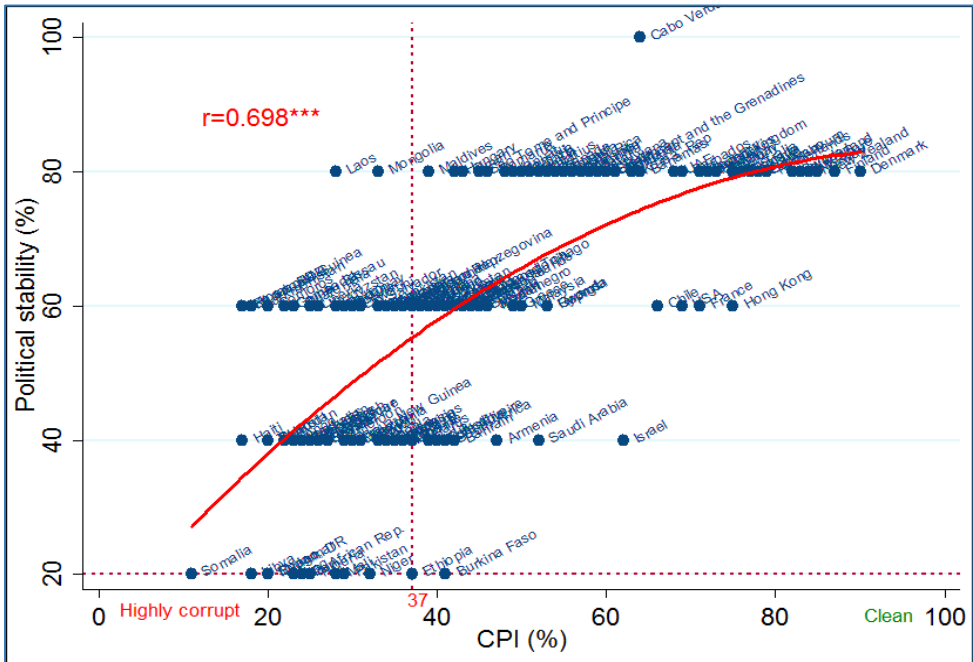
Figure 4.12: Public sector corruption rises with lack of voice and accountability



Source: Authors' computation from data in TI (2023) and World Bank (2022)

Political stability and absence of violence: This indicator captures the likelihood of a government to be destabilized or overthrown by unconstitutional means. Public sector corruption is low in stable states where political stability is maintained (Figure 4.13). On the other hand, politically unstable states where violence is prevalent are characterized by high public sector corruption. There is very high political instability and violence in Ethiopia (20%) that creates favorable condition for more public sector corruption. The current political instability and violence is more likely translated to bad governance. Given the very low political stability and absence of violence (20%), the Ethiopian government is more likely to be destabilized or overthrown by unconstitutional means.

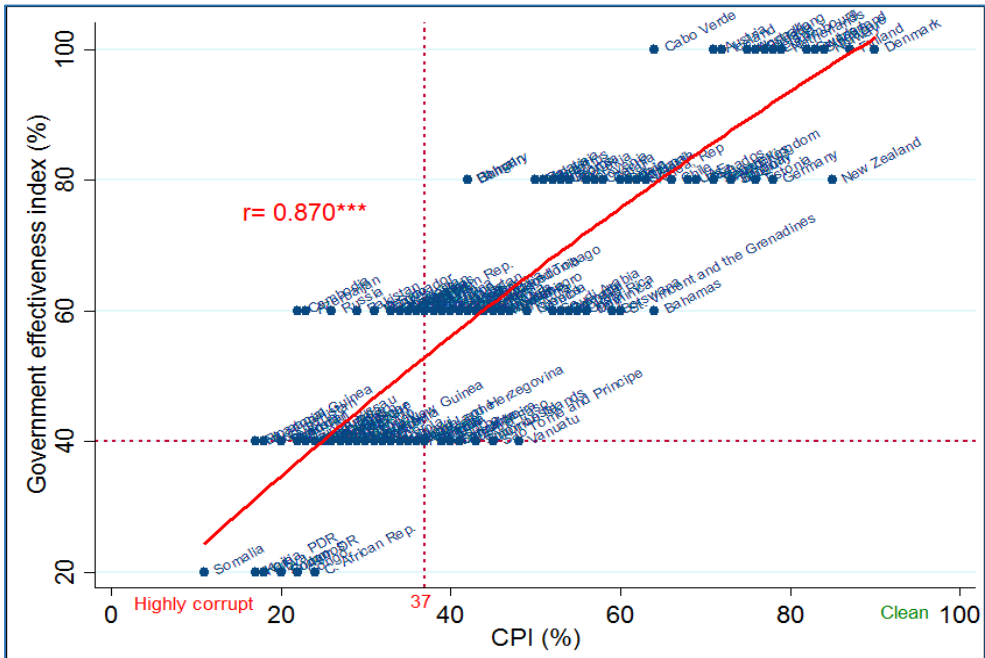
Figure 4.13: Political instability rises with public sector corruption



Source: Authors' computation from data in TI (2023) and the World Bank (2022)

Government effectiveness: Highly corrupt states are less effective (Figure 4.14). They are characterized by poor quality of public services, poor quality of civil services manipulated by politicians, poor quality of policy formulation and implementation, and incredible and uncommitted government. The effectiveness of the government in Ethiopia is low (40%) in which very high public sector corruption is the main contributor adversely affecting governance.

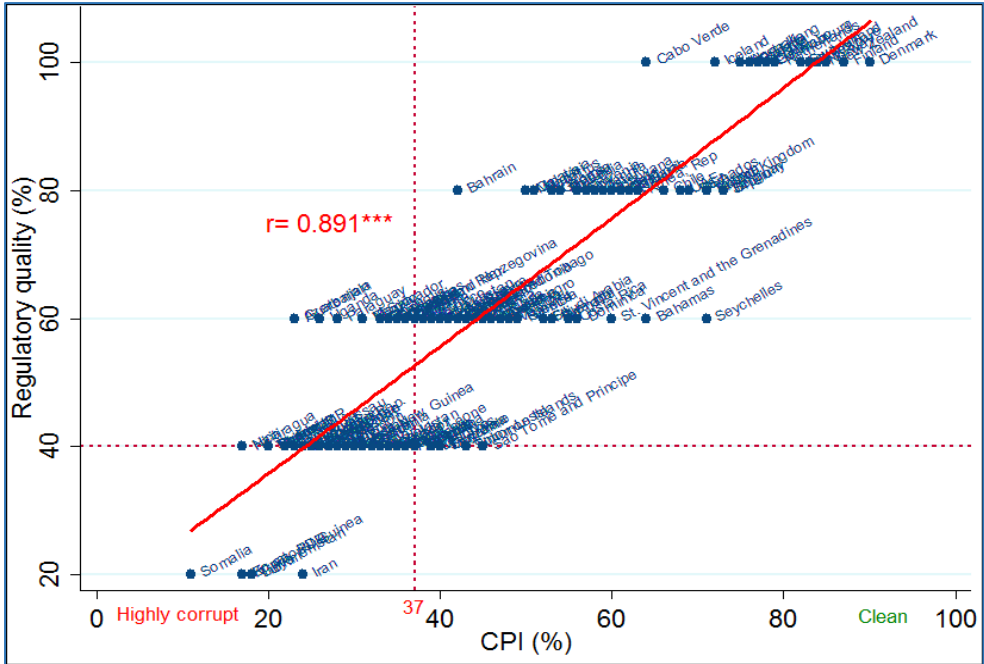
Figure 4.14: Corrupt governments are ineffective



Source: Authors' computation from data in TI (2023) and World Bank (2022)

Regulatory quality: The regulatory quality of governments is strongly associated with the level of public sector corruption (Figure 4.15). The ability of highly corrupt states to formulate and implement prudent policies and sound regulations promoting private sector development is very weak. High public sector corruption in Ethiopia has substantially constrained the ability of the government and resulted in poor regulatory quality. Due to the insecure investment environment caused by domestic conflicts and political violence, formulation and implementation of sound policies and regulations aimed to promote private sector development are eclipsed by other focus areas related to peace and security.

Figure 4.15: Regulatory quality of government falls with rising public sector corruption



Source: Authors' computation from data in TI (2023) and World Bank (2022)

Rule of law: Violation of the rule of law is one of the salient features of corrupt states (Figure 4.16). Highly corrupt states violate the rules of society such as contract enforcement, property rights, the policy, and the judiciary system. They tend to violate human, economic, and political rights established in the society. The rule of law in Ethiopia is low (40%) which is mainly attributable to the high level of corruption widely prevailing in the public sector.

5. CONCLUDING REMARKS

Corruption is an economy-wide problem adversely affecting all economies in multiple dimensions. Anti-corruption initiatives at national, regional, and global levels are not effective to combat corruption around the world. Despite the anti-corruption efforts made by governments and other stakeholders around the world, corruption remained to be either increasing or significantly unchanged over the years. Except for Western Europe, countries in SSA, East and Central Asia, the Middle East and North Africa are highly corrupt. Corruption is rapidly rising in Ethiopia particularly since 2021. Entrusted bodies are well-organized and systematically involved in corruption. Socioeconomic progress and governance are strongly affected by the very high level of multidimensional corruption that widely prevailed in Ethiopia.

The evidence reveals the need to revitalize policy, legal and regulatory frameworks, enforcement mechanisms, the formation of independent anti-corruption institutions, and the commitment of the government to fight against corruption at all levels and sectors. Anti-corruption initiatives in Ethiopia may consider the following key insights:

1. Corruption is an economy-wide problem that widely prevails in all sectors and levels nationwide. It is recommended to initiate anti-corruption campaigns to create awareness of the state and dynamics of multidimensional corruption in Ethiopia.
2. The effectiveness of the fight against corruption is strongly determined by the commitment of governments. The Ethiopian government should create a conducive legal and political environment for the fight against corruption and commit itself to promoting the enforcement of anti-corruption laws at all sectors and levels.
3. Because corruption in Ethiopia is an economy-wide problem, formulation and implementation of appropriate anti-corruption laws for all sectors (public and private) and levels (local, regional, national) is commendable.
4. Ethiopia should establish independent anti-corruption institutions led by independent anti-corruption professionals proposed and elected by independent bodies.
5. Corruption in Ethiopia is well-organized and systematically operated. The government should further assess the organized and systematic involvement of entrusted bodies in corruption and develop methods of breaking the systematic link established so far.

6. The anti-corruption laws and institutions are not effective in controlling corruption in Ethiopia. Consequently, corruption has strongly threatened socioeconomic development and governance, calling for the urgent need to reverse this devastating trend and to enhance economic and social progress, as well as to build good governance.
7. The government and anti-corruption institutions in Ethiopia should engage stakeholders at all levels in the fight against corruption. There should be a conducive legal and regulatory environment to engage the public, the private sector, civil societies, religious institutions, and other relevant stakeholders to create national integrity for the fight against corruption.

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