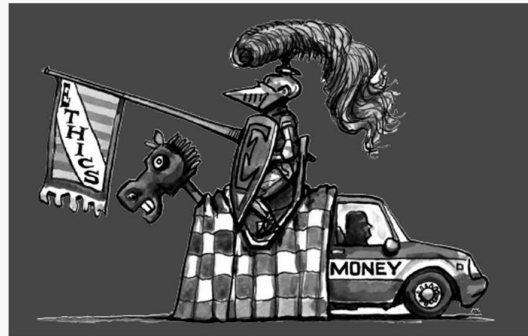


TIME	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	
	Oct 7, 2018	Oct 8, 2018	Oct 9, 2018	Oct 10, 2018	Oct 11, 2018	Oct 12, 2018	Oct 13, 2018	Oct 14, 2018	
8:30-10:00	ARRIVAL	Introduction and Game 1	Topic 1 Measuring Corruption and Game 2	Topic 4 The Costs of Fighting Corruption	Simulation Game on Procurement and Corruption Location: HK 14b (SR 002-016)	Topic 7 Legal Enforcement and Intermediaries	Topic 8 Private Enforcement of Corrupt Deals	Groups in Plenary Presenting Findings	
10:00-10:30		No coffee break	Coffee break	Coffee break		Coffee break	Coffee break	Coffee break	Coffee break
10:30-12:00		Ethics Hike (convenient footwear recommended)	Topic 2 Reciprocity and Game 3	Research Presentations session 2		Group Discussion 3 Pre-Testing the Experiment	Groups in Plenary Run the Experiment and Serve as Sample	Topic 9 Lessons Learned	
12:00-13:30		Lunch break	Lunch break	Lunch break	Lunch break	Lunch break	Lunch break	End	
13:30-14:30		Ethics Hike Discussion	Group Work Incentives and Reciprocity	Group Discussion 1 "Brain-Storming Ideas"	Discussion of Simulation Game	PassauGate - A Forensic Role Play Location HS1 Michaeligasse 13	Groups in Plenary Run the Experiment and Serve as Sample		
14:30-15:00		Coffee break	Coffee break	Coffee break	Coffee break		Coffee break		
15:00-16:30		Guest Presentation 1 Michel Marechal Civic Honesty Around the Globe	Topic 3 Leniency, Nullity and Abuse of Office	Topic 5 Behavioral Interventions	Topic 6 Procurement	Groups in Plenary (continued)			
16:30-16:45		Coffee break	Coffee break	Coffee break	Coffee break	Coffee break	Coffee break		
16:45-18:15		Guest Presentation 2 Sebastian Goerg Spillovers of Unethical Behavior – Evidence from the Lab and Field	Research Presentations session 1	Topic 5 Behavioral Interventions - continued -	Group Discussion 2 Designing an Experiment: Treatments, Samples, Payoffs	Discussion PassauGate HS1	Groups Prepare presentation		
		Registration and Welcome Begin: 19:00 Location: Cafe Duft					Dinner Begin 20:00 Location: Cafe Duft		



Introduction and Game 1

Introduction

A Corrupt Way to Get to Know each Other

- Each participant stands up and provides all others with the following details: First name and last name, countries of origin and residence, a particular characteristic.
 - Example: I am Roberta Smith from Nigeria, currently living in the Netherlands. I never sleep before midnight.
 - Example 2: I am Rafael Johansson from Sweden, where I still live. I have smelly feet.
- All participants are invited to take notes and ask questions for clarification to better recall all details.

Introduction

- Each participant randomly draws 6 identical cards plus one corresponding identity card. This ensures that three different roles (official, businessperson, politician) are about equally distributed across all participants.
- The businessperson receives 6 banknotes, the official 6 licenses and the politician 6 protection cards.
- The goal of the game is to collect as many appropriate cards prior to losing one's own 6 cards.
- Businesspersons seek officials in order to obtain a license (and do not care for other cards). Whenever they encounter an official they can claim a license.

5

Introduction

- Officials, likewise, look for politicians for obtaining protection and can claim this whenever they encounter one.
- Finally, politicians are in search for businesspersons in order to obtain banknotes.
- One's identity is unknown to others and should be revealed only quietly.
- Participants walk around and have the chance to engage in an encounter.
- This starts by stating the correct name (first name is enough) of another person. The person that is correctly called must show his identity card. If appropriate, the person calling can claim one card.

6

Introduction

- For example: “Hei, you are Roberta Smith, right?”, “Yes, see my identity card! [whispering] I am a businessperson”, “Great! Please give me one of your cards!”.
- If a wrong first name was stated the encounter also terminates.
- Make sure to collect only appropriate cards. If, for example, a politician starts collecting licenses he would be impolite to others.

Introduction

- The claim of a card can be countered by stating the claimant’s characteristic. For example: “Hei, you are Roberta Smith, right?”, “Yes, see my identity card!”, “Great! Please give me one of your cards!”, “No, I do not give you one of my cards because you have smelly feet“. If the characteristic is stated correctly no card must be given.
- All participants assemble in one place and wait for the starting signal. They can all bring their notes with them.
- A participant is disqualified after losing all 6 cards. The other participants continue until only one is left over or no further encounters can take place. The participant with most cards wins the “best anti-corruption networker” title.

Ethics Hike

Participants form groups of two and walk from the Start to location 1 (L1) and afterwards to L2, L3, L4 and L5. Each participant is given a number between A1 and X12. He or she is provided with a list of numbers, indicating the partner for each of the following five walks.

Participants with an odd number obtain sheets that describe a sequence of five dilemmas. Those with an even number get a map and make sure they follow the right track. At the start, the two participants jointly read the description of the first dilemma. During the walk they discuss the dilemma and must come to a decision. No discussion with other groups is allowed. The two seek to determine their solution according to their own judgments and valuations.

Once the group arrives at the next location it must finalize its decision. The group separates and each participant waits for the designated new partner to arrive. The two participants who form the new group continue with their walk and discuss the next dilemma.

Case 1: Officials

Your company produces medical equipment for hospitals. It has 500 employees and is globally active. You are responsible for sales to Eastern Europe. After many years of a standstill there recently emerged the opportunity to export to Belarus. You negotiate the future exports with local officials who are supposed to help secure necessary political contacts, obligatory permits and import licenses. They request 5% of your revenues. While the price is reasonable you are worried that the payment puts the officials in a conflict of interest and you thus consider stopping the deal. How do you decide?



Case 2: Aid

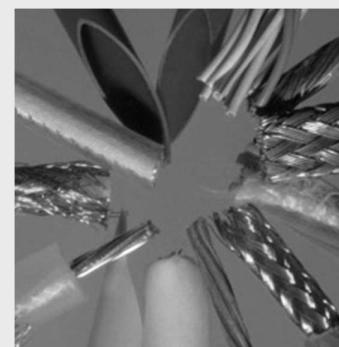
You organize the transport of aid products into the region Unity in Southern Sudan, where local guerilla groups seek independence from the central Southern Sudanese government. Given the experience of other donors you estimate that truck drivers must pay € 200 per transport to the guerilla fighters. You consider postponing the transport in order to avoid the payment. But your organization requests a speedy outflow of the approved aid. How do you decide?



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Case 3: Local Agent

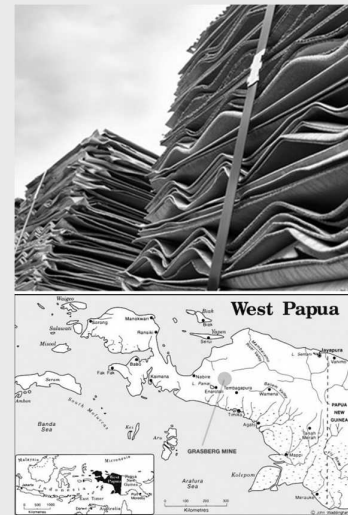
You are the managing director of a telecommunications cable manufacturer. Your company has a profitable business with the Argentine government, which is organized by a local agent. This agent adds 20% to your resale price. An investigation has raised some red flags and provided evidence that the agent has transferred money to numbered bank accounts in tax havens, paid a lot for food and drink with officials and has little experience in telecommunications. You are therefore considering stopping your business with the agent. But you would risk your profits and the agent denies any misconduct. How do you decide?



12

Case 4: Violence

West Papua is home to the largest deposits of gold and copper in the world. But the extraction of these deposits is often accompanied by environmental damage. In 2012, the Indonesian military violated human rights and killed an estimated 160 people who protested against this damage, especially the polluted rivers. You work for one of the world's largest producers of copper and gold. Your company was offered a profitable mining license in West Papua. But you are concerned that the mining of gold and copper in the region could lead the Indonesian government to continue abusing human rights. On the other hand, your company would lose profits if you decided against mining in West Papua. How do you decide?



13

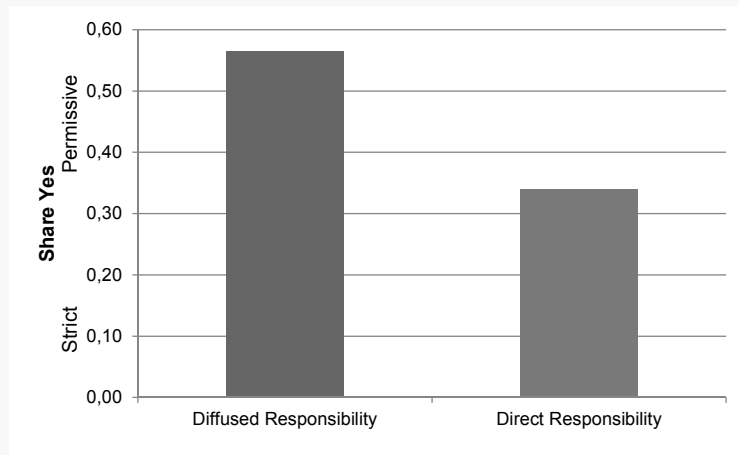
Case 5: Fragile State

You are the main coordinator of development aid for Afghanistan at the Federal Foreign Office of Germany. You are about to conclude an agreement with President Ashraf Ghani aimed at transferring US\$120 million to the country. The money is destined for 5 projects carried out by local partners. You fear that the local partners have all been selected by the President and do not have the accounting capacity that would be the standard for development aid. You are therefore considering stopping the agreement. On the other hand, you know that Afghanistan is a fragile state that urgently needs the money. How do you decide?



14

Results Ethics Hike



15

Strategic Ignorance

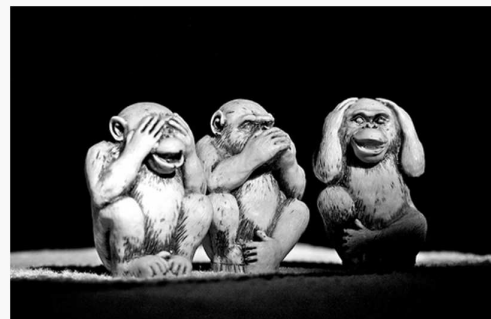
- Moral Dilemma

Important Delivery
Good Product



Avoidance
of Bribery

- Avoid direct, foreseeable and conscious individual misbehavior
- Less concern for ethical conduct if it is indirect or not clearly foreseeable and if group members are jointly responsible



16



Strategic Ignorance

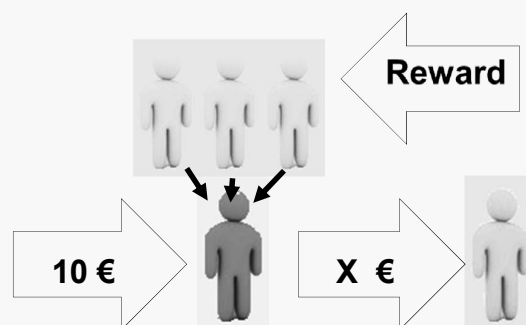
- Officials might try to rid themselves of responsibility by remaining ignorant
- This can arise in particular if they act jointly with others
- Strategic ignorance (also called willful blindness)
 - it might appear correct ...
 - illegal nature is not apparent ...






17

Strategic Ignorance

- Hamman et al (2010, American Economic Review) investigate a fairness-game.  obtained nothing and might be helped by 

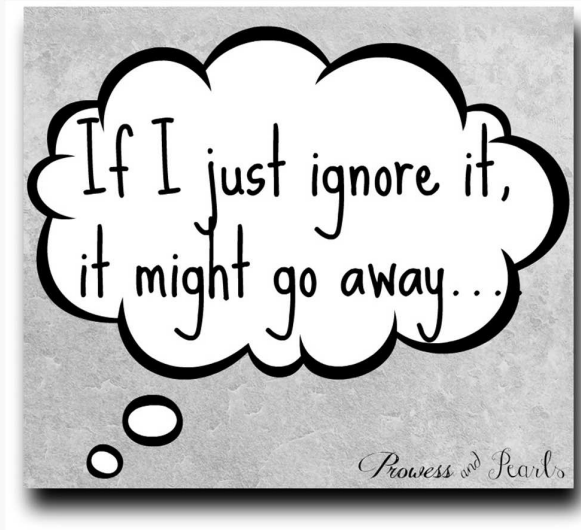


- Normally 2-3 € transferred to .
- With **intermediaries**  transfers decreased almost to zero
- Acting through the intermediaries allows  to distance himself from the norm of fairness and to diffuse responsibility to someone else.

18

Strengthening Responsibility

- What can be done to strengthen responsibility?
- Corporate liability: A corporation as a legal person can be liable for the acts and omissions of the natural persons it employs
- Companies rather than only individuals are punished for bribery (fines; debarment)
- Strategic ignorance does not pay
- Responsibility strengthened



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Strengthening Responsibility

- UK Bribery Act of 2010: It constitutes a defense if a company “had in place adequate procedures designed to prevent persons ... from undertaking the conduct.”
- In the USA, “adequate procedures” can pave the way to reduced sentences.
- Evidence for adequate procedures: Compliance system; codes of conduct; Annual compliance statement; ethics training
- Incentive for strategic ignorance?



Bribery Act 2010

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Takehome Points



- People might diffuse responsibility to others.
- Cash transactions are unpleasant.
- Transfers via intermediaries and subcontractors allow for responsibility to diffuse.
- Incentives for self-reporting superior to those for having a compliance system.

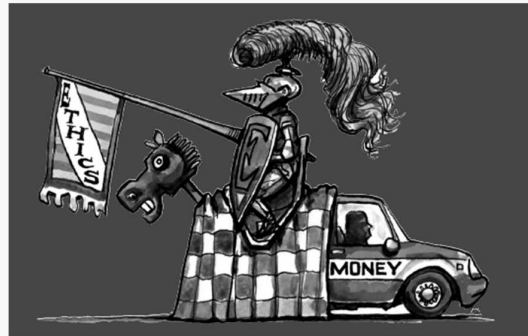
21

Literature



- Hamman, J.R., G: Loewenstein, and R.A. Weber (2010), „Self-interest through delegation: An additional rationale for the principal-agent relationship,“ *American Economic Review*: 1826–1846.
- Drugov, M.; J. Hamman, and D. Serra (2014): *Intermediaries in corruption: an experiment* *Experimental Economics*, 17 (1): 78-99.
- Dana, J., R.A. Weber und J. Xi Kuang (2007), „Exploiting moral wiggle room: experiments demonstrating an illusory preference for fairness,“ *Economic Theory*, Vol. 33: 67–80

22



1. Measuring Corruption

The Corruption Perceptions Index



- Preferred method of compiling data on corruption: Carry out a survey
- Assemble sample of respondents that are representative and/or experts
- Collect data on experience (by a representative sample)
- Collect data on perceptions (by experts).

The Corruption Perceptions Index

Definition and Rating by the ADB, AFDB and World Bank (CPIA)

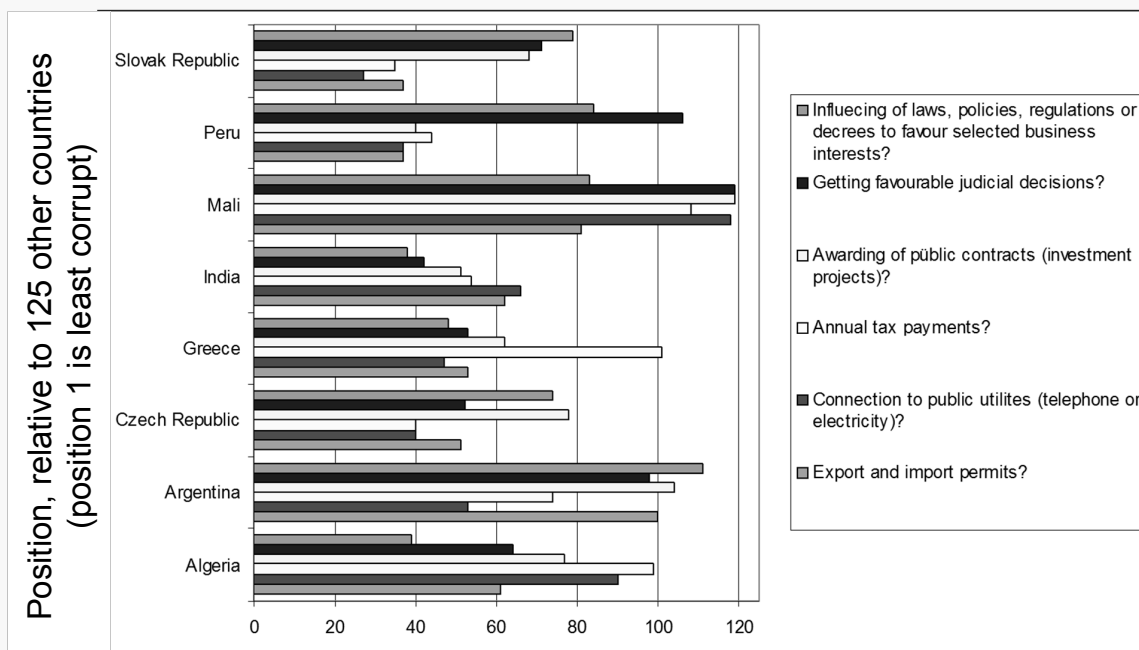
- 1
 - a. There are no checks and balances on executive power. Public officials use their positions for personal gain and take bribes openly. Seats in the legislature and positions in the civil service are often bought and sold.
 - b. Government decision-making is secretive. The public is prevented from participating in or learning about decisions and their implications.
 - c. The state has been captured by narrow interests (economic, political, ethnic, and/or military). Administrative corruption is rampant.

- 5
 - a. Accountability for decisions is ensured through a strong public service ethic reinforced by audits, inspections, and adverse publicity for performance failures. The judiciary is impartial and independent of other branches of government. Authorities monitor the prevalence of corruption and implement sanctions transparently.
 - b. The reasons for decisions, and their results and costs, are clear and communicated to the general public. Citizens can obtain government documents at nominal cost. Both state-owned (if any) and private media are independent of government influence and fulfill critical oversight roles.
 - c. Conflict of interest and ethics rules for public servants are observed and enforced. Top government officials are required to disclose income and assets, and are not immune from prosecution under the law for malfeasance.

25

The Corruption Perceptions Index

WEF: 5.12 In your industry, how commonly would you estimate that firms make undocumented extra payments or bribes connected with the following



26

The Corruption Perceptions Index

- Corruption Perceptions Index with Google Earth



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Objective Data

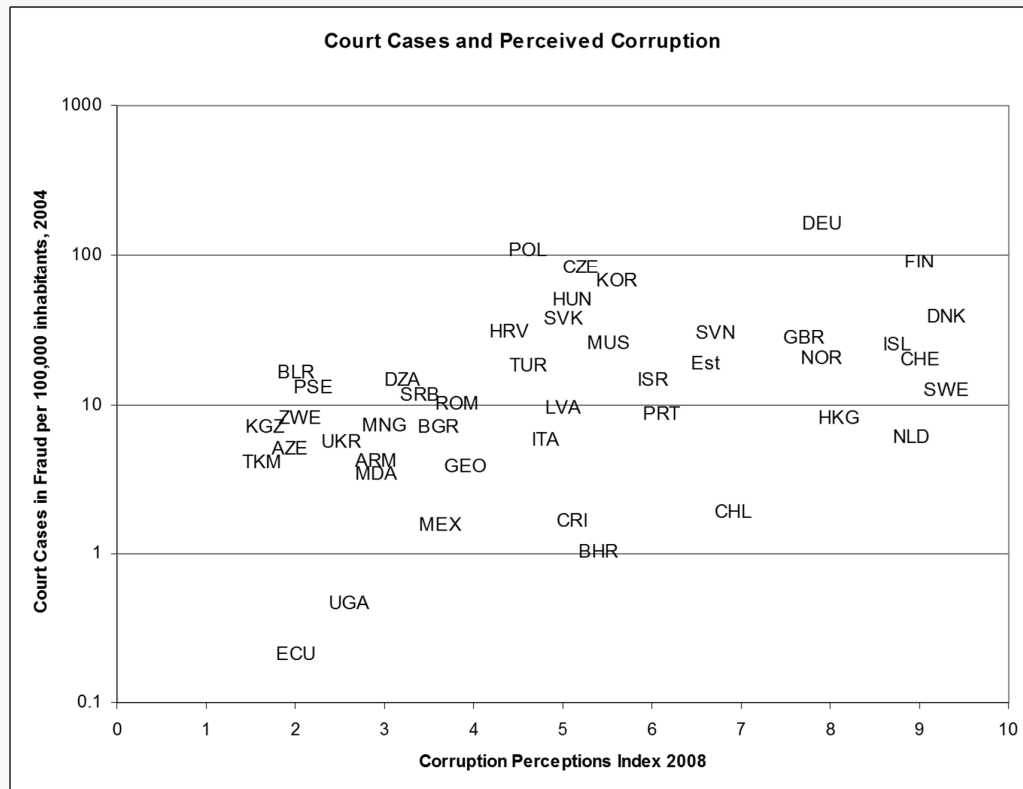
Objective Data

- Unbiased, hard data that is independent of subjective feelings, ideas and sentiments.
- Comparative data on the incidence of reported crime by the United Nations Office on Drugs and Crime. (<http://www.unodc.org/unodc/en/data-and-analysis/Crime-Monitoring-Surveys.html>).
- This embraces the amount of court cases on fraud, bribery and embezzlement.



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Objective Data



29

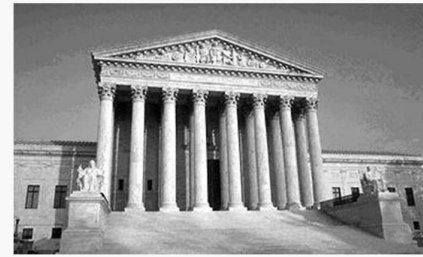
Objective Data

- What does it measure?
- Not actual levels of corruption!
- Quality of prosecutors, courts and/or the media in investigating corruption.
- Correlation: Low levels of perceived corruption go along with a higher frequency of court cases on fraud.
- How to measure levels of corruption by help of objective data?
- Data only from one jurisdiction: Application of consistent standards and investigation of cases with equal care.

30

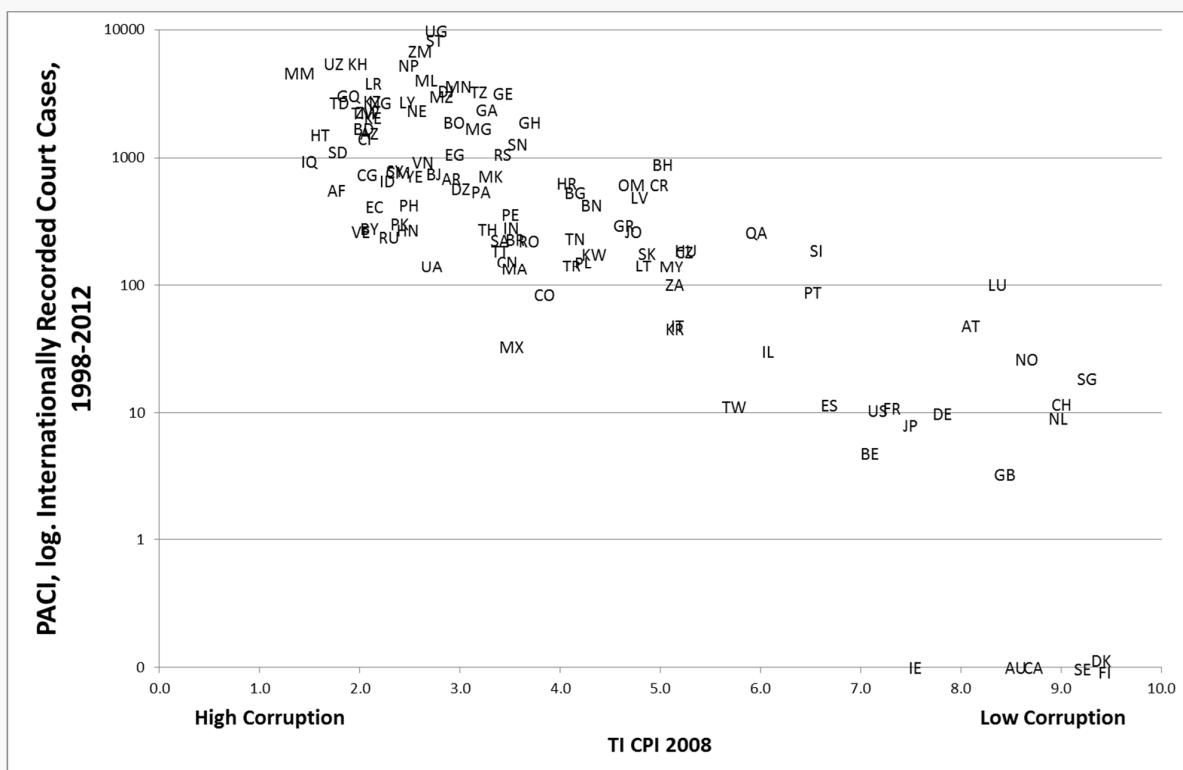
Objective Data

- Approach by Escresa and Picci (2015).
- Process 734 court cases on cross-border corruption (298 from the US, 84 Germany, 55 UK, 49 France ...), embracing convictions and ongoing cases between 1998 and 2012.
- Observe the frequency of countries where the alleged transgression took place (74 in China, 40 in Nigeria and India, 22 in Kazakhstan, 21 in Brazil ...) and adjust this figure to per-capita numbers.
- Resulting measure represents the probability that a randomly chosen person in a country becomes involved in cross-border corruption.
- Courts apply identical standards of judgment and investigate with homogeneous intensity: Resulting measure well portrays a country's overall level of corruption.



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Objective Data



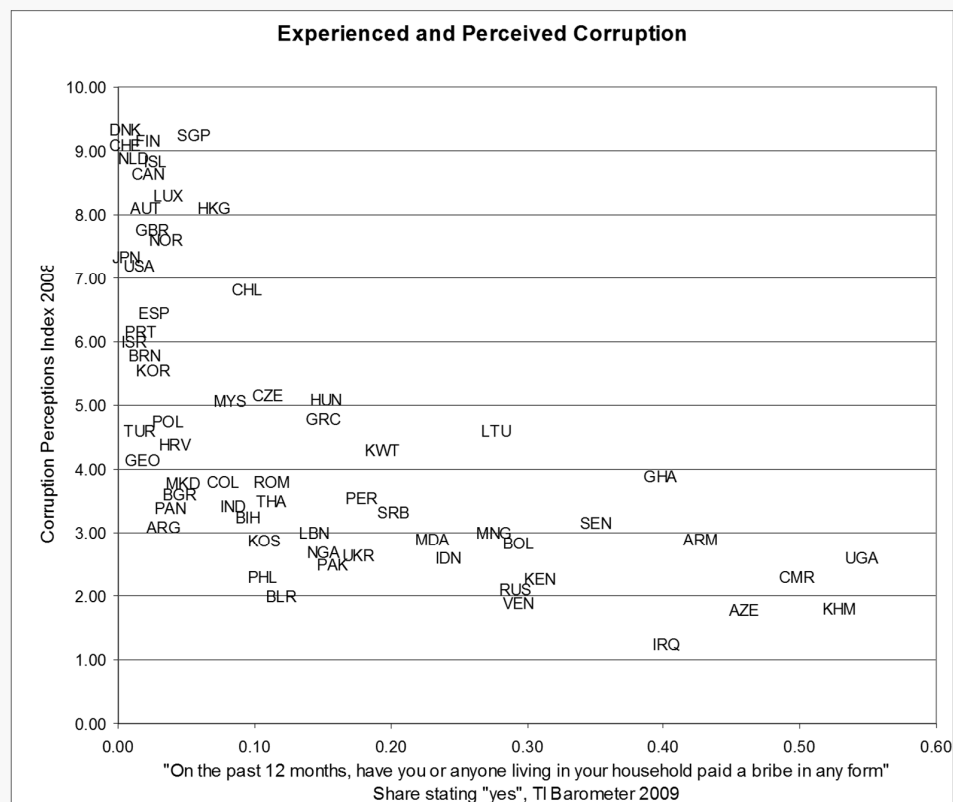
32

Experienced-based Data

- On a regular basis, Gallup International incorporates questions on corruption commissioned by Transparency International in its survey “Voice of the People”, an annual poll of the general public. On question reads: “In the past 12 months, have you or anyone living in your household paid a bribe in any form?”
- This documents experience with petty corruption.
- The data well correlate with assessments by experts, such as the Corruption Perceptions Index (CPI).

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Experienced-based Data



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For an interactive participation please open the following website:

Classex.uni-passau.de

Location: Uni Passau


Course: Vortrag

Type: Teilnehmer

Password: [Leave blank]

37

Laboratory Data

- Dice in the Cup experiment
- Roll the dice three times
- Roll fourth time to determine the true outcome
- Insert outcome online  and get paid according to table
- Two participants randomly chosen by computer to obtain payoff after presentation in cash.

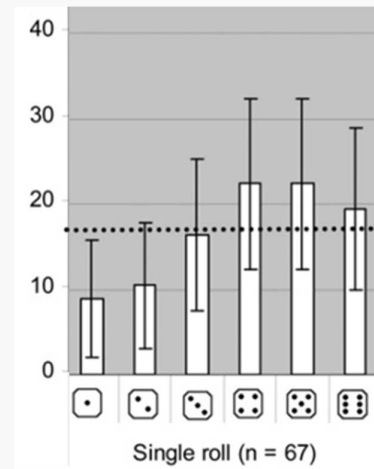


Number on dice	Income
1	2 €
2	4 €
3	6 €
4	8 €
5	10 €
6	12 €

38

Laboratory Data

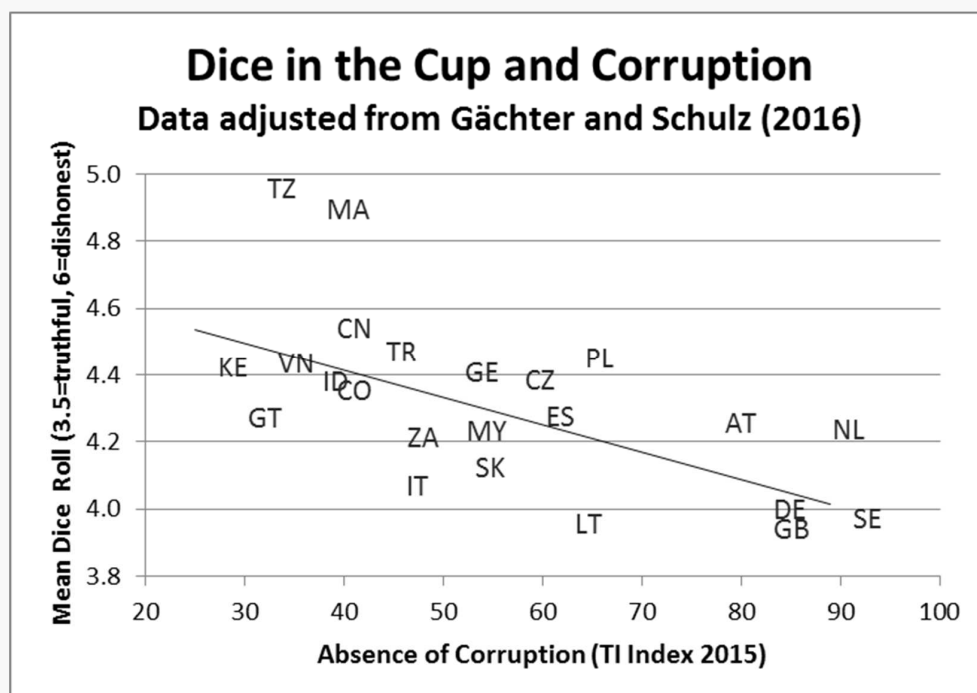
- Some people cheat only a little
 - When they roll a 2 they report a 4 but not a blunt 6
 - They are applying the rule flexibly, allowing themselves a little cheating
- Others cheat only when the gains from cheating are large
 - They report 6 when they rolled a 2
 - They stay honest when they rolled a 4, because the cheating would not be worth the transgression



Source: Shalvi et al. (2011)

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Laboratory Data



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Laboratory Data

- Herrmann et al. (2008) run public goods games in 15 different cities.
- Groups of 4 players simultaneously decide on the contribution g_i to the public good.
- The payoff π_i in Taler for player i depends on the own contribution g_i and that of others g_j :

$$\pi_i = 5 - g_i + 0.5 \cdot \sum_{j=1}^4 g_j$$

Back

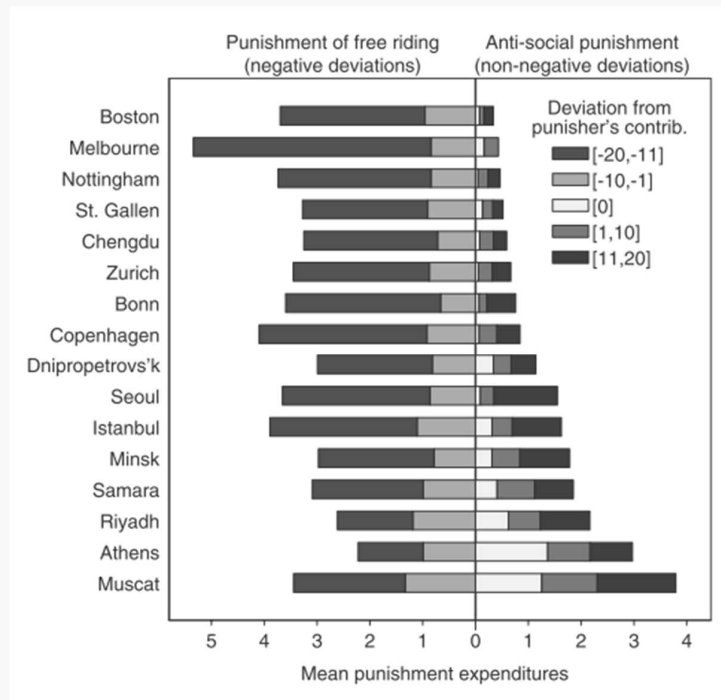
41

Laboratory Data

- Players are informed about the individual contributions of others in their group.
- Each punishment point reduces the payoff of the punished person by 10%. But punishing is costly. For example, 5 punishment points cost 9 Taler.
- Punish free-riders (those who contribute below average)
- “Anti-social punishment”: Punish those who contribute above average.
- Appearance of morally superior?
- Negatively reciprocate against those alleged to punish free-riders?

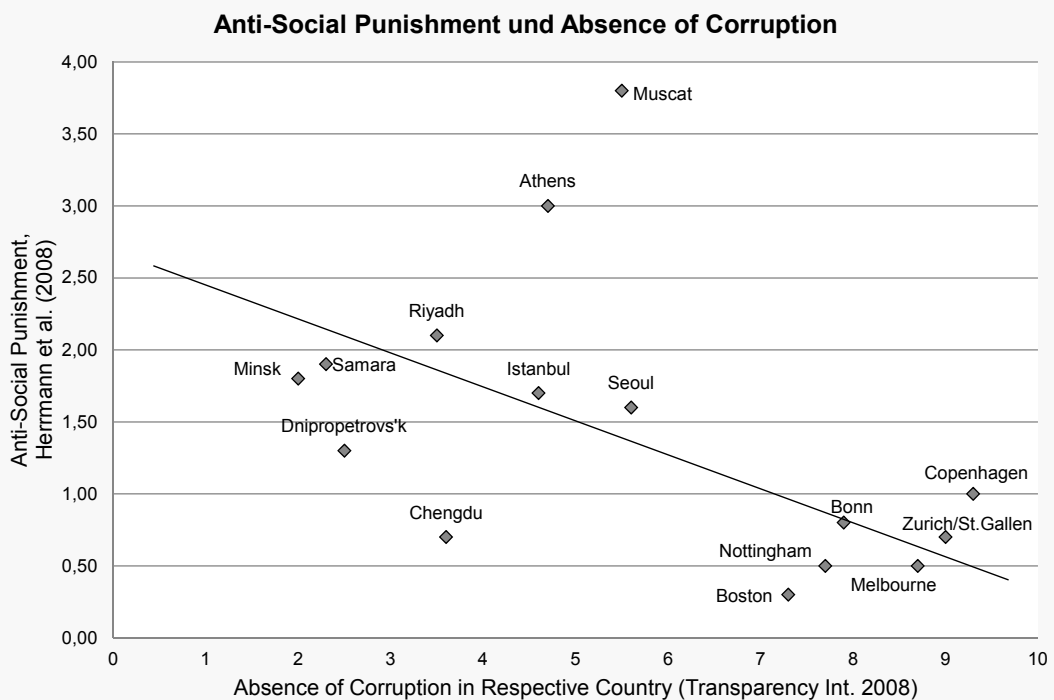
42

Laboratory Data



43

Laboratory Data



44

Laboratory Data

	Dice in the Cup	Current Standard in Anticorruption
Control	Impossible	More Control
Observation	Average Assessment Intuition	Objectivity, Verifiability

45

Takehome Points

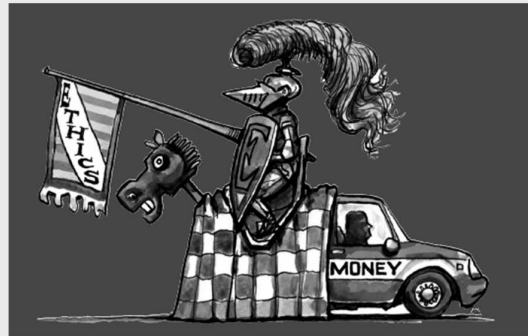


- Objective data often do not deliver levels of corruption.
- An expert's judgment is valuable.
- Countries differ considerably in the extent of bribery, embezzlement and fraud.
- Field data support perceptions based data.
- Corruption correlates with dishonesty in dice-in-the-cup experiments and with anti-social punishment.

46



- Escresa, L. and L. Picci (2015), "A New Cross-National Measure of Corruption." *The World Bank Economic Review*: 1-31.
- Fisman, R. and E. Miguel (2007), "Corruption, norms, and legal enforcement: evidence from diplomatic parking tickets." *Journal of Political Economy*, 115(6):1020–48.
- Gächter, S. and J. Schulz (2016), "Intrinsic honesty and the prevalence of rule violations across societies," *Nature* (531): 496–9.
- Herrmann, B., C. Thöni and S. Gächter (2008), "Antisocial Punishment Across Societies," *Science* (319): 1362-7.
- Lambsdorff, J. Graf (2007), *The New Institutional Economics of Corruption and Reform: Theory, Evidence and Policy*. Cambridge University Press: 20-26; 164-189; 235-255.
- Shalvi, S., J. Dana, M. Handgraaf und C. De Dreu (2011): "Justified ethicality: Observing desired counterfactuals modifies ethical perceptions and behavior," *Organizational Behavior and Human Decision Processes* (115): 181-190.



2. Reciprocity and Game 3

Introduction to the Game

▪ Stage 1: Manager

The manager of Omega is given 15 €. 10 € are put in a charity box, which is designated to Médecins sans Frontières.

I am the manager of Omega.

My pseudonym is:



Hoping for a contract from National Railroad worth 20€ I pay 10 € to their official. The official should regard the payment as a (please mark with a cross)

Gift	<input type="checkbox"/>
Bribe	<input type="checkbox"/>

Introduction to the Game

▪ Stage 2: Employee

I am the official of National Railroad.
My pseudonym is:

National Railroad might employ Omega for construction. But Omega misuses 10€ from the charity box for the contract. If I award the contract to Omega, I have to spend 5 € for falsifying information. I decide to take the following action (please mark with a cross):

Action 1	I reject the 10€, which is given back to Omega. I receive nothing.	<input type="checkbox"/>
Action 2	I keep the 10€, but I do not award the contract to Omega.	<input type="checkbox"/>
Action 3	I keep the 10€ and falsify information to award the contract to Omega.	<input type="checkbox"/>

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Introduction to the Game

▪ Stage 3: Manager

As the manager of Omega I can consider further action, after observing how the official behaved. If the official rejected the 10 €, nothing has to be decided. If the 10 € were kept, I decide to (please mark with a cross):

do nothing	<input type="checkbox"/>
report	<input type="checkbox"/>

If I decide to report to National Railroad, I must pay a penalty of 5 € and the contract is confiscated. The official's income is also confiscated. If I decide to "do nothing" I can keep my remaining endowment of 5 € and can keep the contract, if it was awarded to me.

Two Sheets are randomly drawn such that two managers and two officials obtain the designated payoff

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Introduction to the Game

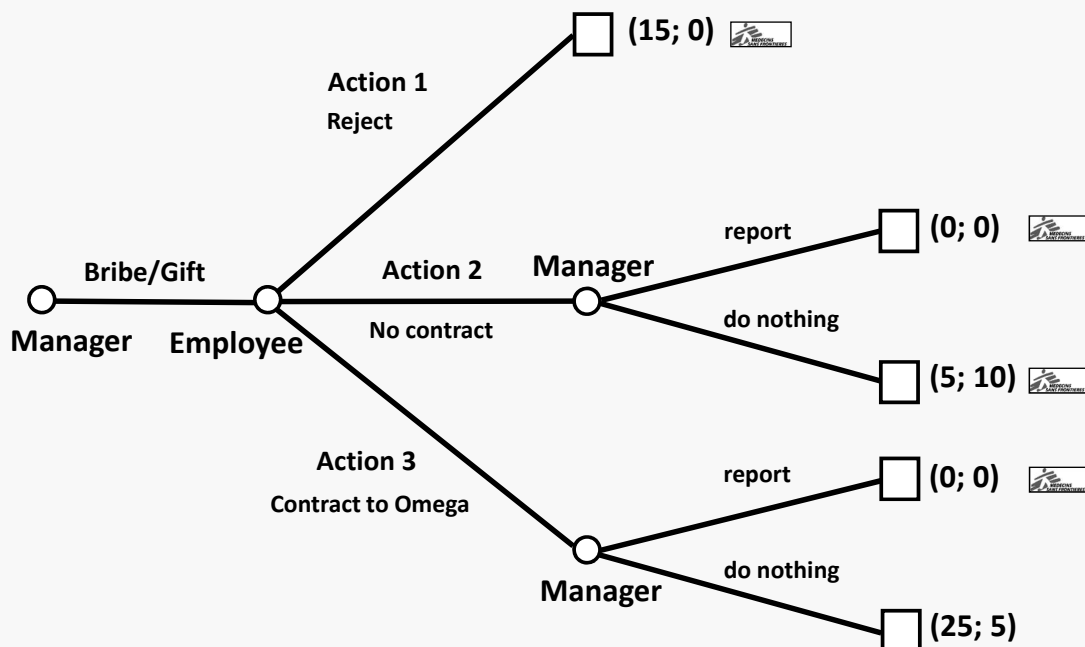
Employee	Action 1 (Reject)	Action 2 (No contract)	Action 3 (Contract to Omega)
Manager			
do nothing	0 15	10 5	5 25
report		0 0	0 0



: 10 € in charity box for *Médecines sans Frontières*

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Introduction to the Game

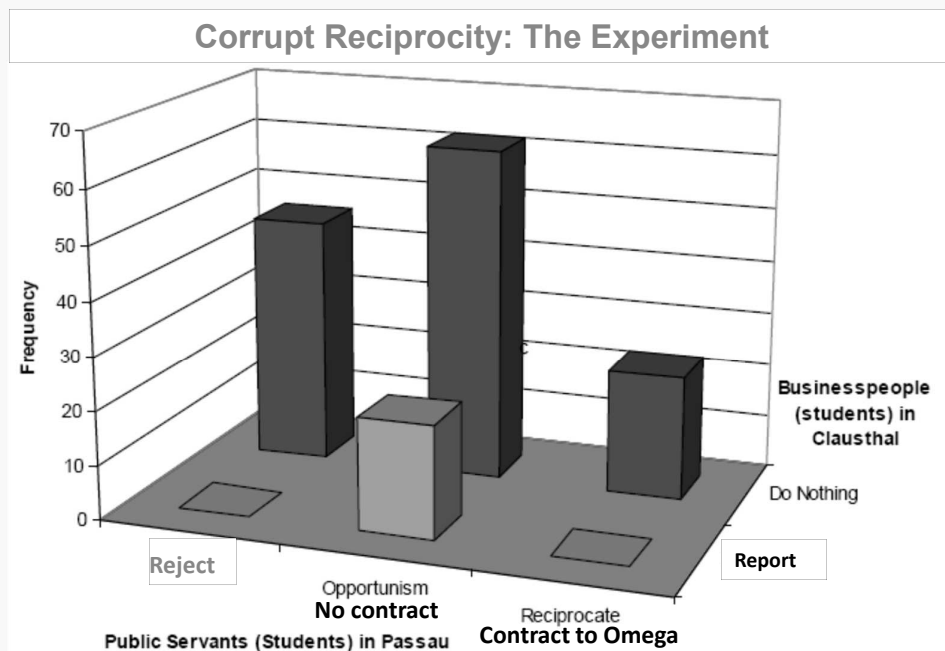


: 10 € in charity box for *Médecines sans Frontières*

54

Some Results

- A similar game has been played among students of the universities in Passau and Clausthal, Germany. Here are the results:



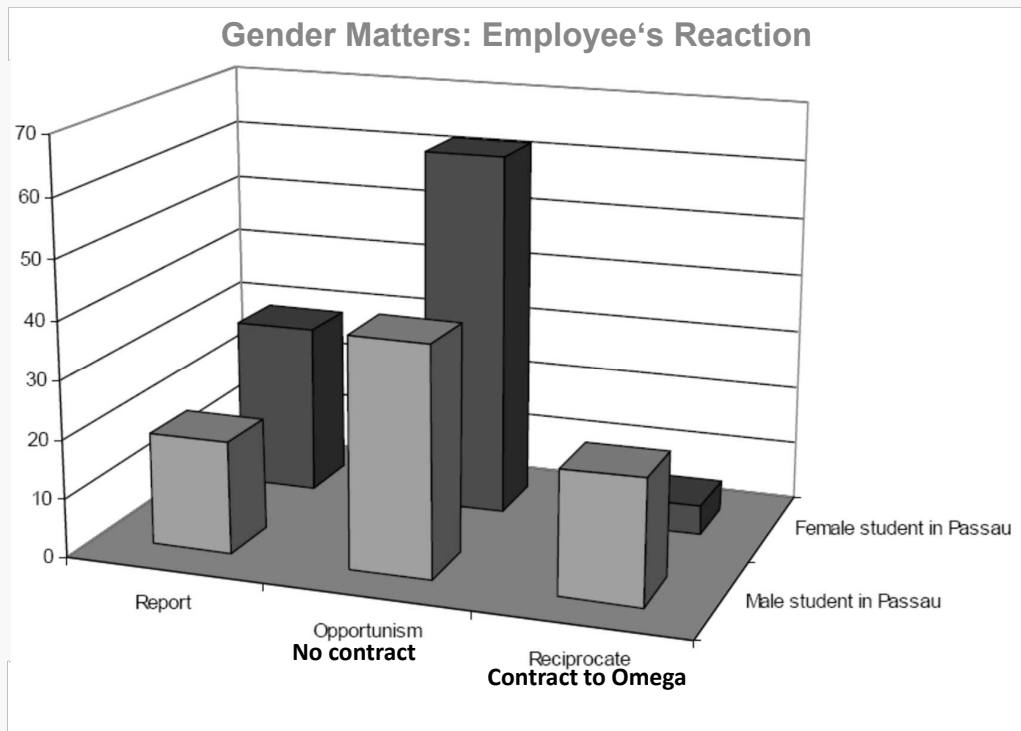
55

Some Results

- We know from similar games that participants play according to the following logic:
 - Do good to those who do you good (positive reciprocity).
 - Do bad to those who do you bad (negative reciprocity).
- We observe many “businesspeople” in Clausthal who self-reported after having been cheated.
- We observe many “public official” in Passau who reciprocated the gift/bribe because either they were thankful for the payment or they feared retaliation.
- We observe that this behavior was particularly relevant for men.

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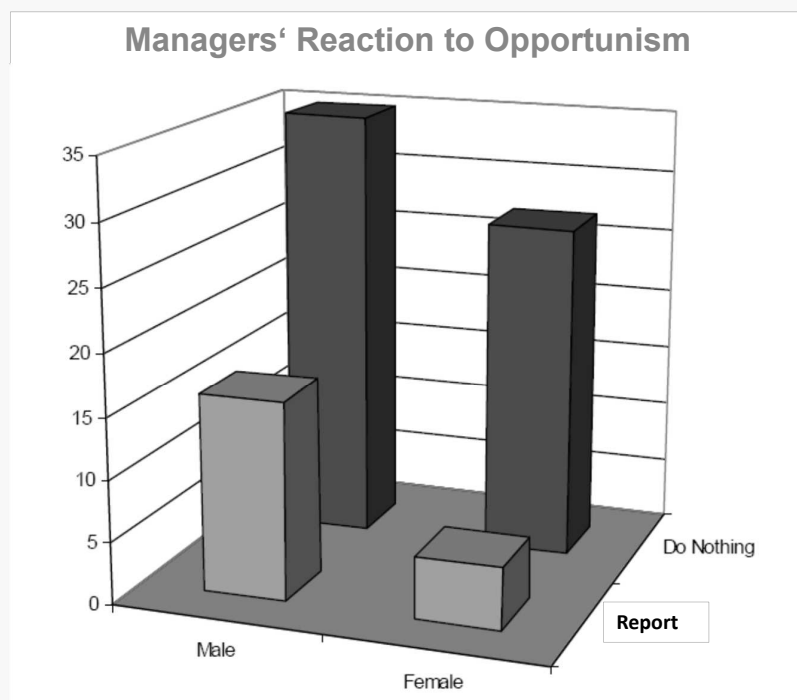
Some Results



57

Some Results

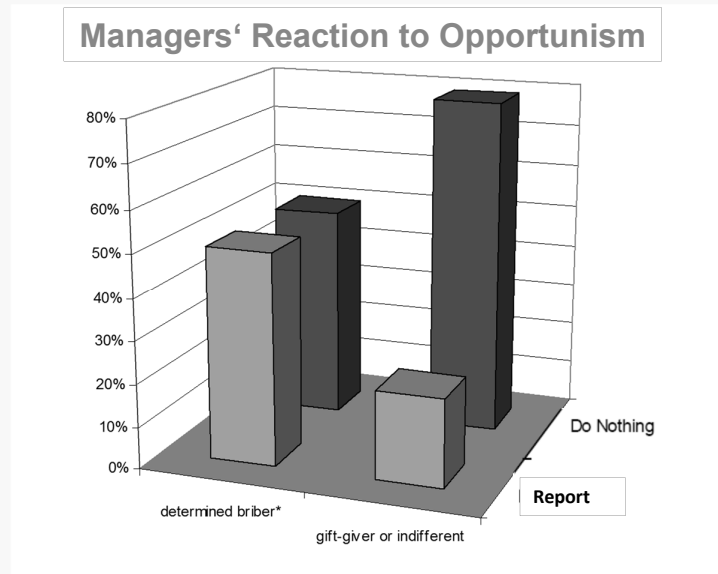
- Likewise, we observe that men as opposed to women have a higher propensity to retaliate after being cheated



58

Some Results

- Those who chose the bribe-option also had a higher willingness to retaliate.

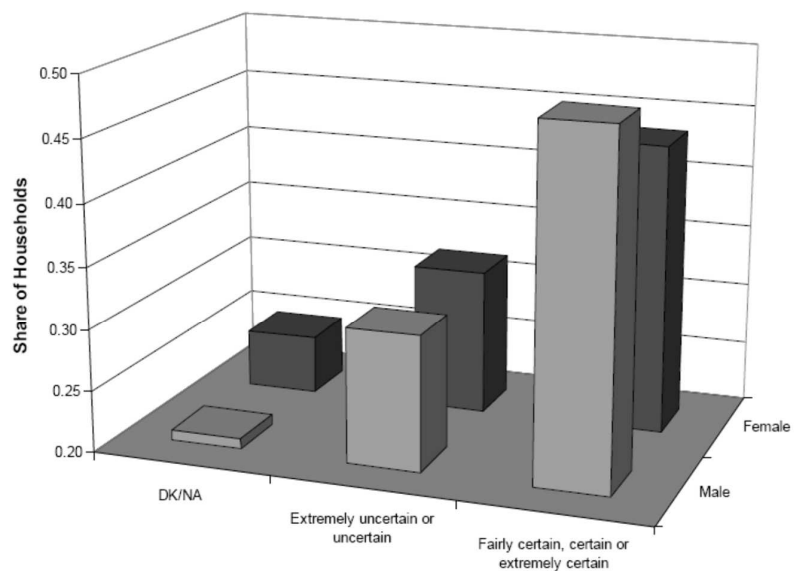


59

The Power of Reciprocity

- The gender effect is also corroborated by data from global surveys.

Men are more Confident that Bribes are Reciprocated.
 Evidence from 70110 Households in 66 Countries.
 Source: Lambsdorff and Frank (2011)



If someone paid a bribe in order to obtain a service or to resolve a problem, how certain would be the delivery of the service or the resolution of the problem after the payment?

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The Power of Reciprocity

The story of a successful briber

“Schreiber told me that I was just one out of many who receives bribes. When Schreiber hates someone, his hatred is so profound that he wants to destroy him, even if that involves his own demise. On the other hand, he is a real buddy, highly talented in creating a pleasant atmosphere.”

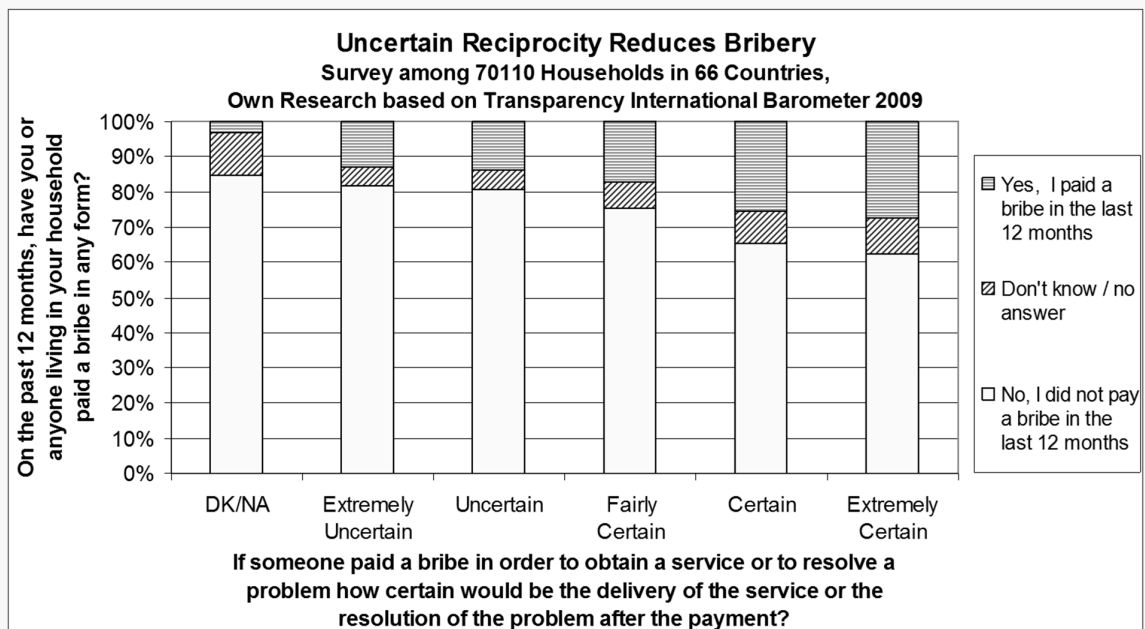
Holger Pfahls, 2007,
former state secretary
for defense in Germany during his trial



61

The Power of Reciprocity

- Uncertainty about corrupt reciprocity is a major deterrent to bribery!



62

The Power of Reciprocity

The „Deggendorf Beerwar“

- In December 2010 the city mayor of Deggendorf, a small city in Eastern Bavaria, decided to expand the local folk festival by adding a third beer tent. But not the local brewery Arcobräu should obtain the contract to service this tent but a brewery from the Bavarian capital Munich. Arcobräu's director Holger Fichtel let his anger run wild with an offhanded remark „without going into detail, when officials, politicians and magistrates have a private party, it is us they ring up.“ After various threats by magistrates the brewery was forced to reveal the names of various recipients of these favors. These repudiated. But more important to Holger Fichtel, he had shown his willingness to engage in negative reciprocity. Magistrates know since then that taking favors from the brewery goes along with an obligation to reciprocate. In 2014 the dispute between the city and the brewery was closed – without involvement of a competing brewery.

Sources: Münchner Merkur 13.2.2010 „Münchner Brauerei löst Bierkrieg aus“; Deggendorfer Zeitung 13.1.2011 „Neue Runde im Deggendorfer Bierkrieg: Jetzt nennt die Brauerei Namen“, 7.2.2014, „Frieden nach Bierkrieg: Mooser Dult findet nicht mehr statt“.

63

The Power of Reciprocity

- Encouraging betrayal among corrupt actors represents a costless form of fighting corruption!
- How can this be achieved?
- Which laws run counter to this idea?



The story of an unsuccessful briber

“A man of principle. He accepted the bribe but he wouldn't give me the license because that would be against the rules.” Laxman, Times of India

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Takehome Points



- Men are more likely to reciprocate. Gift limit rules are particularly important for men, less so for women.
- Be alert to business partners with a reputation of reciprocity.
- Bribe-takers may find themselves entrapped in a corrupt career after committing a minor error.

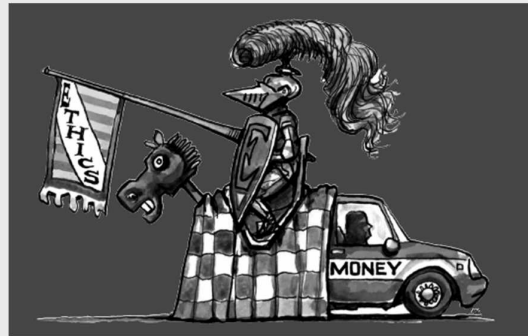
65

Literature



- Lambsdorff, J. Graf and B. Frank (2011), Corrupt Reciprocity – Experimental Evidence on a Men’s Game, *International Review of Law and Economics*, Vol. 31 (2): 116-125.
- Frank, B. and J. Graf Lambsdorff (2010), Bribing versus Gift-Giving – an Experiment, *Journal of Economic Psychology*, Vol. 31(3): 347-357.
- Lambsdorff, J. Graf (2009), The Organization of Anticorruption – Getting Incentives Right. In: *Corruption, Global Security, and World Order*, ed. by R. Rotberg, (The Brookings Institution Press: Washington, D.C., 2009): 389-415.

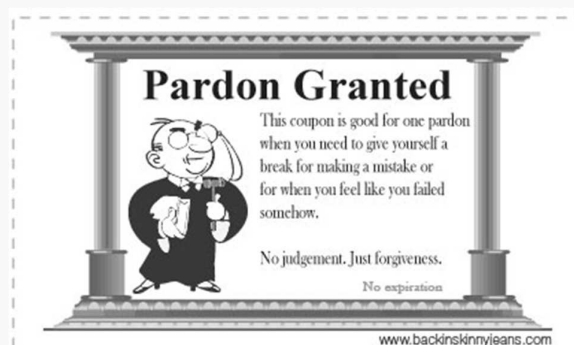
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3. Leniency, Nullity and Abuse of Office

Leniency

- When should corrupt actors be given **leniency**.
- For self-reporting!
- Experience collected in antitrust.
- Idea: Convince just one of the perpetrators to collaborate and self-report.
- Mutual dependence and silence if both briber and bribe-taker face identical penalties
- If one is offered reward, self-reporting becomes attractive
- Other side will not engage in bribery



Leniency

- Downside:
- Reduced option of opportunism.
- Leniency to businessperson implies that official cannot cheat
- Official must reciprocate a bribe.

Upside
Downside

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Leniency

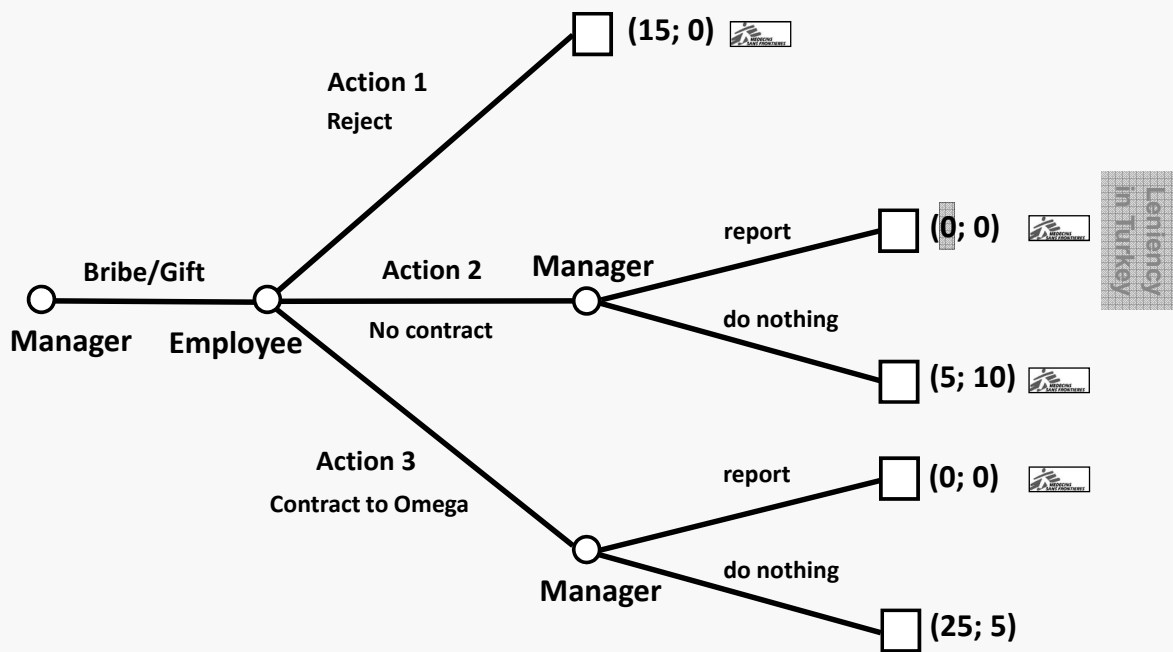
UNCAC Article 37. Cooperation with law enforcement authorities:
“Each State Party shall consider ... mitigating punishment of an accused person who provides substantial cooperation in the investigation or prosecution of an offence ..., granting immunity from prosecution to a person who provides substantial cooperation in the investigation.

Turkish Criminal Code numbered 765, Art. 215 (2) (active bribery; prior to 2005)

- .., the offender, who informs the authorities of such before having received the requested favour, shall not be held liable for the offence of bribery and the bribe shall be given back to him.

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Leniency



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Leniency

- Experimental evidence on the design of punishment.
- Engel et al. (2016) show that leniency to the briber induces officials to reciprocate more often.



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Leniency

- Sanctions on firms should focus on the giving of a bribe, rather than the acceptance of the return.
- Leniency should be granted only when a corrupt favor has been obtained!
- Incentive for managers to investigate bribery: Chance to be given leniency!
- This leniency can be made transparent and announced upfront, assigning legal rights to a company that comes forward with evidence.
- My proposal: A fine of 30 times the size of a bribe would be simple and work well. In case of self-reporting it should be reduced to 10 times the size of a bribe. Sometimes, certainly, the size must be estimated or inferred from the value of a contract.

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Illicit Enrichment



UNCAC Article 20. Illicit enrichment:

... each State Party shall consider ... to establish as a criminal offence, when committed intentionally, illicit enrichment, that is, a significant increase in the assets of a public official that he or she cannot reasonably explain in relation to his or her lawful income.

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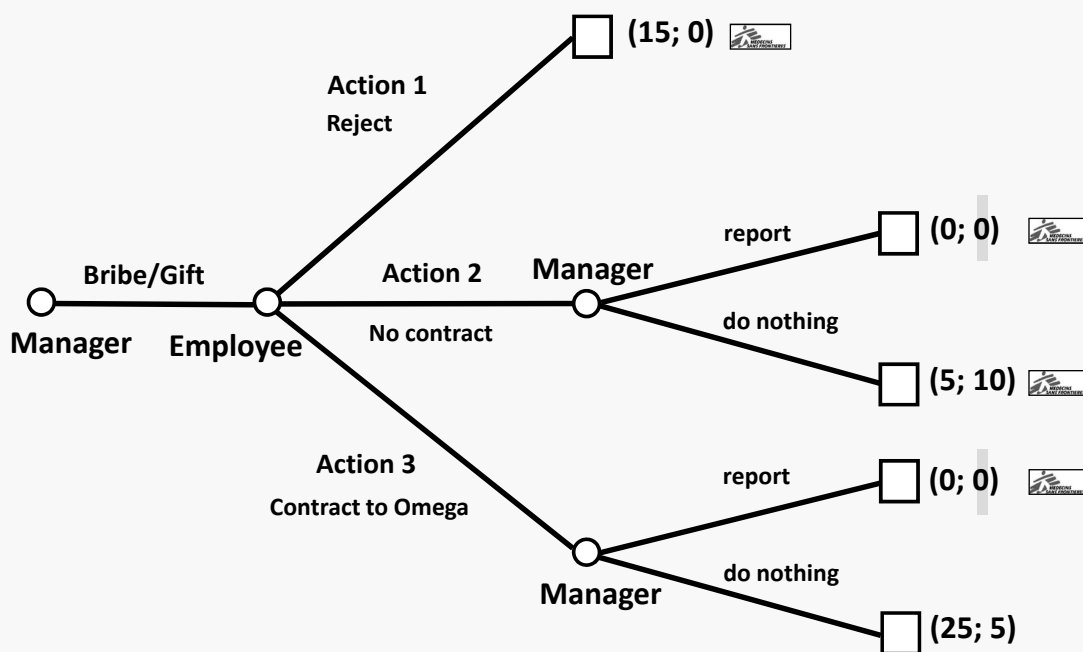
Illicit Enrichment

- **Gift Limit Rules**
- Advantage: Simple and clear
- Disadvantage: Sanction also opportunistic officials
- A gift-givers exploit this: Threaten to report acceptance of gift in case of opportunism.



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Illicit Enrichment



Allowing Enrichment

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Abuse of Office

UNCAC Article 19. Abuse of functions:

“Each State Party shall ... establish as a criminal offence, when committed intentionally, the abuse of functions or position, that is, the performance of or failure to perform an act, in violation of laws, by a public official in the discharge of his or her functions, for the purpose of obtaining an undue advantage for himself or herself or for another person or entity.



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Abuse of Office

- Punishing abuse of office avoids the downside effect of gift limit rules.
- Gift-givers cannot threaten gift-takers.
- Penalties only for violating duty by reciprocating a gift.
- No penalty for acceptance of gift.



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Gift Limits and Abuse of Office

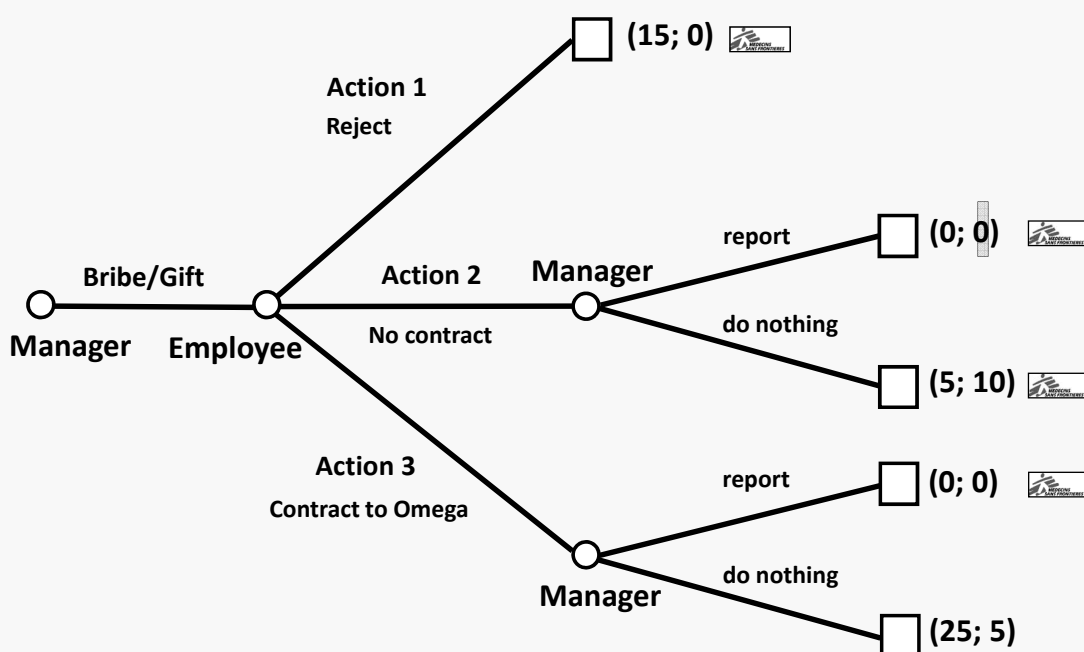
The Codigo Penal in Chile (below referring to passive bribery)

▪ In the 1990s in Chile the payment of a bribe was a criminal offense, but accepting a bribe was not unless accompanied by an abuse of office. Even today Chile's Codigo Penal, the criminal code, is strict on extortion, misappropriation, falsification of information and fraud but little punishment is added when these infractions are carried out in exchange for a bribe.

Ancient Greek Law, according to Demosthenes (1935: 81, § 113)

▪ "If any Athenian accepts a bribe from another, or himself offers it to another, or corrupts anyone by promises, to the detriment of the people in general, or of any individual citizen, by any means or device whatsoever, he shall be disfranchised together with his children, and his property shall be confiscated."

Gift Limits and Abuse of Office



Leniency

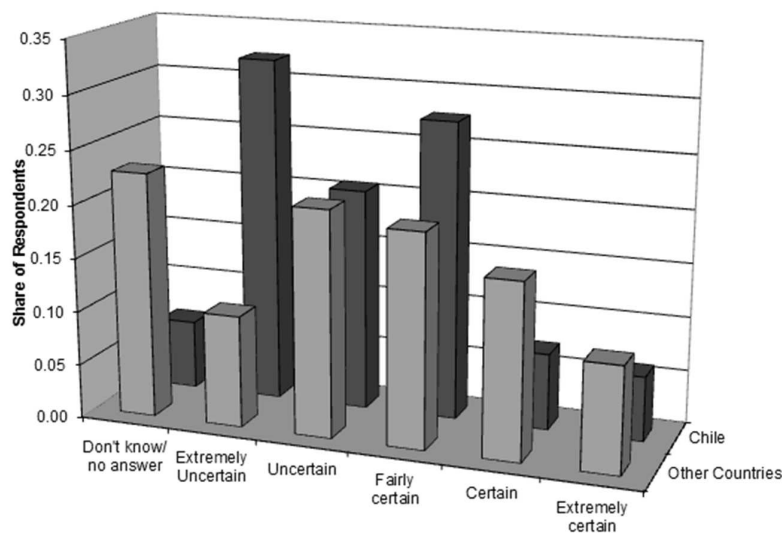
- Experimental evidence on the design of punishment.
- Schikora (2011) investigates leniency to a cheating official who self-reports (even allowing her to keep the bribe). Bribes often accepted and reported but are rarely reciprocated.
- Such a leniency would be similar to prohibiting only the abuse of functions.



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Abuse of Office

Corrupt Reciprocity is Uncertain in Chile
Survey among 1001 Chilean and 69109 households in another 65 Countries,
Own Research based on TI Barometer 2009

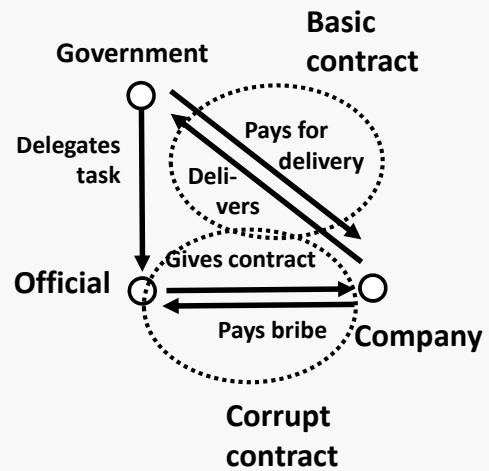


If someone paid a bribe in order to obtain a service or to resolve a problem, how certain would be the delivery of the service or the resolution of the problem after the payment?

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Nullity

- **Nullity** of corrupt contracts implies that bribes cannot be claimed back!
- This is globally recognized: Those who operate outside the law cannot claim the law's protection.
- More difficult: should underlying, basic contract be declared null and void.
- Additional risk for companies that pay bribes.



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Nullity

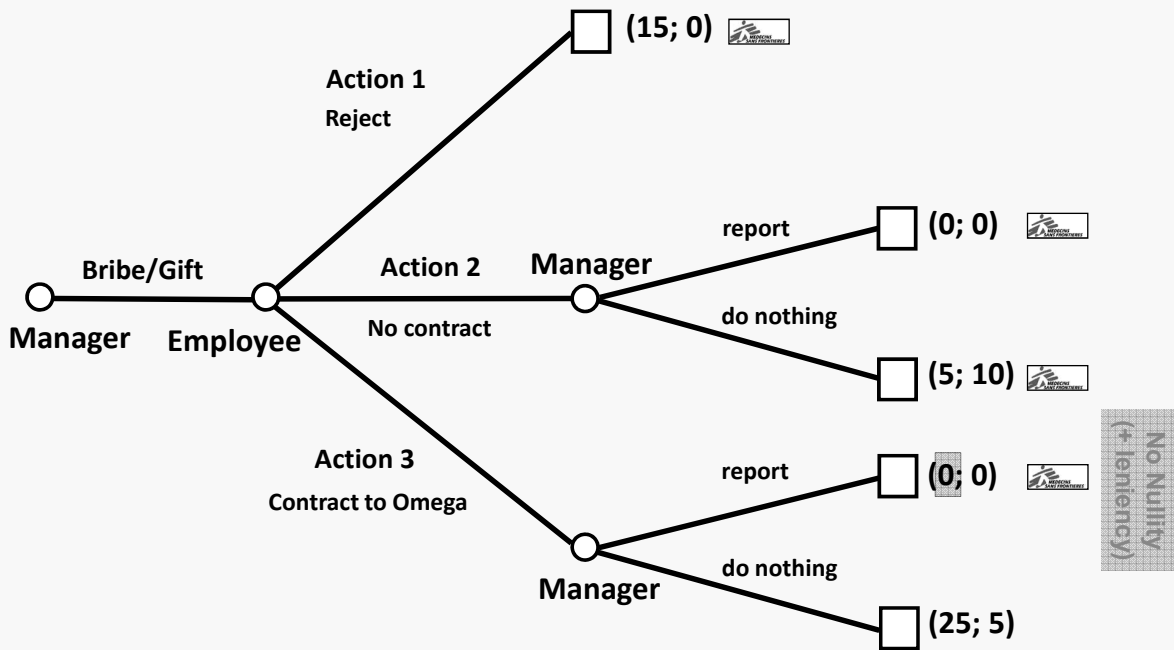
UNCAC Article 34. Consequences of acts of corruption:

States Parties may consider corruption a relevant factor in legal proceedings to annul or rescind a contract, withdraw a concession or other similar instrument or take any other remedial action.



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Nullity



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Nullity

- Disadvantages of Nullity:
 - Companies will not self-report after obtaining the basic contract
 - Governments obtain unfair advantage from having corrupt officials, the chance to nullify the contract at a later stage.



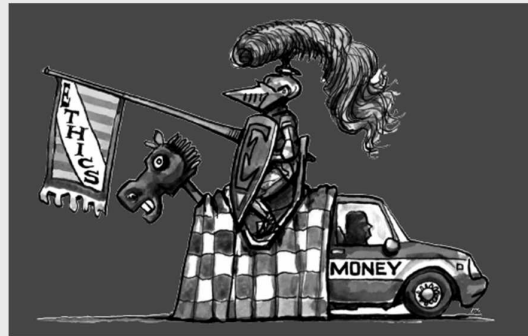
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- Managers and companies should enjoy leniency after obtaining the contract/favor
- They should not be given leniency before they obtained the favor
- Officials may not be punished for illicit enrichment and violating gift limit rules
- They should be punished primarily for abuse of office
- For example, leniency might be given to bribe-taking officials if they can prove that they did not abuse their office



- Demosthenes (1935), Demosthenes against Meidias, Androtion, Aristocrates, Timocrates, Aristogeiton. With an English translation by J. H. Vince. Cambridge, Massachusetts: Harvard University Press
- Engel, C., S. J. Goerg and G. Yu (2016), "Symmetric vs. Asymmetric Punishment Regimes for Bribery", American Law and Economics Review 18(2): 506–556
- Lambsdorff, J. Graf (2009), The Organization of Anticorruption – Getting Incentives Right. In: Corruption, Global Security, and World Order, ed. by R. Rotberg, (The Brookings Institution Press: Washington, D.C., 2009): 389-415.



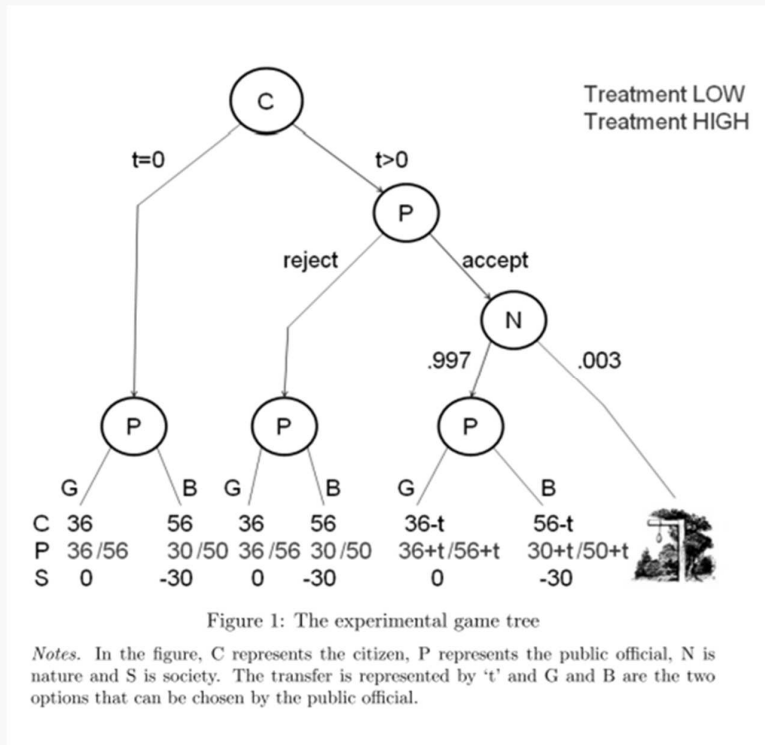
4. The Costs of Fighting Corruption

Wages and Punishment



- Effect of wages on corruption?
- Best investigated in the lab.
- Van Veldhuizen (2013; Journal of Economic Psychology) finds “low-wage public officials accept 91% of bribes on average, whereas high-wage public officials accept 38% and are less likely to choose the corrupt option.”

Wages and Punishment



- Van Veldhuizen (2013) finds public officials P to accept 91% of bribes on average when wages are LOW and 38% accepting when they are HIGH.
- Upon acceptance 60% of Ps choose the bad option B in LOW and only 32% in HIGH.

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Wages and Punishment

- High salaries costly
- Cheap ways of fighting corruption
- Punishment investigated in the laboratory. Found to deter bribery.
- This operates already if punishment goes along with a very low probability of detection (Abbink et al. 2002).
- Clarification of what is right or wrong influences behavior.
- Government must communicate that corruption is prohibited, even if it has little resources to detect infractions.



“That’s a good idea! Corrupt individuals should be punished. We will recommend it to the government...”

Laxman, Times of India 30

March 2001

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The Hidden Costs

- What are the costs?
- Repression: Cost for running prisons including the opportunity for the time spent there, salaries for officials, prosecutors and judges
- Prevention: Costs for running a compliance system and reporting, auditing and budgeting. Costs for losing expertise when rotating personell. Time required for the 4-eyes principle
- Hidden costs! Controls absorb time and attention. They undermine intrinsic incentives

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The Hidden Costs

- Officials are commonly influenced by two types of motivation
 - extrinsic (chance of getting a bonus, promotion or other benefit, fear of losing the job if caught performing badly, disciplinary sanctions, fines or imprisonment),
 - intrinsic (internal satisfaction or fulfillment, curiosity and desire to master task, interest or enjoyment in the task, satisfaction from helping others, enjoyment of self-control and autonomy).



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The Hidden Costs

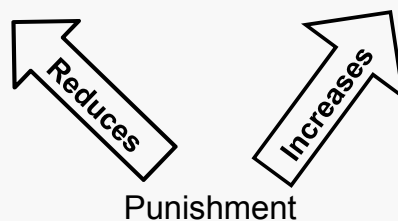
- Preventive mechanisms such as control systems, auditing and reporting
 - Signal distrust towards officials
 - Reveal that corruption is expected and feared
 - Reduce autonomy
- This reduces (crowds out) the intrinsic motivation



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The Costs of Fighting Corruption

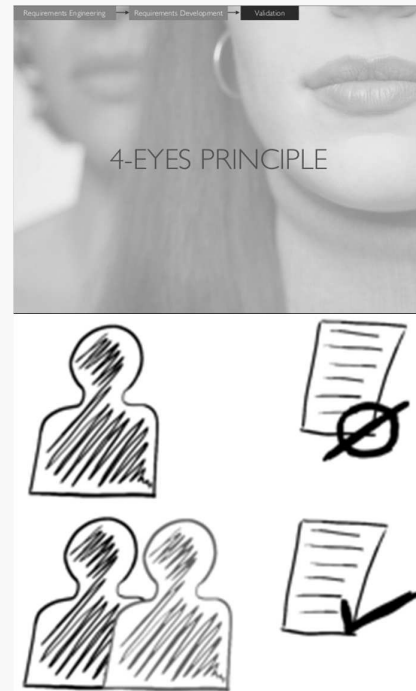
	Dice in the Cup	Current Standard in Anticorruption
Control	Impossible	More Control
Observation	Average Assessment Intuition	Objectivity, Verifiability
Incentive	Intrinsic Motivation	Fear of Punishment



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The 4-Eyes Principle

- Another example of the hidden costs of control become apparent with the **4-eyes principle**.
- This principle provides a control mechanism by requiring the approval of an independent second person.
- Example: Nuclear weapons; large bank transfers; unlocking of a vault.
- The four-eye principle is repeatedly involved in efforts to reduce bribe-taking.



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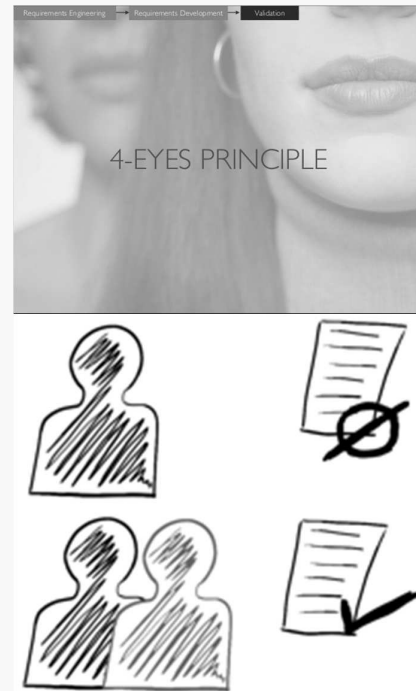
The 4-Eyes Principle

- Germany's Report to the European Commission, Feb. 3, 2014, page 3 (<http://ec.europa.eu/transparency/regdoc/rep/1/2014/EN/1-2014-38-EN-F1-1-ANNEX-7.Pdf>):
„**Institutional framework.** Detailed rules regulate the work of the public administration. Comprehensive codes of conduct aim to prevent corruption at federal level and in many Länder. According to research, 99% of the authorities contacted apply the 'four eyes' principle, whereby two individuals must approve important decisions, 80% have internal anti-corruption guidelines, 74% randomly monitor decision making where the risk of corruption is more prevalent, 62% have identified areas with high corruption risks, and 57% have appointed an anti-corruption commissioner.“

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The 4-Eyes Principle

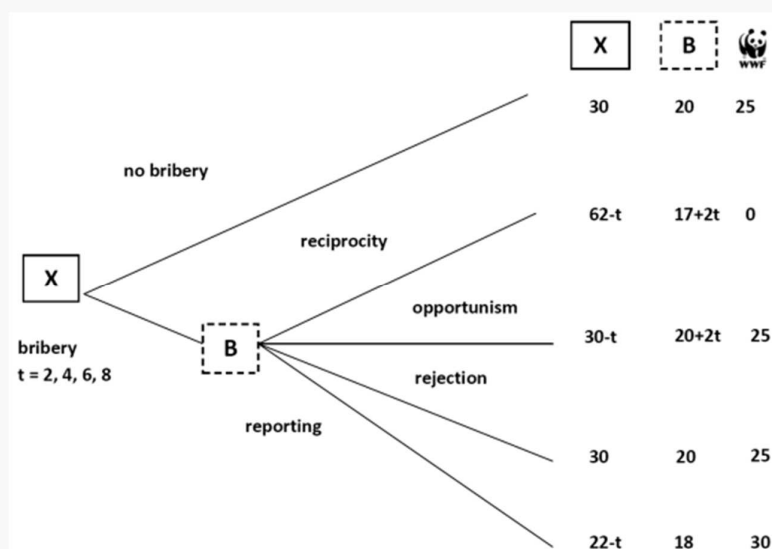
- Advantage: Harder for an individual acting alone to defraud the organization. Bribing two officials might be more difficult than bribing just one.
- Costs: There is always another official who bears the burden (diffused responsibility). The principle may advance the operation of corrupt networks.



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The 4-Eyes Principle

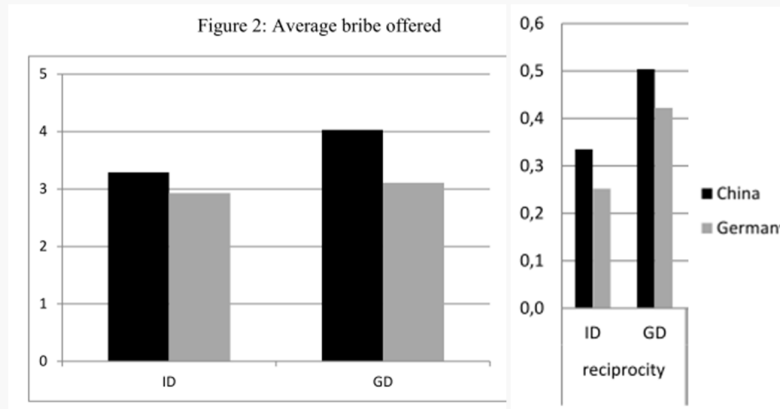
- Bühren et al. (2015) ran experiments in Germany and China where they let a firm X and an official B interact with the same partner across 10 rounds.



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The 4-Eyes Principle

- They find average bribes offered and reciprocity to be significantly higher among groups.
- This may indicate a failure of the 4-eyes.

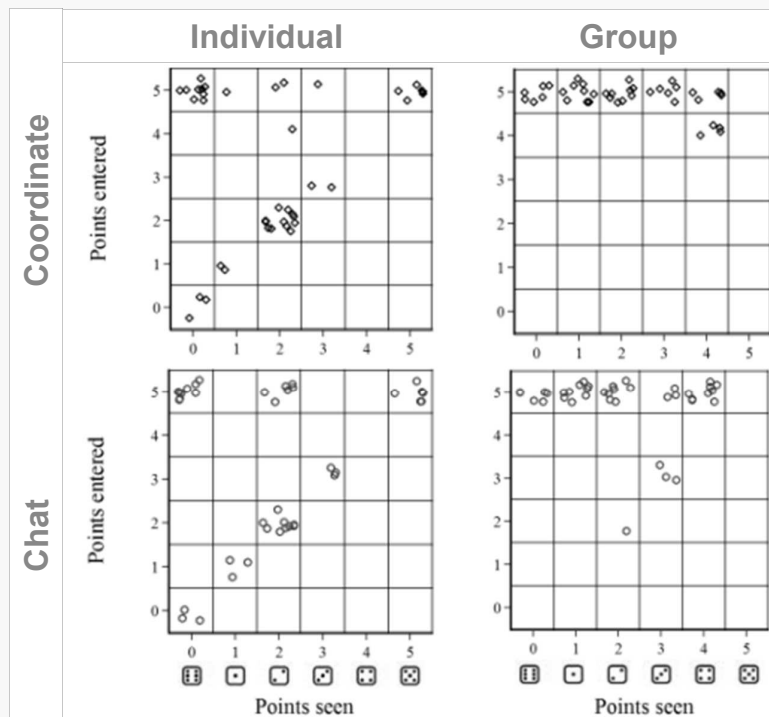


101

The 4-Eyes Principle

- Kocher et al. (2018) let subjects play a dice-in-the-cup experiment individually and afterwards in groups of 3 (with 6 yielding a payoff of 0)
- Subjects are shown randomly selected videos on dice rolls
- Experimenters identify the points seen and compare to those reported
- Groups see identical videos, chat for up to 5 minutes and
 1. all must report the same points in order to obtain a payoff
 2. can report different points
- In both cases group members tend to exchange arguments for being dishonest
- They conclude that “there is a stronger inclination to behave immorally in groups than individually”

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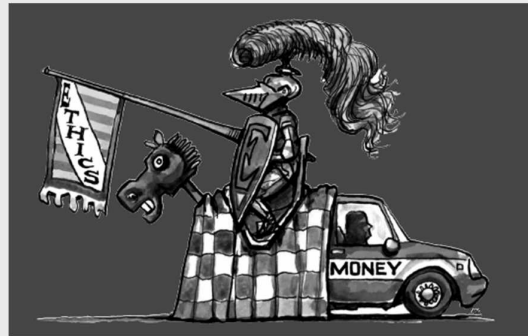
Appendix



- Decent salaries are important but costly
- Observe the hidden costs of control
- Give subordinate the feeling they are trusted, rather than controlled.
- Grant autonomy
- Implement controls quietly
- Do not employ the 4-eyes for reducing corruption



- Bühren, C., S. Li, H. Qin, and B. Frank (2015), "Group Decision Making in a Corruption Experiment: China and Germany Compared. *Jahrbücher für Nationalökonomie und Statistik* 235(2).
- Kocher, M.G. S. Schudy, L. Spantig (2018) "I Lie? We Lie! Why? Experimental Evidence on a Dishonesty Shift in Groups." *Management Science* 64 (9): 3971-4470
- Lambsdorff, J. Graf (2009), *The Organization of Anticorruption – Getting Incentives Right*. In: *Corruption, Global Security, and World Order*, ed. by R. Rotberg: 389-415.
- Veldhuizen, R. (2013), "The influence of wages on public officials' corruptibility: A laboratory investigation," *Journal of Economic Psychology* 39: 341-356.



5. Behavioral Interventions

Behavioral Science

- Behavioral science: Intersection of psychology, economics and other social sciences
- Departure from the rational, self-seeking paradigm
- Limited capacity to optimize, bounded self-control, myopia, status-quo bias
- Policies seek to nudge people into making decisions that are better in line with their long-term preferences or influence them to align their behavior with social objectives
- Exploit people's cognitive and motivational deficiencies
- Applications: Enhancing the donation of organs, encouraging re-employment, advancing healthier food, overcoming procrastination with regard to retirement savings, conservation of energy, charitable giving, tax compliance, fine collection or increasing voter turnout

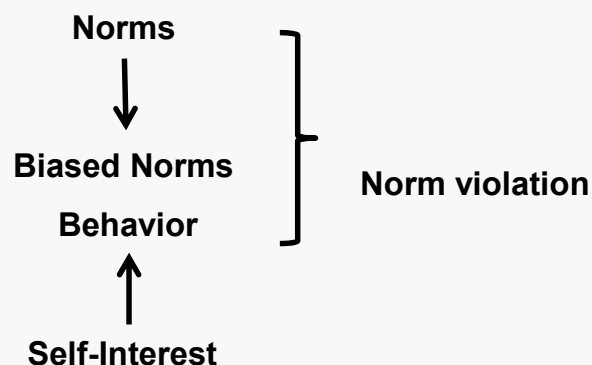
Behavioral Science

- Nudge exploits the power of a default
- A default is the alternative that is preselected if a person forgoes making a choice of her own
- Policymakers can be in a position to determine the default
- People take whatever alternative requires the least effort
- Clear and simple rules can serve as a default
- The dice-in-the-cup experiment may induce highly honest results because rules serve as a default
- Recent application to anticorruption focuses on two ideas:
 1. Moral reminders
 2. Tackling public expectations, which might be manipulated towards a low-corruption equilibrium

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Moral Reminders

- Model on behavior when norms (related to effort, fairness, empathy, equality) are in conflict with self-interest



- People seek to conform with others and are uncomfortable with violating norms
- This discomfort is ameliorated (consciously or unconsciously) by biasing the perceived norms towards self-interest

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Moral Reminders



- Ambiguity Game (Dana et al. 2007)
- decides between option A (payoff 6€) and B (payoff 5€)
- gets the payoff Y, which is either 1€ or 5€
- In 5 out of 10 games the payoffs will be as shown in the left table, else it is the right table

Option A	X: 6	Y: 1
Option B	X: 5	Y: 5

Option A	X: 6	Y: 5
Option B	X: 5	Y: 1

- Upfront, decides whether to reveal whether the left or right table determine the payoff
- One group will be selected randomly and receive the payoffs

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Moral Reminders

- Dana et al. (2007) run a baseline where the left table determines payoffs. Only 26% chose the unfair option A
- The choice of option A increases significantly among those who do not reveal payoffs
- This is evidence of biased norms
- People dislike choosing an unfair outcome when norms imply that equality should be preferred
- But people bias their judgment when they do not need to observe the unfair outcome.
- In such a case they can fabricate excuses: “It might have resulted in a good outcome”
- They then engage in strategic ignorance

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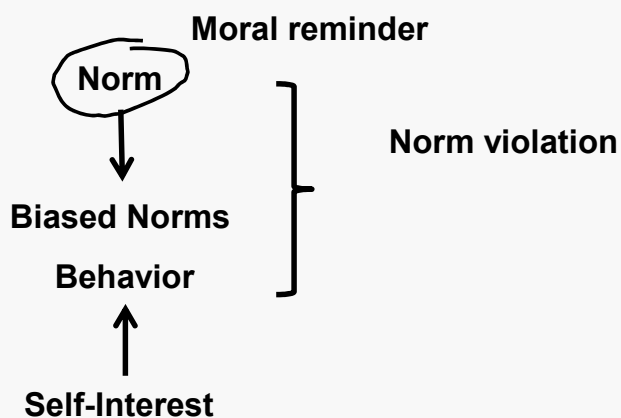
Moral Reminders

- Unethical choices are made by ethical people.
- The bias might be unconscious
- Excuses are fabricated when a bias is observed (“others do it”, “I only followed the orders,” “It need not be illegal,” “the causality is unclear”)
- Such unethical choice cannot be addressed by control and penalties
- Also favoritism towards others can be affected by this bias
- Members of own group are judged more favorably
- A close colleague’s conflict of interest or immoral act is regarded less problematic

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Moral Reminders

- This implies a method for policymaking: Reminding people of norms
- People can no longer bias their perceptions of these norms.
- This forces them to more closely align behavior with norms



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Moral Reminders

- Make norms salient in the moment of the choice
- Inconspicuous messages, such as “thank you for your honesty”

SAY NO To GIFTS or PAYMENTS

It is the policy of this Department that no official may accept a gift. You are therefore kindly requested not to offer any “token of appreciation” or gift to any Home Affairs officials.

Any official who accepts a gift in contravention of the Code of Conduct for Public Servants as well as the Department’s policy on gifts and this is regarded as a serious transgression, which could lead to a charge of misconduct.

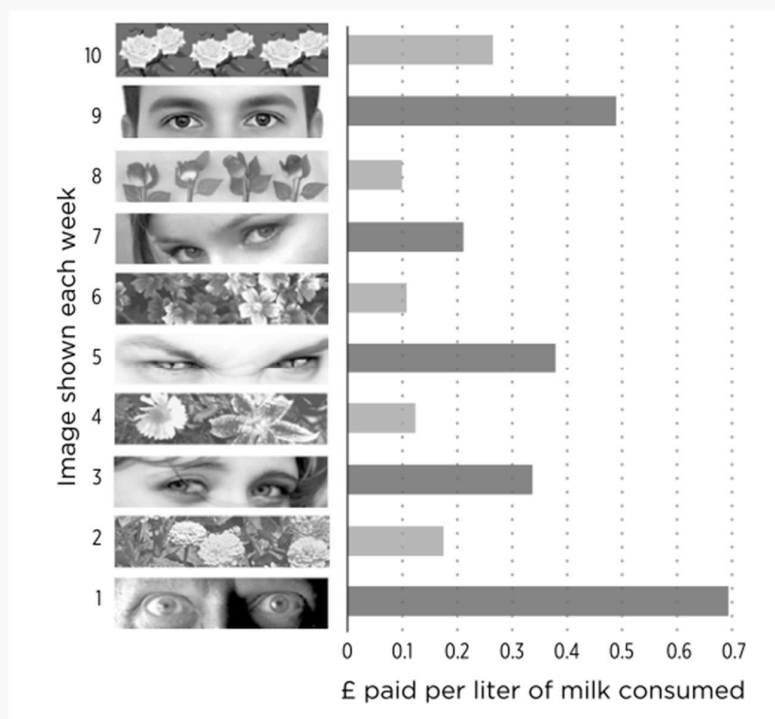
National Anti-Corruption Hotline 0800 701 701



115

Moral Reminders

- Bateson et al. (2006) measure contributions to an honesty box used to collect money for drinks in a university coffee room
- Cues of being watched act as a moral reminder



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Moral Reminders



Notes: Helpers mounting a sales booth onto a light pole (left picture) and a booth showing the message of treatment MORAL (right picture).

Source: Pruckner and Sausgruber (2013)

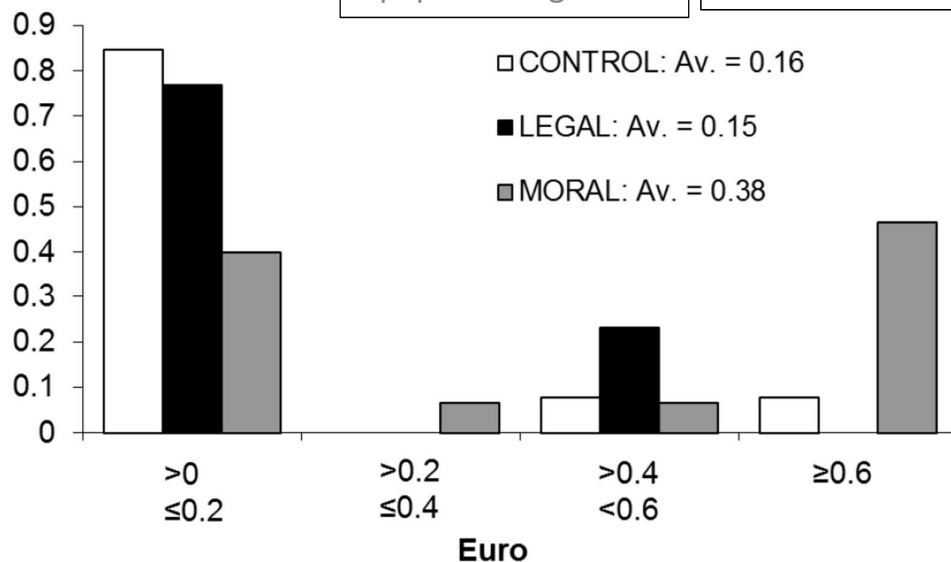
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Moral Reminders

CONTROL "The paper costs €0.60."

LEGAL "The paper costs €0.60. Stealing a paper is illegal."

MORAL "The paper costs €0.60. Thank you for being honest."



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Moral Reminders

- Example of a moral reminder: Shu et al. (2012). Cheating with the number of puzzles solved

Form 3305 (Rev. June 2010)	Research Study Tax Return For the period June 1, 2010, through August 30, 2010		Keep a copy of this return for your records. OMB No. 1555-0111
Write Clearly	Name	PID	For Administrative Use Only T FF FP I TL
	Address (Number, street, and room or suite number)		
	City, State, and ZIP code		
Part 1 Please fill out the questions below to compute your taxed payment.			
a. Please enter the payment you received on the problem solving task (\$2 per correct matrix you solved in the other room)		1	
Sign Here	I declare that I carefully examined this return and that to the best of my knowledge and belief it is correct and complete.		
	Signature	Date	

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Moral Reminders

- Codes of Conduct define a narrow range of acceptable behaviors from employees, which require little judgment.
- Code of Ethics are a wide-ranging and non-specific set of norms, which support an independent judgment.

UNCAC Article 8. Codes of conduct for public officials:
... promote, inter alia, integrity, honesty and responsibility among its public officials ... standards of conduct for the correct, honourable and proper performance of public functions... consider taking disciplinary or other measures against public officials who violate the codes or standards.

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Boeing Code of Conduct

■ Annual Compliance Statement

The Boeing Code of Conduct outlines expected behaviors for all Boeing employees. Boeing will conduct its business fairly, impartially, in an ethical and proper manner, in full compliance with all applicable laws and regulations, and consistent with the Boeing values. In conducting its business, integrity must underlie all company relationships, including those with customers, suppliers, communities and among employees. The highest standards of ethical business conduct are required of Boeing employees in the performance of their company responsibilities. Employees will not engage in conduct or activity that may raise questions as to the company's honesty, impartiality, reputation or otherwise cause embarrassment to the company.

As an employee of The Boeing Company, I will ensure that:

- I will not engage in any activity that might create a conflict of interest for me or the company.
- I will not take advantage of my Boeing position to seek personal gain through the inappropriate use of Boeing or non-public information or abuse my position. This includes not engaging in insider trading.
- I will follow all restrictions on use and disclosure of information. This includes following all requirements for protecting Boeing information and ensuring that non-Boeing proprietary information is used and disclosed only as authorized by the owner of the information or as otherwise permitted by law.
- I will observe fair dealing in all of my transactions and interactions.
- I will protect all company, customer and supplier assets and use them only for appropriate company approved activities.
- Without exception, I will comply with all applicable laws, rules and regulations.
- I will promptly report any illegal or unethical conduct to management or other appropriate authorities (i.e. Ethics, Law, Security, EEO).

Every employee has the responsibility to ask questions, seek guidance and report suspected violations of this Code of Conduct. Retaliation against employees who come forward to raise genuine concerns will not be tolerated.

I have read the Boeing Code of Conduct and I do certify that:

- I understand the Boeing Code of Conduct.
- To the best of my knowledge, I am in compliance with the Boeing Code of Conduct.
- I will continue to comply with the Boeing Code of Conduct.

PRINTED NAME

BEMSID

SIGNATURE

DATE

Moral Reminders

- Annual compliance statement as a moral reminder?
- Too long, too complex, often badly written, purchased from consultancies, too imprecise, too late.
- Codes of Conduct -> shift liability
- Codes of Ethics -> moral reminder

Moral Reminders

- It should be critically noted that moral reminders largely tend to target individuals
- The underlying thought model is that individuals are self-seeking and that a reminder shifts their behavior towards the common good
- However, research has often shown that groups are more selfish than individuals
- Research and practice might focus more on moral reminders that
 - target groups or
 - encourage individuals to resist group's selfish goals

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Tackling public expectations

- Corruption is often seen as a collective action problem
- Each individual is better off with self-serving behavior but the group is best off if all contribute to a public good and resist corruption
- Examples: Responsibly using a common pasture, avoiding overfishing the oceans, giving to a charity, not-polluting the environment, voting for politicians who promote the public good, abstaining from bribery in public procurement

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Tackling public expectations

- Recall the Public Goods Game
- **Conditional cooperation:** Choose action dependent contributions by others
- **Strategy method:** Ask for contributions given different average levels of contributions by others
- Positive association: The more others give, the higher are their contributions
- People cooperate when they expect cooperation by others
- Multiple equilibria

PGG

Period 1 von 1 Remaining time 28

Your conditional contribution to the project (contribution table)

0	<input type="text"/>	7	<input type="text"/>	14	<input type="text"/>
1	<input type="text"/>	8	<input type="text"/>	15	<input type="text"/>
2	<input type="text"/>	9	<input type="text"/>	16	<input type="text"/>
3	<input type="text"/>	10	<input type="text"/>	17	<input type="text"/>
4	<input type="text"/>	11	<input type="text"/>	18	<input type="text"/>
5	<input type="text"/>	12	<input type="text"/>	19	<input type="text"/>
6	<input type="text"/>	13	<input type="text"/>	20	<input type="text"/>

OK

Help
Insert your contribution to the project in the input field if the others have on average made the contribution to the project to the left of the input field. When you've entered everything, press "OK".

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Framing with Messages

- **Policy:** "Frame" an interaction such that people expect others to cooperate and be honest
- **Bad example:** Popular campaigns can advance an impression that others are corrupt
- Self-fulfilling prophecy
- **Good example:** "Only 10% of all people across the world report to have paid a bribe in the last year"
- Temporary intervention may have long-term effects

SAY NO TO
CORRUPTION



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Framing with Messages

- Hallsworth et al. (2017) investigate how letters to taxpayers might accelerate payments of tax liabilities
- A letter induced 1/3 of the taxpayers to make a payment within 3 weeks
- Success varied with the way messages addressed social norms
- Least successful was a general injunctive norm, one that refers to what others think should be the norm: “The great majority of people agree that everyone in the UK should pay their tax on time”
- Most successful (increasing payments by 5%) was a descriptive norm that refers to others’ actual behavior: “You are currently in the very small minority of people who have not paid us yet”
- This reinforces the idea that people are conditional cooperators who seek to align their behavior with that of the majority

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Architecture

- Sometimes you know what to expect before entering a building ...



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Architecture

- Good precedent for architecture for one-stop bureaucracy in Shanghai
- For registering new businesses all potentially relevant offices were assembled in a single location
- A large glass front displayed these visibly to the outside and exposed them transparently to the sunlight
- Fronting the offices was a complaints office
- When businesspeople do not expect corruption, they may not start offering a bribe



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Architecture

- Resnik and Curtis (2011: 38-63) show how courtrooms across space and time have reminded judges of God, virtues and their duties as a method for avoiding bribe-taking.



Geneva Town Hall



Amsterdam Town Hall

130

Leadership

- Experimental evidence on tone at the top by d'Adda et al. (2017).
- Dice in the Cup in groups with shared profit
- *leader* can send notes and bonuses to 3 *followers*.
- Notes (*tone at the top*) are more important!
- Tone at the top of honest leaders brings about honest followers.



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Leadership

- This finding is in line with the literature
- People are responsive to communication, not money alone
- Managers and government leaders can cultivate honesty among subordinates and officials
- Communicating the behavior of the majority can badly backfire in a dishonest and corrupt environment

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Inducing Honesty

	Dice in the Cup	Current Standard in Anticorruption
Control	Impossible	More Control
Observation	Average Assessment Intuition	Objectivity, Verifiability
Incentive	Intrinsic Motivation	Fear of Punishment
Measure	Tone at the Top	Zero Tolerance

- Set the right tone
- Find the right frame
- Encourage favorable expectations

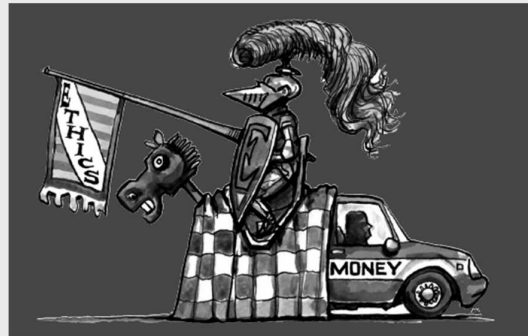
133

Appendix



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Simulation Game on Procurement and Corruption

Preparation:

The game is played by 6 groups consisting of ca. 3-4 participants each.

1. Competitor Red
2. Competitor Yellow
3. Competitor Blue
4. Industrial Association
5. Awards Committee
6. Government

What the game is all about:

The Government sells its water supply company. The company goes to the winner of a public tender, which is one of the three competitors. Each group would achieve a different gross profit X from owning the company.

Each group determines its goals. These may embrace the maximization of profit, supply of decent water or the avoidance of collusion. Groups also develop strategies, for example on how to negotiate with other groups or share profits.

At the end of the game, 1.000.000€ are exchanged for 1 chocolate candy.

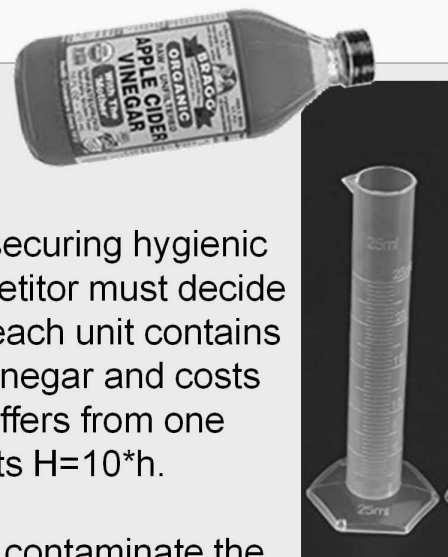


137

Hygiene and vinegar

The winning competitor will incur costs for securing hygienic quality $H=s*h$. For this purpose, each competitor must decide to what extent to filter the water. Originally each unit contains 30ml of vinegar. Each step s filters 3ml of vinegar and costs the competitor the marginal cost h , which differs from one competitor to another. Filtering all 30ml costs $H=10*h$.

After the simulation game the instructor will contaminate the drinking water, such that each participant will consume between 0 and 30 ml of vinegar. While this is healthy, it may not be pleasant.



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The bid:

All competitors must fill out the attached bidding document at the specified stage in the game.

Bid offer

We are group

RED

YELLOW

BLUE

<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>

We offer the price $P=$ _____

We will carry out the following amount of steps of filtering, $s=$ _____

Signature: _____

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What is known about other groups?

The instructor orally reports to each competitor its gross profit X and the value for h . The competitors regard these values as their legitimate business secrets, that might be kept confidential in order to achieve a legitimate level of profit.

Any group is free to report these two values to other groups, but may also report untruthfully.

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Competitors (red, yellow and blue caps):

The competitors bid for the company. They must decide how much to pay for the company, the price being denoted by P . They might be interested in a profit from the operation.

Given the gross profit X , the costs for hygienic quality $H=s \cdot h$ and the price P , the winning competitor will make a net profit of $X - P - H$.

The losing competitors will make zero profit (unless the winning company shares its profit).

Profit sharing declaration (to be kept by recipient)

In case of winning the tender,

RED
YELLOW
BLUE

passes on

20%
30%
40%
50%

of its profit to group _____.

Signatures: _____

Profit sharing declaration (to be kept by recipient)

In case of winning the tender,

RED
YELLOW
BLUE

passes on

20%
30%
40%
50%

of its profit to group _____.

Signatures: _____

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The Industrial Association IA (pink cap):

The industrial association is given information by the instructor on a profit target. Its payoff depends on how close the winner's profit is to this target.

It seeks to avoid competition becoming so strong that the profit of the winner is minor. It justifies this by the idea that profits are often used for research and may thus increase future well-being.

It may publish memos. It will be provided with inside information by the instructor.

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The Awards Committee AC (black cap):

The Awards Committee is paid a fixed salary of 8 chocolate drops, independent of the outcome.

It must decide upfront how the competitors' bids will be collected, opened and published. It must issue a memo on its decision. After collecting bids it proposes the winning bidder to the government.

It may announce upfront how it intends to determine the winning bidder. For example "given a fixed price P^* the competitor that offers the highest level of quality will win" or "given the number of steps of filtering, s^* , the competitor that pays the highest price will win" or "the first competitor that supplies a profit sharing declaration to the Awards Committee will win the bidding".

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The Government GOV (beige cap):

The Government earns the price P that is paid by the winning bidder, but only if it is reelected. Otherwise the price P is confiscated by the instructor

The Government may publish memos, for example relating to a preferred level of steps of filtering, s , a preferred level of payment P or a combination of P and s .

The Government can sack the Awards Committee's decision. In case of sacking it must decide itself, which competitor wins, which price P to pay and how many steps s are implemented. If the chosen competitor rejects this, the Awards Committee's decision holds.

The Government stands for re-election at the end of the game when all individual participants (not groups) cast an open vote pro or contra the government.

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The Instructor:

The instructor sends individuals to prison who are found outside their location without a cap.

He publishes memos by the government, the Awards Committee or the industrial association on a public board.

He disqualified bids that would produce a loss for the competitor.

At the end of the game, the instructor calculates the net profit of the winning bidder and payoffs to all groups, considering profit sharing declarations.

The instructor decides on reelecting the government in case of a tie.

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Schedule of the Game

9:30 Groups assemble, determine roles, goals and strategies. The Instructor reports X and h to each individual competitor. IA, GOV and AC are informed about how their payoff is determined.

10:30 Interaction among groups starts.

11:00 The Government may issue a memo.

11:05 The Awards Committee issues a memo that states how the bids will be collected, opened, published and how the winner is determined.

11:10 Interaction among groups.

11:40 RED, YELLOW and BLUE determine their bids.

11:45 The Awards Committee collects the bids. It determines the winning bidder, along with values for P and s . It publishes a memo stating the results.

11:50 Interaction among groups.

12:20 The Government decides whether to accept or reject the Awards Committee's decision. In the latter case, it determines the winning bidder, along with values for P and s .

12:30 The Government stands for reelection.

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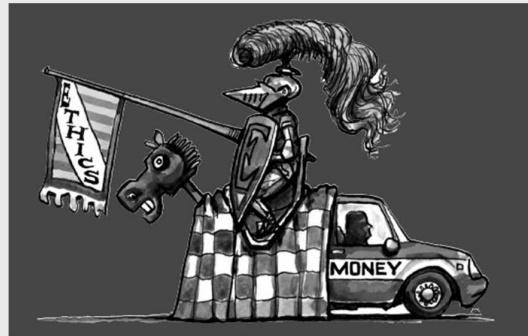
Interaction within groups

The roles within groups are:

1. Speaker (Explains the group's strategy and development after lunch in plenary, may take cap for delegation).
2. Permanent Resident (memos, bids or profit sharing declarations must show the signature of this person; cannot leave location).
3. CFO (does all calculations and accounting, may take cap for delegation)
4. Procedural Officer (making sure that all deadlines are fulfilled, all expected bids, memos and feedback are delivered on time, may take cap for delegation).
5. Lead Delegate (always has cap).

Interaction between groups

- Groups can send one or two delegates to other groups.
- The delegate must wear a cap, even for getting coffee or using the bathroom. Players outside of their location that do not wear a cap are sent to prison.
- Interaction is used to exchange information, offer profit-sharing declarations or alike.
- Any group can reject a delegate without giving reason.



6. Procurement

Limiting Discretion

- Excerpt of a memo published by the Awards Committee during the simulation game in Passau in 2017 and today

TB
→ bring the bids on time

① Submit bidding documents in person by deadline

- Memo published by an Awards Committee in 2016

Collect:

- Please write bids on a sheet of paper
- A delegate of each competitor group (C1, C2, C3) should come to tender board after a knock on the door on competitors room

- Difference: No collusion among groups!

Limiting Discretion

- One major cause for bribery is seen in officials' discretionary power.
- Discretion is defined as the legitimate leeway to act or decide according to one's own judgment.
- Police exercises discretion in deciding who will be arrested. Judges exercise discretion in deciding who will be punished. Tender officials exercise discretion when deciding on the winning bidder. Tax officials exercise discretion on how strictly to investigate tax declarations. When licenses or subsidies are granted, public officials exercise discretion when checking eligibility.
- There are basically two different options for dealing with this problem. Governments may either
 - limit discretion or
 - Reduce incentive to misuse discretion.

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Limiting Discretion

- Discretion would be misused if leeway is exercised in favor of some preferred clients. This behavior might be incentivized by a bribe.
- Taking a bribe related to an official act can be made punishable. This might reduce an official's incentive to misuse discretion. In such circumstances governments may grant public officials substantial discretion without risking misuse.
- The alternative approach is to limit discretion .
- How can discretion be reduced?
- Rotation, randomized mechanisms and the 4-eyes principle!

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Limiting Discretion

- How can discretion be reduced in procurement?
- Goal of procurement is to deliver best quality to citizens at reasonable prices.
- This is often undermined by corruption.
- It is also undermined if monopolies misuse market power.



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Limiting Discretion

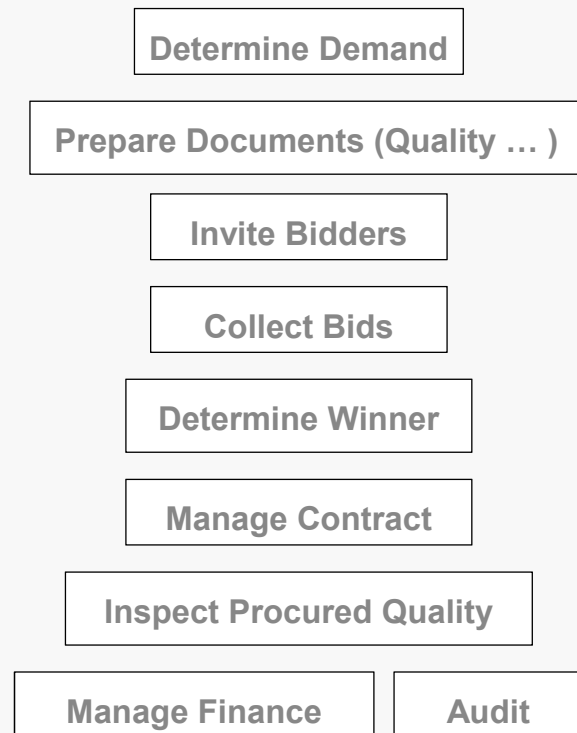
UNCAC Article 9. Public procurement and management of public finances

1. Each State Party shall, in accordance with the fundamental principles of its legal system, take the necessary steps to establish appropriate systems of procurement, based on transparency, competition and objective criteria in decision-making, that are effective, inter alia, in preventing corruption. Such systems, which may take into account appropriate threshold values in their application, shall address, inter alia ... The use of objective and predetermined criteria for public procurement decisions, in order to facilitate the subsequent verification of the correct application of the rules or procedures

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Separation of functions

- Do not concentrate power among one actor
- A public procurement process consists of many stages
- Execution of each stage to be assigned to a different official.
- Automatic peer review!



The Costs of Separating Functions

- Separating functions commonly entails that the writing of documents and the determination of the winner is done by different persons.
- Tender documents seek to ascertain fair competition. This requires quality criteria to be determined upfront.
- In large and innovative projects this is not possible. Imagine to run a tender for Desertec, the idea to supply Europe with solar power from the Sahara. There are too many things that cannot be anticipated in advance.
- The costs of writing reliable documents become excessive.
- Competitive Dialogue is an alternative tender process in Europe, that allows running tenders without detailed documentation.

The Costs of Limiting Discretion

Price the only criterion?

- Procurement officials required to award contracts to the lowest bidder.
- Objective criterion
- Reduced discretion in judging on quality
- Quality determined by bidding documents
- Only checking whether quality complies with bidding documents
- Contractors seek incomplete specifications and loopholes
- Extra profits
- Avoid loopholes! Add more detailed specifications!

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The Costs of Limiting Discretion

- Concise specification of all materials, processes, time etc.
- Cookies and brownies procured by the US army
- Burden of specifications
- Deterrent to bidders; suffocates competition.



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Use Experience?

- Observe performance of contractors over time
- Gather experience with respect to the quality
- Not objective! Usage of experience involves discretion
- Procurement guidelines discourage usage of experience
- Overall public procurement at risk of poor results (Kelman 2002).
- Strict rules divert officials away from the actual goal
- No longer acquiring best-value products and services for the government.



Disallow pre-bid talks?

- Officials often prohibited to carry out pre-bid talks
- Allow for collusion; increased discretion.
- No chance to profit from contractors' experience
- Current prices, new technologies, available qualities.
- No improvement of bidding documents.
- Costs of reducing discretion too high!
- Too many inefficiencies in procurement!



The Costs of Limiting Discretion

- Field study by Bandiera, Prat and Valletti (AER 2009)
- Inefficiency rather than corruption most important problem in Italian public procurement.

“Fighting this kind of [inefficiency] requires giving public officials more discretion, not less”

“... economists should ... view sheer inefficiency as a problem which is potentially even more important than corruption.”



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Appendix

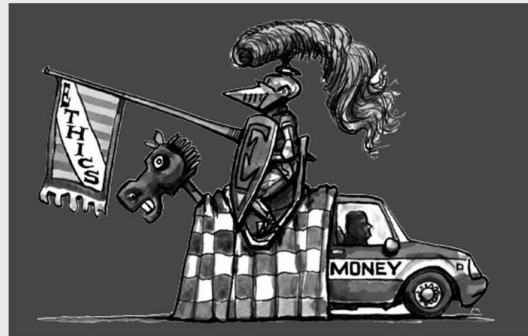


- Limiting discretion among procurement officials may backfire
- Separation of function might work well!
- Price-only criterium bad for quality.
- Procurement officials must be given some discretionary power.

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- Bandiera, O., A. Prat, and T. Valletti (2009), “Active and Passive Waste in Government Spending: Evidence from a Policy Experiment,” *American Economic Review*, Vol. 99:4, 1278–1308
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- Lambsdorff, J. Graf (2009), “The Organization of Anticorruption – Getting Incentives Right,” in: *Corruption, Global Security, and World Order*, ed. by Robert I. Rotberg, (Harvard Kennedy School and the Brookings Institution Press: Washington, D.C., 2009): 389-415.



7. Legal Enforcement and Intermediaries

Fraudulent Fraudsters

- As shown in the game on reciprocity, an official may behave opportunistically
- In reality, also the other official might be cheated



Cartoonist: Richard Jolley

Fraudulent Fraudsters

- In India bribes paid with counterfeit money
- Money produced in Pakistan
- Officials do not have the time to check the money

- Chinese official arrested due to corruption charges
- Fake antiquities found in his house
- He had accepted these antiquities in exchange for corrupt services, not knowing that they are fake



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Fraudulent Fraudsters

- In order to avoid opportunistic behavior corrupt actors seek mechanisms to secure enforcement of their agreement. Behavioral Economics puts a focus on reciprocity as a contract enforcement device. Institutional economics focuses on contractual design:
 - Legal enforcement
 - Hostages
 - Reputation
 - Repetition
 - Vertical integration

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Legal Enforcement

- Solving contractual conflict by involving third parties subject to law (courts, arbitration councils). Due to various reasons this is not available to corrupt actors:
- Corrupt parties must fear prosecution when presenting their case.
- Written contracts, receipts, support by witnesses and similar instruments of authentication are often not collected.
- Legal enforcement is rejected by courts. E.g. § 138 of the German Civil Code (BGB) declares transactions void which conflict with public morals (German: sittenwidrig). According to § 817 (2) BGB reclaiming of bribes is also not possible.

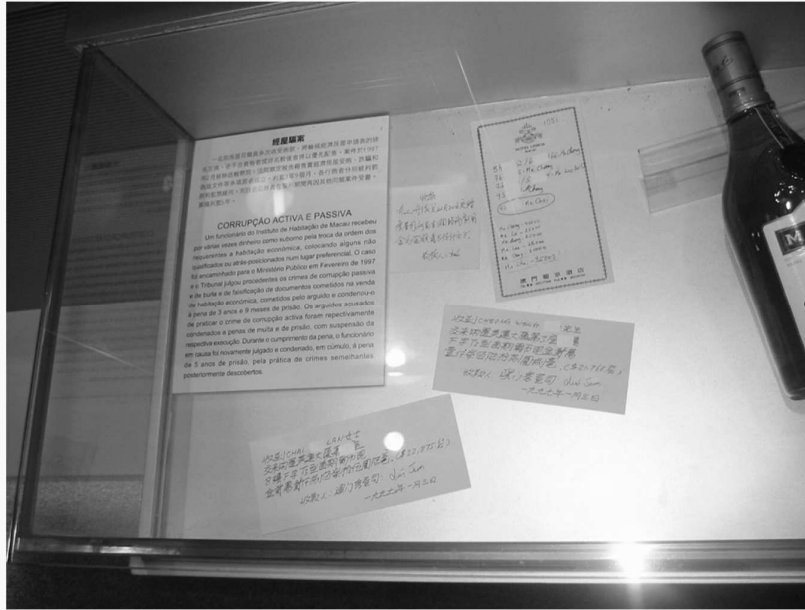
“He says extortion has become a regular business now and he won’t give the money without a stamped receipt hereafter.”

Laxman,
Times of India



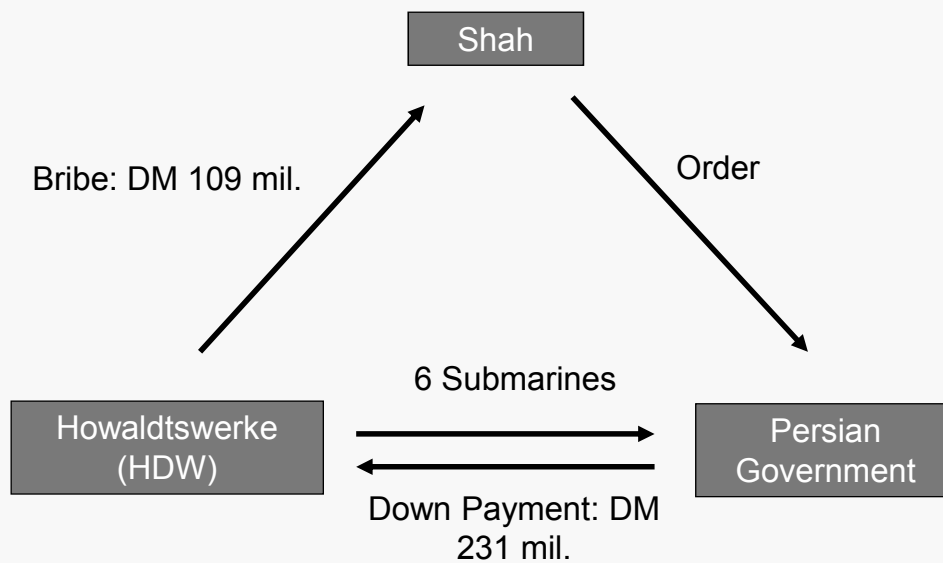
Legal Enforcement

- Sometimes, however, bribes are correctly recorded and signed receipts available. A small museum at the Anti-Corruption Commission in Macao displays some of these.



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Legal Enforcement



Source: Lambsdorff 2007: 148

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Legal Enforcement

- Legal appearance to render contracts legally enforceable
- Involving an intermediary
- Intermediary pays bribe
- Charges a commission afterwards



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Legal Enforcement

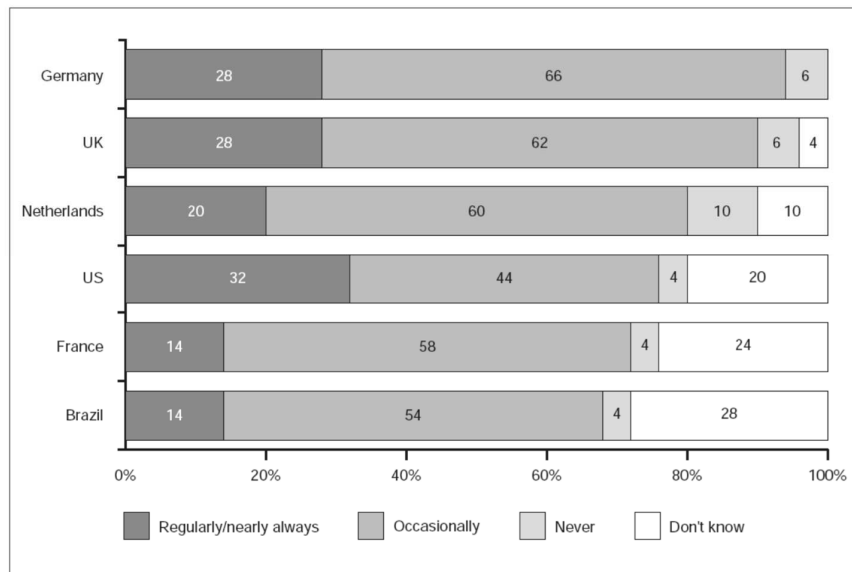
- Contracts with intermediaries sometimes failed
- Intermediaries must bear the risk of contract enforcement
- Contract between the firm and intermediary may be null
- A British intermediary sued a German supplier of brewery equipment for the payment of outstanding commission that were contracted for arranging contracts with a Nigerian local government. The claimant paid bribes totaling DM 300,000. The claim was rejected by the German High Court (Bundesgerichtshof) in 1985: The contract violated §138 of the Civil Code.



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Legal Enforcement

Respondents believing that corporations from their own country circumvent legislation on transnational bribery by using intermediaries. By country.



Source: International Business Attitudes to Corruption – Survey 2006, Control Risks Group

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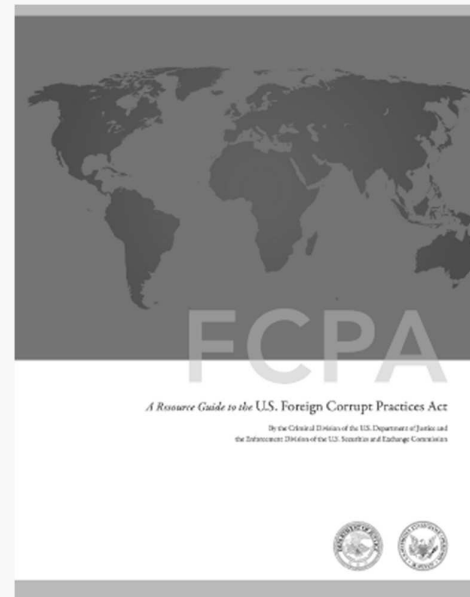
Intermediaries

- Corruption often organised with intermediaries who
 1. Establish contact
 2. Act as return customers
 3. Avoid evidence that could otherwise be used for extortion
 4. Reduce risk of detection
 5. Allow client to remain ignorant
- The US law firm Shearman & Sterling publishes a digest, listing all violations of the FCPA <https://shearman.symplicity.com/files/32a/32ae4f446d680242c4eb148b7af145eb.pdf>
- Among the 196 documented cases, only 26 did not involve an intermediary
- Intermediaries are listed to be consultants, sales agents, shell companies, subsidiaries, non-profit organisations, NGOs, subcontractors, distributors, business partners, joint ventures, law firms or relatives

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Intermediaries

- Foreign Corrupt Practices Act (FCPA): “It shall be unlawful for any [...businessperson] to ... make use of ... commerce corruptly ..., giving .. anything of value to (1) any foreign official ... (2) any foreign political party or official thereof or any candidate for foreign political office for purposes ... (3) any person, while knowing that all or a portion of such money or thing of value will be offered, given, or promised, directly or indirectly, ... for purposes of influencing any act or decision of such foreign official, political party, party official, or candidate in his or its official capacity...”



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Intermediaries

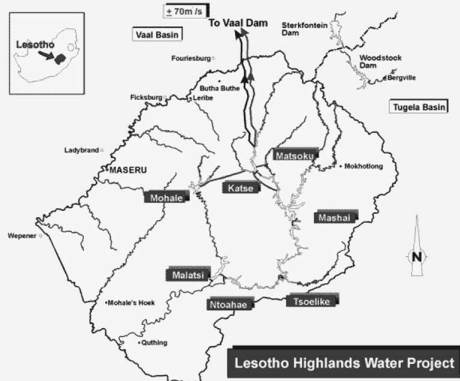
- Is it not unlawful to give favors to well connected private businesspeople (gift-partnership).
- When does a businessperson “know”? US Foreign Corrupt Practices Act (FCPA):
- “A person’s state of mind is “knowing” with respect to conduct, a circumstance, or a result if such person is aware that [...it] is substantially certain to occur. When knowledge of the existence of a particular circumstance is required for an offense, such knowledge is established if a person is aware of a high probability of the existence of such circumstance, unless the person actually believes that such circumstance does not exist.”
- A businessperson should assume a “high probability” in case of a red flag.

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Intermediaries

- There are many red flags that indicate the use of corrupt intermediaries:
 - Disproportionate size of commissions.
 - Payment in cash or to a numbered bank account.
 - Commissions are paid prior to incoming revenues when the contracts are signed. This is contrary to standard business practices and signals the true intentions of the intermediary.
 - Consultancy fees are a percentage of the contract value.
 - “Recommendation” of an intermediary by public officials or politicians.
 - Technical incompetence coupled with political connections of the intermediary.
 - An intermediaries’ past record of questionable transactions.

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▪ In November 1986, Masupha Ephraim Sole was appointed Chief Executive of the Lesotho Highlands Development Authority (LHDA), which was in charge of the Lesotho Water Highlands Project, a system of dams and tunnels which would provide water for South Africa, and electricity for Lesotho

▪ Canadian Company Acres secretly paid more than 670,000 Canadian dollars to Mr. Bam between 1991 and 1998, who transferred proportions of that sum to Sole

▪ Acres argued that payments to Mr. Bam were legal, that they needed a qualified representative and what Mr. Bam might do with the money thereafter was a matter for him

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Prohibition

- Algeria and Saudi Arabia prohibit the involvement of intermediaries in public contracts and accepts only offers that come directly from manufacturers and suppliers.
- In India and Jordan intermediation in military procurement is prohibited.
- In Nigeria crude oil can be sold only to end-users or to globally-recognized traders.



- Iraq Law No. 11 of 31/1/1983, Article 17: “All persons entrusted with a public service who knowingly perform activities of intermediation for purposes of concluding a contract with State agencies ... Against remuneration of commission ... shall be punished by the death penalty of indefinite imprisonment.” Cited in Sayed (2004: 196)



Reforming Intermediation

- Syria: Legislative Decree No. 51 of 30/9/1979
Article 2: "All natural and legal persons are prohibited from pursuing the parties enumerated in the preceding article 1 for purposes of guiding them in connection with their conclusion of any commercial, industrial or agricultural contracts or in relation to their calls for bidding and in other form of contracting, either by intermediation or lobbying or under any other denomination or veil covering it, either personally or through an intermediary, or any other form."



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Reforming Intermediation

- Pro:
 - Simple verification
 - Support to FCPA: Involvement of intermediary is red flag
 - Businesspeople "know"
- Con:
 - Circumvention. Charge clients for consultancy or legal services contingent on success
 - Advantageous intermediation hindered



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Regulation

- Many states require intermediaries to be registered
- Requirement of qualification by professional degree (legal, technical, accounting) or experience
- Kuwait requires intermediaries to have an actual or elected domicile in the country
- Intermediaries are often required to have all financial transactions with local banks
- Many countries require intermediaries to adhere to standards of accounting and require annual audits



Declaration

- Suppliers in procurement are sometimes required to declare that no intermediary is involved and that no commission is paid. In other countries, they must declare details.
- Egypt's Law No. 120 from 1982: "Public Institutions ... shall, when making contracts, include in the tender a provision concerning the amount of the commission or brokerage payable to the commercial agent or commercial intermediary when the contract is awarded, as well as the person(s) who will receive the sum, and requiring to deposit such sum for the account of the person entitled thereto in a bank operating in the Arab Republic of Egypt..."
- Con: When suppliers violate this, they can be extorted by their intermediaries, which serves to enforce the contract.

Reforming Intermediation

- A case relates to Abdul Wahab Al-Akeel, who worked for a consulting firm that operated as an intermediary on behalf of the German Siemens in Saudi-Arabia until 2000; thereafter the firm was dropped in favor of another consulting firm. As the Wall Street Journal reported in 2007, Michael Kutschenreuter, an executive manager at the German Siemens, declared during a prosecutorial investigation that in early 2004 he was called and blackmailed. Mr Al-Akeel, the person calling, requested more than US\$900 million as hush-money and threatened to pass on documents to the US Securities and Exchange Commission (SEC), which is known to punish rigorously transnational bribery by companies listed at the New York Stock exchange. Siemens investigated these documents subsequently and noted that they detailed bribes by Siemens from the late 1990s until early 2000, linked to win contracts with Saudi Telecom to supply equipment for land-line and wireless communications networks. In negotiations both sides agreed on a payment of US\$50 million.

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Reforming Intermediation

Certification

- Service provided by a private company
- Due diligence on intermediaries
- Certification withdrawn if red flags substantial
- Clients seeking “good” intermediaries save on the costs of due diligence
- They “know” that their intermediaries do not pay bribes
- Non-certified intermediaries imply that businesspeople “know”



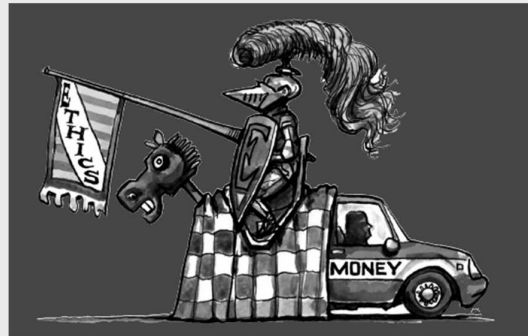
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- Civil courts are important in containing corruption. They must render corrupt agreements unenforceable.
- Legal appearance is often given to corrupt transactions by help of intermediaries.
- Corrupt intermediaries can be identified by red flags
- Corrupt businesspeople engage in strategic ignorance
- The activities of intermediaries should be declared and be subject to prohibition, regulation and certification.



- Lambsdorff, J. Graf (2013), Corrupt Intermediaries in International Business Transactions: Between Make, Buy and Reform, European Journal of Law and Economics, Vol. 35:349–366.
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- OECD (2005), Guidelines for Managing Conflict of Interest in the Public Service, Policy Brief, <http://www.oecd.org/dataoecd/51/44/35365195.pdf>
- Sayed, A. (2004), Corruption in International Trade and Commercial Arbitration, (The Hague, Netherlands: Kluwer Law International).



8. Private Enforcement of Corrupt Deals

Hostages

- Gambetta (2009) explains how criminals secure each other's trust

Trustor	Trustee	
	Behave	Cheat
Deal	3, 1	-3, 4
Refuse	0, 0	0, 0

Trust Game with an untrustworthy trustee

Trustor	Trustee	
	Behave	Cheat
Deal	3, 1	-3, -2
Refuse	0, 0	0, 0

Trust Game with a trustworthy trustee

Hostages

- Corrupt actors, similar to other criminals, must secure trust.
- In order to become trustworthy, an actor (trustee) can deliver Kompromat, compromising material, e.g. information on the involvement in a crime.
- This assures the counterpart (trustor) of the trustee's reliability.
- If the trustee fails to deliver, the kompromat can be made public.



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Hostages

- The term “hostage” is used by institutional economists to describe a similar mechanism.
- The side that might act opportunistically must deliver something of value (such as a collateral) to the other side.

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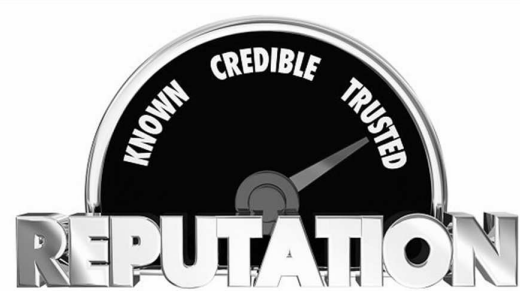
Reputation

- Keeping promises signals a preference for honesty
- Past actions reveal an individual moral attitude
- Profitable in the long run
- Opportunistic officials risk a bad reputation
- Businesspeople do not enter into corrupt transaction
- Maintaining a reputation of trustworthiness can be profitable.
- "I am a man of principle. Once bought, I stay bought."



- Marketing ones reputation
- Risk of detection?
- An option for intermediaries
- della Porta and Vanucci (1999: 61):

"Above all, if you want to have a minimum of credit as an [intermediary] it is necessary to honor commitments and be as precise as a Swiss watch. If 10 million must be paid at 10 o'clock on the 10th of November you have to be there five minutes early with not a sixpence less than the sum agreed."



Repetition

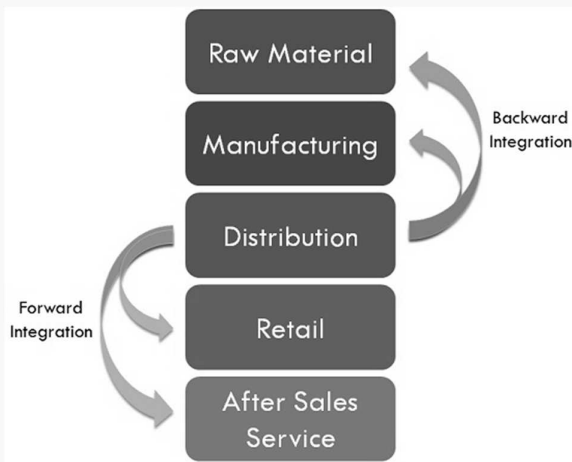
- Possibility to sanction one another
- Cancellation of future transactions
- Prospects of future profits hinders opportunism
- This may not only be true of future corrupt deals. Any type of repeated exchange provides opportunity to enforce a corrupt deal.



- In 1984 the German firm Avia obtained oil from Saudi Arabia at a price below market prices and paid US\$378,000 to a German and a Lebanese agent every two weeks. The agents "arranged" the contract with Saudi-Arabian public officials. The profitability of this arrangement secured the loyalty of all partners. When serious disputes arose about how to share the proceeds they could quickly be settled, owing to the fear that they might threaten future business.



Vertical Integration



Vertical Integration

- Firms integrate vertically to form a new company with common ownership and control
- Each firm obtains a share of the profit
- Alternative to bribing
- Joint-venture for individual project
- Officials as shareholders
- Ownership rights
- No temptation for opportunism

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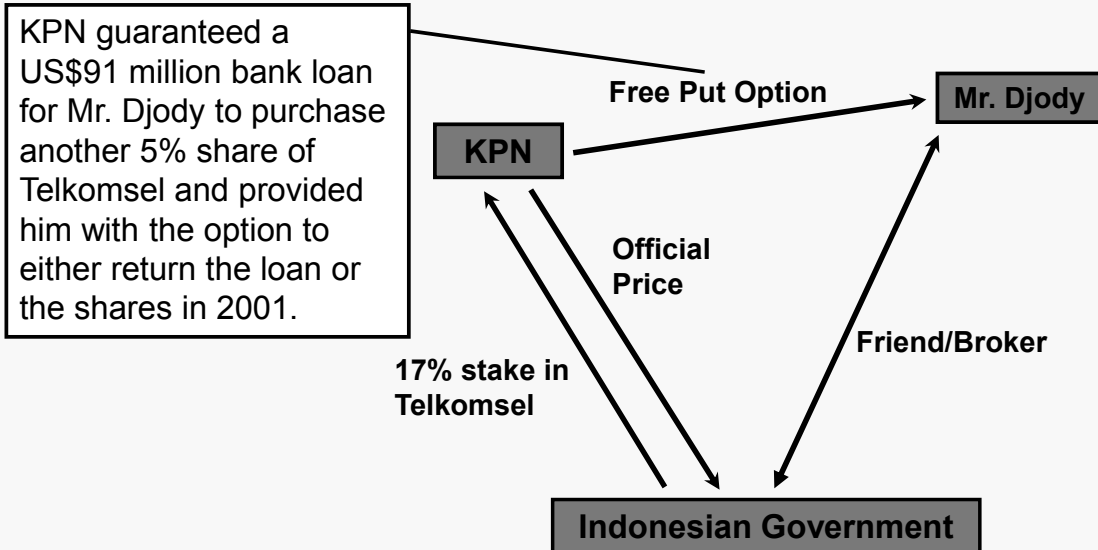
Vertical Integration

- The distribution of shares no longer corresponds to the equity contribution
- Influential politicians are given “free” shares in exchange for “political support”.
- In 1995 Siemens signed a contract with the Indonesian state electricity company. Siemens and the British PowerGen would construct and run the power plant Paiton II and give 15% of the shares to Suhartoe’s son Bambang Trihatmodjo in exchange for a 30 year fixed-price contract. The price was supposed to be inflated.



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KPN incurred a financial risk to reciprocate a favor in 1996



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Appendix

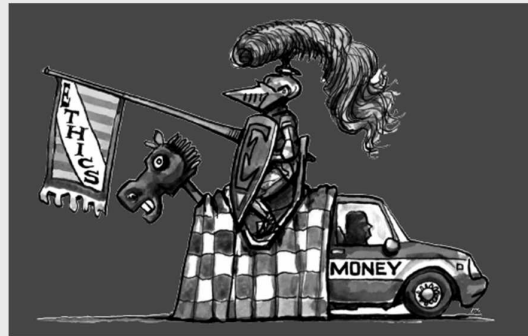


- Corrupt actors assure complicity by using kompromat
- They might engage in repeated exchange
- They might share ownership (vertically integrate) rather than paying bribes
- Methods for fighting corruption must take the criminal's tricks into consideration.
- Transparency of ownership is vital
- Regulating conflicts of interest is crucial

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- Gambetta, D. (2009), Codes of the Underworld. How Criminals Communicate. Princeton University Press. Pages 30-77.
- Lambsdorff, J. Graf (2007), The Institutional Economics of Corruption and Reform: pp. 144-163; 209-224



9. Lessons Learned

Inducing Honesty

	Dice in the Cup	Current Standard in Anticorruption
Control	Impossible	More Control
Observation	Average Assessment Intuition	Objectivity, Verifiability
Incentive	Intrinsic Motivation	Fear of Punishment
Measure	Tone at the Top	Zero Tolerance
Profession	Social and Behavioral Scientist	Accountant, Law Enforcer

Keywords

- 4-eyes Principle; Abuse of Office; Asymmetric Punishment; Codes of Conduct; Competitive Dialogue; Compliance; Corporate Liability; Corruption Perceptions Index; Costs of Fighting Corruption; Diffusion of Responsibility; Discretion; Distortion; Enforcement of Corrupt Agreements; Fines; Gift Limit Rules; Illicit Enrichment; Intermediaries; Intrinsic Motivation; Job Repetition; Reputation; Rotation; Kompromat; Leniency; Nullity of the Basic Contract; Procurement; Punishment; Separation of Functions; Tone at the Top; United Nations Conventions Against Corruption; Vertical Integration; Wages; Zero Tolerance