The two finalists of the Proxy Challenge Competition II
In this folder you will find two submissions:

1. The percentage of traffic court cases resolved within expected time standards as an indicator of anti-corruption reform results in the justice sector

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2. Measuring Corrupt Rent Extraction by Tracking the Misuse of Corporate Vehicles

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Submission for the U4 Proxy Challenge Competition

The percentage of traffic court cases resolved within expected time standards as an indicator of anti-corruption reform results in the justice sector.

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PROPOSAL

What the Proxy Indicator Measures

The proposed measure uses the percentage of traffic court cases resolved within expected time standards as an indicator for anti-corruption reform in the justice sector. Analyzing traffic court data can be an important step in reducing justice sector corruption. The state has a vested interest in doing so, as traffic case-related bribery defrauds the state of revenue and delegitimizes public trust and confidence essential to democratic governance and the Rule of Law.

Traffic cases also carry important implications because they provide a unique window into the function of public law and frontline institutions (law enforcement and the judiciary) which cannot be substituted by alternative resolution outside of formal processes (such as mediation or arbitration). When an individual commits a traffic violation, there are three points of interaction with the state during which there are opportunities for corruption to occur:

- **Phase 1, incident**: a police officer may seek a bribe or accept bribe from an alleged traffic violator to fail to issue a traffic citation upon incident.
- **Phase 2, case filing**: a police officer or employee of the court may be incentive to ignore or fail to process a traffic violation into the courts through speed or delay payments.
- **Phase 3, time to disposition**: a case may lapse due to willful delay or process inefficiency by the courts.

Because traffic cases are handled as criminal matters, judiciaries provide a statute of limitations which govern expected time standards in which cases are heard before being dismissed. These statutes of limitations provide established time standards which create space for threshold corruption, speed or delay payments, and the shirking of responsibility.

While the proposed indicator does not indicate levels of corruption (such as bribery) directly, an increased percentage of traffic court cases processed in accordance with time standards may signal the reduction of opportunities for corruption and the efficiency of government functions, including both those of law enforcement and the judiciary.
Data and Analytical Requirements

The feasibility of testing the indicator lies in data provided by countries’ judicial systems. Data needed to test the indicator include traffic records from individual courts including 1) total number of cases heard, 2) number of traffic cases filed, 3) number of traffic cases closed, 4) number of traffic cases closed for exceeding the statute of limitations, and 5) number of traffic cases resolved in a timely manner. Additionally, information on expected time standards can be compiled directly from each jurisdiction’s traffic codes’ statutes of limitation if they do not explicitly provide a timeline for hearing traffic cases.

Limitations

In systems where court backlog or communication are inherently troublesome, it may be difficult to discern where delayed or dismissed traffic cases are the result of corruption, or the lack of capacity (which may reflect corruption elsewhere). Moreover, certain countries may not provide access to data/traffic records (which may also reflect corruption elsewhere).

Potential for Anti-Corruption Evaluation

- **Tracking Trends:** Researchers and practitioners can use this information to track trends in corrupt behavior over time and to measure outcomes of initiatives aimed at reducing bribes in the judicial sector.
• **Identifying Focal Points:** If proportion of total traffic court cases heard increases, but proportion of cases resolved decreases or stays the same, it is likely that phase 2 or phase 3 corruption at phases 2 or 3 (case filing and disposition) rather than at phase 1.

• **Applying to other case types:** This analysis can be applied to investigate proportion of labor disputes, small civil cases, or other “small claims” cases that are resolved in court (each case type has its own merits and limitations). Combined, these non-serious, non-complex cases with short time spans can create a basket of proxies used to evaluate corruption in the justice sector.
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Measuring Corrupt Rent Extraction by Tracking the Misuse of Corporate Vehicles

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In recent years, the abuse of diverse corporate networks for extracting corrupt rents and channelling them to opaque destinations have come to the forefront of international anticorruption efforts. This was marked by the UK anti-corruption summit’s focus on beneficial ownership\(^3\) which built on initiatives against opaque companies by OECD or FATF to name a few. However, results remain to be seen\(^4\). This is partially due to the difficulty of measuring success on the ground rather than in law books.

In order to adequately measure the corrupt misuse of corporate vehicles we have to focus on the exchanges they conduct with public bodies rather than simply looking at legal loopholes or the mere existence of suspicious companies. Corrupt exchanges involving companies typically require the participation of public and business elites who can manage high value public decisions, and can move large sums among business entities. Public decisions can concern, among others, public contracts, concessions (e.g. mining rights), specific regulations (e.g. protection from competition), or the sale of public property. Such high-level corruption requires the violation of the underlying universalistic or impartial principles of public resource allocation in order to benefit a select few to the detriment of others\(^5\).

**MEASUREMENT APPROACH**

Any valid and reliable measure of such high-level corruption has two requirements: first, identifying the full universe of potentially corruptible transactions (e.g. mining rights awarded). Second, identifying those companies which are likely designed for corrupt rent extraction rather than genuine economic exchange in line with stated public objectives.\(^6\) There is a wide array of high corruption risk corporate characteristics pertaining to particular domains\(^7\), here we only demonstrate the feasibility and utility of one simple proxy:

\[ \text{Age of company at the time of exchanging with the state.} ^8 \]

In markets where experience and skills are prerequisites (e.g. mining for minerals, supplying goods), companies, which are incorporated shortly before the exchange with the government commences, could be created only for corrupt rent extraction, especially when incorporation coincides with political cycles or other red flags. To reconcile the non-linear character of corruption and our continuous measure, a cut-point needs to be applied to mark risky observations. For the sake of simplicity, we take companies younger than 1 year as high risk and all other companies as low risk.\(^9\)

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\(^6\) This implies that our proposed indicator does NOT capture corruption conducted via well-established companies also used for non-corrupt purposes.


\(^8\) This is measured as the number of days, months, or years between the company’s incorporation and the commencement date of the exchange between the company and the public body.

\(^9\) Cut-points are likely to differ by context. The optimal cut-point can be formally defined using validity tests.
We use the domain of public procurement in Sweden and Hungary in 2009-2014\textsuperscript{10} to show a concrete example; however, the logic is generally applicable to other public activities if certain conditions are met.

As expected when comparing a high perceived corruption risk country with a low perceived corruption risk country, the value of contracts awarded to very young, hence high corruption risk, companies is considerably higher in the corrupt country (Figure 1). Note the decline of young companies’ market share in Hungary following the government change in 2010.

**Figure 1. Share of public procurement spending going to companies younger than 1 year\textsuperscript{11}**

Such a simple indicator needs to be tested and potentially combined with further corruption proxies. If young companies are predominantly used for corrupt exchanges rather than genuine economic activities, their transactions should have higher corruption risks too. A simple indication that basic rules of open and fair competition were circumvented is when only 1 bid is submitted in a supposedly competitive public tender (Figure 2).\textsuperscript{12}

\textsuperscript{10} Data collected and (soon) republished in full by DIGIWHIST: \url{http://digiwhist.eu/resources/data/}. Note that contract values and company-level financial data are only available for a sub-set of contracts, hence the analysis may suffer from measurement bias.

\textsuperscript{11} Due to a too high proportion of missing records, that is potential measurement bias, in 2009 for Hungary and Sweden and in 2014 in Sweden we do not show these values. Nevertheless, they confirm the same overall trends.

\textsuperscript{12} For more on this corruption proxy see for example: \url{http://prq.sagepub.com/content/69/2/320}
FIGURE 2. SHARE OF SINGLE BIDDER CONTRACT AWARDS BY COMPANY AGE GROUP

Note: *** 1%; ** 5%; * 10% significance using random permutation tests

If companies are corruptly used they have to earn higher profit or channel profits to opaque destinations such as tax havens. In the absence of reliable public information on opaque transactions, we can track company profitability (Figure 3).

FIGURE 3. AVERAGE PROFIT RATE PER COMPANY AGE GROUP

Note: *** 1%; ** 5%; * 10% significance using random permutation tests
STRENGTHS AND WEAKNESSES

The main strength of this indicator is that it is solely based on objective administrative data and highly sensitive to change. Combined with further indicators underpinning validity it can be used for reliable and valid analysis. It can help track the effectiveness of policy interventions concerning spending oversight mechanisms, court sentences, or company registration requirements.

Its weaknesses lie in the need for extensive and high quality administrative databases and the capacity of corrupt actors to shift the locus of corruption (e.g. buy up established firms). Also, innovative, new companies may leave the same corruption markers: young, profitable, having no competitor. Finally, this indicator presumes that there are well-established companies potentially entering into exchange with the state which may not be the case.13

13 https://ideas.repec.org/p/tse/wpaper/27862.html
The Proxy Challenge Competition was launched in 2013 to help aid-donors better assess the results of their support to anti-corruption reforms. Unless we can find reasonably reliable ways to measure reform effects on corruption, it will be increasingly difficult to motivate continued support to anti-corruption reforms. The demands for donor effectiveness and value for money keep the pressure high on improving the measurement of anti-corruption reform effects.

In 2014, the U4 Anti-Corruption Resource Centre ran the first edition of the challenge, and brought together a body of promising, bespoke proxy indicators. In this second round, we still aim to find the best proxy indicators that can track progress of anti-corruption reform initiatives. We need reliable, intuitive, accessible, and cost-effective assessment methods that are useful across country-contexts.

The Proxy Challenge Review Panel of experienced anti-corruption practitioners and academics have evaluated all the submitted proposals and identified the two contributions that best meet the submission requirements. These are found in this folder.