

New Zealand and the Corruption Perceptions Index Index

How Is NZ's Rating Compiled and What Can and Cannot be Inferred from It

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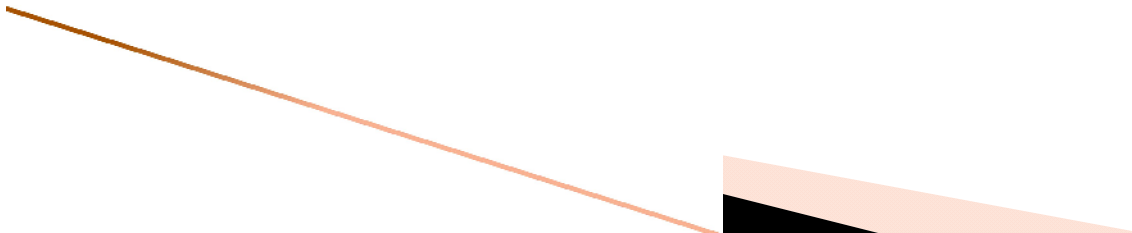


Report outline

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- ▶ CPI Methodology Analysis
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The Team

- ▶ Ignite Consultants is a student-run organisation based in Dunedin. It provides not-for-profit organisations with consultant services, while offering to students the chance to develop their skills with the help of professional mentors
- ▶ This project has been performed by:
 - Cory Dalzell
 - Josie Fenwicke, BCom (Marketing)
 - Alexander Komarovsky, BCom (International Business), BA (Economics)
 - Sylvie Leduc, MCom (Management) – 4 years experience in Internal Audit
 - Freya Morrison
- ▶ The team was mentored by Philip Nel, Professor in the University of Otago's Department of Politics, and Andre Everett, Associate Professor in the University of Otago's Department of Management



Purpose

The aim of the project is:

- ▶ To assess the methodology for calculating the CPI
 - strengths and the weaknesses of the indicator
 - biases benefiting New Zealand

- ▶ To assess the use of the CPI within New Zealand
 - level of interest in the CPI within the media or among academics in New Zealand
 - Use of the CPI by New Zealand's government agencies
 - Assessment of most common interpretations of the indicator by its users (journalists, academics and Government)

- ▶ Out of scope: Critical analysis of the statistical methodology for calculating the CPI

Background Information (1 / 2)

- ▶ The CPI has been first released in 1995, as an indicator of perception of public corruption
- ▶ The CPI is calculated based on already-existing indicators
 - TI has selected the set of indicators which are drawn in to the CPI
 - The CPI corresponds to the standard average of all available indicators in a given country
- ▶ The CPI's strengths are
 - Low cost synthetic indicator
 - Large geographical coverage (178 of the 196 countries are covered in 2010)
 - Enhanced awareness of corruption issues



Background Information (2/2)

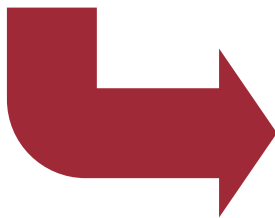
- ▶ New Zealand has consistently ranked among the countries perceived as the least corrupt worldwide (worst ranking: 4th in 1997–1998)
- ▶ This tends to suggest that New Zealand is almost corrupt free

YEAR	SCORE	RANKING	# OF COUNTRIES RANKED
1995	9.55	1 st	41
1996	9.43	1 st	54
1997	9.23	4 th	52
1998	9.4	4 th	85
1999	9.4	3 rd =	99
2000	9.4	3 rd =	90
2001	9.4	3 rd	91
2002	9.5	2 nd =	102
2003	9.5	3 rd =	133
2004	9.6	2 nd	145
2005	9.6	2 nd =	159
2006	9.6	1 st =	163
2007	9.4	1 st =	179
2008	9.3	1 st =	180
2009	9.4	1 st	180
2010	9.3	1 st =	178

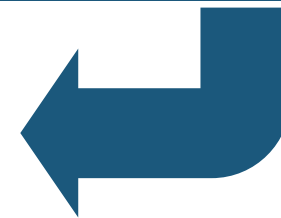
NZ CPI – Analysis of Sources (1 / 4)

Expert Assessment
Asian Development Bank
African Development Bank
Bertelsmann Foundation (BTI)
World Bank (IDA and IBRD) CPIA
Economist Intelligence Unit (EIU)
Freedom House
Global Insights

Business Surveys
IMD International, World Competitiveness Center (2009)
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Political and Economic Risk Consultancy (PERC) (2009)
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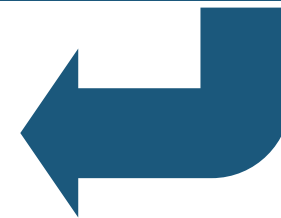
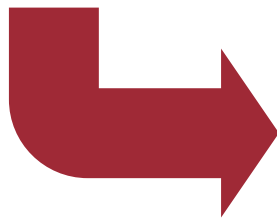
CPI



NZ CPI – Analysis of Sources (2/4)

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**NZ CPI
2010**

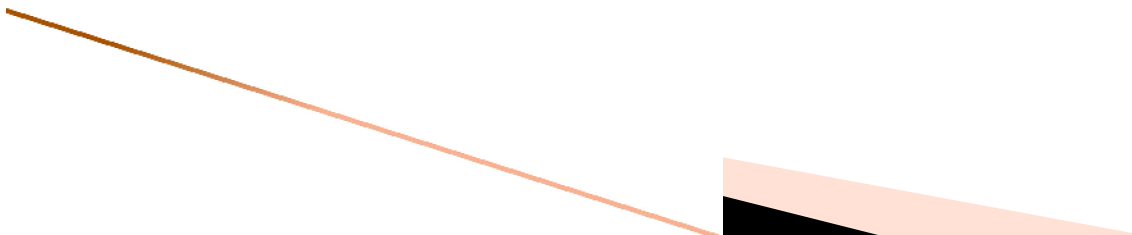
NZ CPI – Analysis of Sources (2/4)

- ▶ The sources for New Zealand are the same as for other top countries (Finland and Denmark) – However, the high correlation between these indicators and the other sources of the CPI dismisses the assumption that this particular set of indicators creates a favourable bias

	EIU 2010	FH 2010	GI 2010	PERC 2009	PERC 2010	ADB 2009	AFDB 2009	BTI 2009	WB 2009	IMD 2009	IMD 2010	WEF 2009	WEF 2010
EIU 2010	1												
FH 2010	0.81*	1											
GI 2010	0.90*	0.89*	1										
PERC 2009	0.94*		0.90*	1									
PERC 2010	0.98*		0.96*	0.96*	1								
ADB 2009	-0.30	0.81	0.39	1.0*	1.0*	1							
AFDB 2009	0.75*		0.51*				1						
BTI 2009	0.81*	0.94*	0.75*	0.78*	0.94*	0.69*	0.74*	1					
WB 2009	0.62*	0.80*	0.66*	0.25	0.96	0.7471*	0.83*	0.73*	1				
IMD 2009	0.89*	0.79*	0.91*	0.87*	0.96*			0.70*		1			
IMD 2010	0.85*	0.58	0.87*	0.83*	0.92*			0.65*		0.96*	1		
WEF 2009	0.86*	0.77*	0.89*	0.91*	0.96*	-0.22	0.38	0.68*	0.01	0.94*	0.94*	1	
WEF 2010	0.87*	0.71*	0.87*	0.92*	0.95*	-0.13	0.35	0.64*	0.28	0.95*	0.95*	0.97*	1

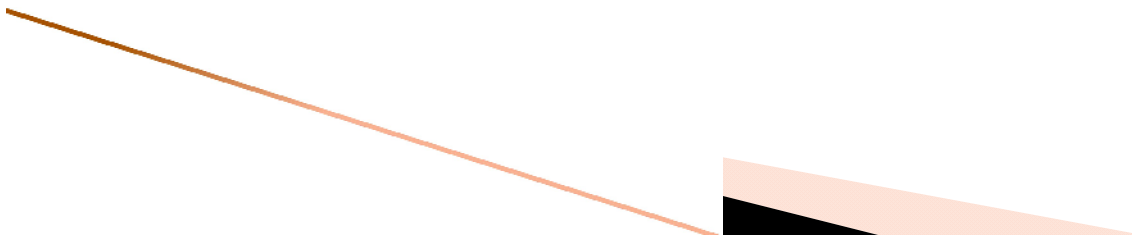
NZ CPI – Analysis of Sources (3/4)

- ▶ The assessment of 2 experts account for 1 / 3 of New Zealand CPI 2010
 - EIU's and Global Insight's indicators are based on in-house expert's assessment (with the ratings homogeneity being ensured by Regional Risk Managers)
- ▶ This raises 3 risks:
 - Risk of self-fulfilling prediction, insofar as these experts' perceptions might be drawn partly from the CPI;
 - Risk of artificial jump in NZ's CPI in case of a change of experts;
 - Risk of bias, based on the experts' prejudice against or in favour of New Zealand, based on his/her personal background.



NZ CPI – Analysis of Sources (4/4)

- ▶ WEF's and IMD's indicator is based on Business Opinion Surveys aiming at assessing countries' competitiveness
 - The surveys address issues related to fiscal policy, business and labour regulation, availability and skills of the workforce, banking system, infrastructure, education etc. – A few questions contribute to the CPI
 - Samples are selected with the help of partner institutes: Business New Zealand and the New Zealand Institute (WEF) and New Zealand Institute of Management (IMD)
- ▶ Samples are not designed to capture corruption as accurately as possible; they are designed so that
 - Respondents are business leaders, expatriate or locals, who have worked in the country for 1 year at least (IMD only)
 - All sectors are represented, and their contribution to the countries' GDP is reflected into the indicator
 - Large companies are overrepresented (WEF)
 - Respondents work with firms with an international dimension (IMD)
- ▶ Data which may inform on any bias resulting from the sample are either not recorded or not released, (e.g. data on the samples' breakdown between locals and expatriates)



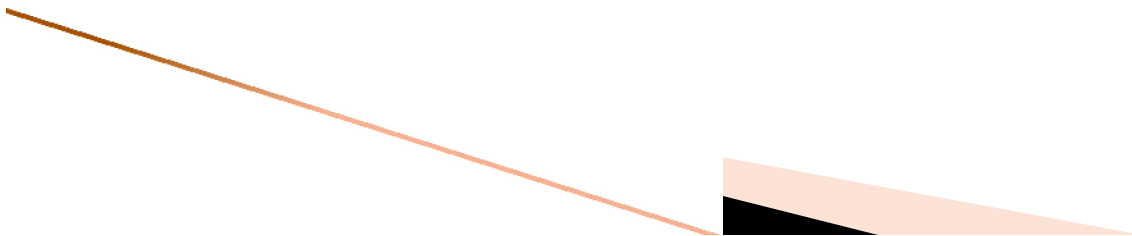
Scope of New Zealand's CPI

- ▶ By definition, the CPI covers only public corruption and overlooks private corruption (between 2 companies)
- ▶ The analysis of the survey's questionnaires and of the experts' assessment criteria shows that
 - The CPI for New Zealand covers all aspects of public corruption by businesses
 - But it hardly covers corruption by individuals
 - And it partially covers political corruption and governmental actions against corruption
- ▶ This accounts for the apparent contradiction between NZ's CPI score and other studies:
 - 3.6% of New Zealanders reports having paid bribes (GCB 2010)
 - 9.4% New Zealanders report coming across a public official who wanted a bribe or a favour (Massey University Role of Government Survey)
 - New Zealand businesses tend to lag behind when it comes to ethics issues awareness and the implementation of a code of conduct (in their report "As Good As We Are Perceived", February 2010)



General Weaknesses of the CPI (1 / 2)

- ▶ The CPI is based on perceptions
- ▶ It has been evidenced that perceptions of corruption do not reflect accurately the incidence of corruption
 - perceptions of corruption do not result from experience of corruption (Mocan, 2004).
 - Perception of corruption result from the perceived level of institution quality (Mocan 2004). Consequently, the CPI measures perceptions of corruption as well as countries' perceived level of democracy and institutional quality (Neumann & Graeff, 2010)
 - systematic biases result from countries' reputation, political opinion, people's levels of acceptance of corrupt behaviours (which depends on one's culture, but as well on the perceived legitimacy of the observed behaviour)
 - Bribery is generally less accepted than the use of personal network. As a result, perceptions of corruption are likely to capture bribery better than the use of personal network
- ▶ This suggests that a country in which corruption lies mostly in the use of personal network is likely to receive a high score in the CPI



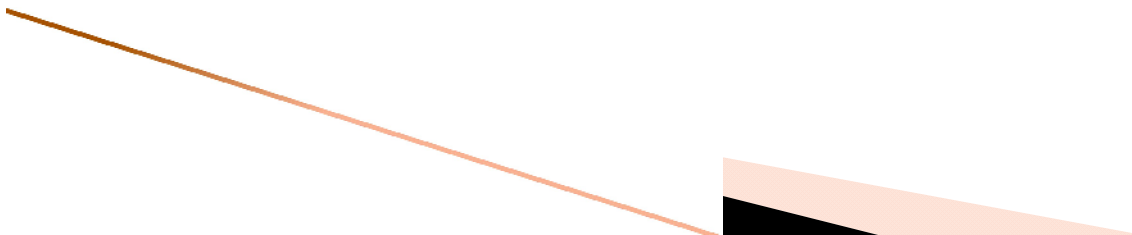
General Weaknesses of the CPI (2/2)

- ▶ The CPI does not allow a comparison of countries' rankings and scores overtime
 - The set of sources may change from one year to another
 - The geographical coverage of the CPI changes overtime
- ▶ Such changes have not affected New Zealand since 2009
- ▶ Moreover, the use of rankings is questionable because of the confidence intervals overlap

Country	Ranking (2010)	Confidence Interval (CPI 2010)
Denmark	1 st	8.9-9.5
New Zealand	1 st	8.9-9.5
Singapore	1 st	8.9-9.5
Finland	4 th	8.9-9.5
Sweden	4 th	8.9-9.5
Canada	6 th	8.4-9.2
Netherlands	7 th	8.5-9.2
Australia	8 th	7.5-9.2
Switzerland	8 th	7.4-9.1
Norway	10 th	7.4-9.3
Iceland	11 th	6.8-9.2
Luxembourg	11 th	7.4-9.0

Media coverage & academic interest

- ▶ Media coverage comparable to other countries
- ▶ Common misinterpretations have been identified in the media and social media
 - 26% of reviewed blogs interpret the CPI as a measure of corruption's actual incidence
 - 27% of reviewed media articles draw comparisons of rankings and scores over time
 - 70% of reviewed media articles refer to the rankings without taking confidence intervals into account
- ▶ Little interest from New Zealand's academics



Use by Government agencies

- ▶ State Services Commission's and the Office of Auditor General's Statements of Intents 2011–2014 set the objective “State Services that are trusted by the public” (p11)
- ▶ The CPI is allegedly used as an indicator of public trust. However:
 - The CPI does not measure the overall public trust but rather the business community's trust
 - The SSC and the OAG report that no corrective actions would be implemented should NZ's CPI drop
 - They rather use their own in-house indicators: the Kiwi Count Survey (Biennial Survey on New Zealanders' satisfaction in public services) and the State Services Integrity and Conduct Survey
- ▶ The Ministry of Social Development uses the CPI as an indicator of perceived corruption (2010 Social Report p82)
- ▶ The MFAT and NZTE use the CPI for promoting NZ as a FDI destination – This use appears relevant

Main Conclusions

- ▶ Based on the collected data, no systematic methodological bias in favour of New Zealand has been detected
- ▶ However, NZ media misinterpret the CPI...
 - 27% media articles draw comparisons of scores and rankings over time and 70% refer to NZ's ranking without referring to the confidence intervals
- ▶ ... while Government Agencies (SSC and OAG), although referring to the CPI as an indicator of public trust in their statement of intents, rather use in-house indicators such as the Kiwi Count Survey. None of these indicators measure the actual incidence of corruption
- ▶ This evidences that TINZ should enhance its communication about the CPI and its limitations

Recommendations (1 / 2)

TO	OBSERVATION	RECOMMENDATION
<p>Transparency International New Zealand</p>	<p>Media and social media tend to misinterpret the CPI.</p> <p>The commonest misinterpretations consist in:</p> <ul style="list-style-type: none"> -The comparison of the CPI's scores and rankings over time; -The overlook of the confidence intervals 	<p>Given the CPI's limitations, and the variability of its sources, Transparency International NZ should review the communication of CPI results.</p> <p>It would be advisable to group countries into a small number of categories identifying their perceived level of corruption, in order to avoid meaningless comparisons across countries, and to allow comparisons over time.</p>
	<p>Social media tend to use the CPI as an index of corruption's incidence</p>	<p>The complementary nature of the GCB and the CPI should be promoted, for example through a simultaneous release (to the extent feasible).</p>

Recommendations (2/2)

TO	OBSERVATION	RECOMMENDATION
New Zealand's State Services Commission and Auditor's General Office	The CPI is wrongly reported as an indicator of public trust.	An alternative indicator of public trust should be selected and reported in external documents
	Ethics and Conduct into the Public Sector is not monitored through an indicator of corruption incidence	The SSC and OAG should design an indicator measuring the incidence of corruption in New Zealand's public sector.

Thank you

