Corruption, Rule of Law and Government Effectiveness: A Co-integration Approach to Sri Lanka

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Abstract

What is the impact of corruption on rule of law and government effectiveness? In most cases, researchers assume a positive relationship, which means more control of corruption is more likely lead to government effectiveness and strong rule of law principles. In other words, strong legal system and effective governments are more likely to control corruption. The argument is when there is effective corruption control measures, which tends to increase government effectiveness. However, recent theoretical developments and case evidence support mixed relationship between corruption and government effectiveness, and rule of law and government effectiveness. By using World Bank's Worldwide Governance indicators' data for Sri Lanka covering the period from 1996 to 2015, we find a significant and positive relationship between government effectiveness and control of corruption in the long run as well as in the short run. Even though rule of law does not have a significant impact on government effectiveness in the long run, it affects government effectiveness negatively in the short run. Further, granger causality test concludes that more government effectiveness can efficiently control the corruption, at the same time, if the government is capable enough to control the corruption then the government can be more effective. Similarly, if the government maintains strong legal system and adhere to key principles of rule of law which are more likely to make the government more effective.

Keywords: Control of Corruption, Rule of Law, Government Effectiveness, Cointegration, Error Correction Model

1. Introduction

Prior to the 1990s, there was a common view that corruption "greases the wheels" means facilitating capital formation, speeding up administrative cumbersome and development. Today, nevertheless, the general view is that corruption "puts sand in the wheels" has become a hindrance for economic and social development (Persson and Rothstein, 2013: 244). Corruption has been a matter of serious concern in developing countries and a serious political, economic and social ill. A large body of literature argue that corruption considerably effect government effectiveness and it weakens the public institutions. Daniel Kaufmann and Aart Kraay (2002) have argued that the quality of governance has a very strong positive impact on per capita income and economic growth across countries. There is a common view that efficient government institutions help foster economic growth and government effectiveness (Shleifer and Vishny, 1993; North, 1990; Mauro, 1995). Corruption continues to remain antithetical to quality of government (Rothstein, 2011) and it acts like an illegal tax that distorts decision-making and government effectiveness. Several studies show that corruption negatively affects

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the government investment on social and human development, which in its turn effects government performance. It is also commonly accepted that higher the government quality higher the performance and policy outcomes. A growing body of literature suggests that corruption, rent seeking, weak legal system shrink the range of opportunities available to developing countries as investments become less productive, cost of capital increases, and private investment, FDI and foreign aid all decline (Mauro, 1995; Davis, 2003). Mauro (1995) argues that corruption reduces the efficiency of government –here officials and politicians steal the public money for reaching their private gains, which make the government inefficient in the provision of public services and policy-making. Some scholars show the positive correlation between weak rule of law, corruption and government effectiveness (Kaufman and Kraay, 2002). In contrast, there is also criticism that rule of law does not have much influence on government performance (Messick, 1999).

This argument comes based on the example of China, which has witnessed un-preceded growth with a weak rule of law mechanism. Though this argument applies to Sri Lanka, there are no empirical evidence to prove the affirmative. In our knowledge, there are no studies regarding the effects of corruption on government effectiveness and on how rule of law influence corruption, especially in the Sri Lankan context. Thus, this study contributes to the literature on corruption and its effects on the quality of government in Sri Lanka –since it presents for the first time –an analysis for the influence of corruption on government effectiveness. The paper also considers the effects of corruption on rule of law, and vice versa. Thus, this paper seeks to answer the following question: extent to which corruption effect government effectiveness and rule of law in Sri Lanka.

In the case of Sri Lanka, corruption is endemic in political and administrative sectors of the government. Almost all the activities related to the delivery of public services are affected by varying levels of corruption including obtaining driving license, awarding contracts, procurements, payments for supplies of goods and services (ADB, 2004). On 9 February 2017, the Financial Times (FT) newspaper of Sri Lanka reported that 15 public institutions have incurred Rs. 110 billion losses during 2015/ 2016, and it refers them as 'wasteful and uneconomic state enterprises'. Thus, on a daily basis we can see a substantial number of news, which highlights corruption, abuse of public power, misuse of state resources, corrupt and discriminatory practices of public institutions, as well as the lack of access to safe drinking water, death caused by natural disaster, water pollution, poverty and so on. This seems to be closely related not only with corruption, also with the quality of government and legal system.

In the case of Sri Lanka, a small group, along with the support of political elites is exclusively being enjoyed a large amount of wealth, state resources, services and other amenities based on what is generally referred '*particularism*' (TI, 2014). The existing literatures have largely proven that the quality of government substantially influences on human wellbeing, quality of life and eventually satisfaction with the way democracy works. In contrast, corruption destroys the above all including governance system, economic and social foundation and eventually social trust. In the case of Sri Lanka, the term '*corruption'* has become a buzzword in the recent past, especially under the good

governance regime. Though there are few studies on corruption in Sri Lanka (Orjuela et al., 2016; Lindberg and Herath, 2014; Lindberg and Orjuela, 2011; CPA, 2007), they largely confined to peace, conflict and post-war rehabilitation. Therefore, there is a timely need to explore this phenomenon from governance perspectives. Thus, this study attempts to examine the impact of control of corruption and rule of law on government effectiveness using the Sri Lankan time series data of the World Bank.

2. Theoretical Insights

Since the late 1990s, issues about the quality of countries' public institutions have been put forward by a large number of development and international aid organizations, as well as by many scholars, as the most important explanation for variation in economic performance and social well-being. Though there are many ways to assess government quality, corruption remains important in this aspect. Corruption is understood as the misuse of entrusted power for private gain (TI), use of public power for private profit, preferment or prestige or for the benefit of a group or class, in a way that constitutes a breach of law or of standards of high moral conduct. Susan Rose -Ackerman leading scholar in the field of corruption gives the most common definition: misuse of public power for private and political gain. Further, she defines corruption is a symptom that something has gone wrong in the management of the state –institutions that designed to govern the interrelationship between citizen and state are used instead for personal enrichment and the provision of benefits to the corrupt (1999:9). In fact, corruption is a governance issue because it destroys equality, social trust, and institutional trust in government, rule of law, government effectiveness, impartiality and quality of government specifically. Further, it also distorts effective functioning of institutions and management of state and society at large. According to UNDP (2004) corruption arises when public officials have wide authority, little accountability and perverse incentives. A widely cited definition is 'behavior which deviates from the formal duties of a public role because of private –regarding (personal, close family, private clique) pecuniary or status gains; or violates rules against the exercise of certain types of private regarding behavior' (Kilgaard, 1991:23). According to Robert Kilgaard (2014:18) the term corruption had many meanings, but at the broadest level misuse of power for unofficial ends, office is a position of duty, or should be; the office-holder is supposed to foster the interests of the institutions and people first.

Rothstein and Teorell (2008) argue that partiality, dishonesty and unfairness in the implementation of policies and laws causes corruption. This reveals that corruption is form of favoritism in the exercise of public power, especially at the implementation level - this also occurs when equality before law concept is not respected- this involves transgressions of professional norms, rules and regulations. This definition also eventually tells us that corruption occurs when public power is abused. But this definition allows us to seek empirical evidence (survey or qualitative) to research on corruption. You (2006) and Eric Uslaner (2008) equating corruption with unfairness, basically unfairness of the legal system. The perceive unfair legal system and absence of rule of law as key determinants of corruption. Uslaner empirically proofs that there is positive correlation between corruption and unfair legal system and he links corruption with endemic inequality in developing countries. He concludes that corruption may be less common in countries with fair legal system and rule of law (2008:9).

3. Data, Variables and Methodology

This study uses annual time series data of Sri Lanka covering the period of 1996-2015. Government effectiveness (GOVE), Rule of law (ROL) and Control of corruption (COC) are used as variables in this study. The data of all three variables were extracted from the World Governance Indicators of the World Bank data base.

Johansen Co-integration technique was adapted to test the existence of long run relationship between the variables, which is given below:

$$GOVE_t = \delta_0 + \delta_1 COC_t + \delta_2 ROL_t + u_t \quad (1)$$

Where, t is the time period, u is the error term with zero mean and constant variance and variables are explained as earlier.

If we detected the co-integrating relationship between the variables from equation (1), we will employ error correction model (ECM) to investigate the short run dynamic relationship and the long run adjustment from the short run disequilibrium due to an exogenous shocks. The ECM takes the form as:

$$\Delta Z_t = \alpha_0 + \Pi Z_{t-1} + \sum_{i=1}^{p-1} \Phi_i^* \Delta Z_{t-i} + \varepsilon_t \quad (2)$$

Where, $\boldsymbol{\Pi}$ and the $\boldsymbol{\Phi}^*$ are functions of the Φ's, if $\Pi = 0$, then there is no co-integration, if Π has full rank, K, then the $\mathbf{Z}$'s cannot be I(1) but are stationary and $\Pi = \alpha\beta'$. where, α is the (3×1) vector of speed of adjustment coefficient, β' is the (1×3) vector of co-integrating coefficients, $Z_t = [GOVE_t, COC_t, ROL_t]'$ vector of endogenous variables, Z_{t-i} is the lagged value of the variables, Z_{t-1} is the error correction term and ε_t is the white noise error term.

However, in order to estimate equation (1), in the first step we have to ensure the stationarity property of each series, that is, we need to confirm whether they are integrated in the same order. Thus, Auckmented Dickey Fuller (ADF) and Phillips Perron (PP) unit root test are used to test the order of integration. The ADF takes form as:

$$\Delta Y_t = \alpha + \rho^* Y_{t-1} + \sum_{i=1}^{p-1} \beta_i \Delta Y_{t-i} + \varepsilon_t \quad (3)$$

The null hypothesis of equation (3) is that the series ΔY_t is non-stationary and the alternative hypothesis is that the series ΔY_t is stationary. If the absolute value of test statistics greater than the absolute value of critical value, then we will reject null hypothesis and conclude that the variable ΔY_t is stationary. Then we can use the variable ΔY_t in our model. In contrast, if the absolute value of test statistics less than the absolute value of critical value, then we will failed to reject null hypothesis and conclude that the variable ΔY_t is non-stationary. In this situation, we can include linear trend in equation (3). Suppose, if we failed to reject null hypothesis in this case as well, then the ADF is

suggested to take further difference until it became a stationary. Alternative to test statistics and the critical value, we also can compare the probability value and the alpha (significance level) value to test the hypothesis. If probability value is less than the alpha value we will reject null hypothesis and vice versa. In this way, we have to test for all series.

In the second step of the estimation procedure, we have to identify the optimal lag length that can be used in the model. Because, the underlying theory and any hypothesized structure indicate to the economist which variable to include in the model and how many lags would be appropriate. Therefore, the method of determining the appropriate lag length is still an important issue in the time series literature since longer lag lengths increase the number of estimated parameters, reduce degrees of freedom and increase data requirements. There have been several methods proposed to deal with the problem of correctly determining the proper lag length for time series model like Vector Autoregressive (VAR), Vector Error Correction Model (VECM) and Autoregressive Distributed Lag (ARDL) etc. Therefore, we will adapt either one or more of the following criteria: Akaike information criterion (AIC), Shewartz Information criterion (SC), Likelihood ratio statistics (LR), Final Prediction Error (FPE) and Hannan Quin information criterion (HQIC).

Finally, we use Granger causality test to identify whether corruption causes government effectiveness or government effectiveness causes corruption and whether rule of law causes government effectiveness or government effectiveness causes rule of law. The model is given below:

$$\Delta GOVE_t = a_t + \sum_{i=1}^{p} \gamma_i \Delta GOVE_{t-i} + \sum_{i=1}^{p} \delta_i \Delta COC_{t-i} + u_{1t} \quad (4)$$

$$\Delta COC_t = a_t + \sum_{i=1}^{p} \theta_i \Delta GOVE_{t-i} + \sum_{i=1}^{p} \rho_i \Delta COC_{t-i} + u_{2t} \quad (5)$$

Using either F-test or Chi squared distribution; we will test the following hypothesis: for equation (4): H_0: corruption does not granger causes government effectiveness and for equation (5): H_0: government effectiveness does not granger causes corruption. We will reject H_0, when test statistic greater than the critical value and conclude that corruption Granger causes government effectiveness in equation (4) that is $\sum_{i=1}^{p} \delta_i$ is jointly significant in equation (4). And government effectiveness Granger causes corruption in equation (5), that is $\sum_{i=1}^{p} \theta_i$ is jointly significant in equation (5). If both of these parameters are not significant then no causality exists between these two variables. Likewise we can do the test for all other variables that included in the model.

4. Results and Discussions

The study first uses the correlation test to find out whether there is any correlation between corruption and government effectiveness as well as rule of law and government effectiveness. The result is given below.

Table 1: Results of Correlation Test

	gove	coc	rol
gove	1.0000		
coc	0.3814	1.0000	
	(0.136)		
rol	-0.3446*	0.3930*	1.0000
	(0.097)	(0.086)	

Note: probability values are given in the parenthesis and * represents the variables are significant t 10% level of significance.

The correlation test confirms that weak and insignificant positive correlation between control of corruption and government effectiveness as the probability value (0.136) of this coefficient (0.3814) is higher than the significant level even at 10% (0.1). Secondly, this test identified weak and significant (at 10% level of significance) negative correlation between rule of law and government effectiveness as the probability value (0.097) of this coefficient (-0.3446) is less than the 10% level of significance (0.1). Finally, this test detected weak and significant positive correlation between rule of law and control of corruption as probability value (0.086) of this coefficient (0.3930) is less than the 10% level of significance (0.1).

Next, we used ordinary least squared (OLS) estimation technique to investigate the relationship between the variables. The results are given in Table 2.

Table 2: Results of OLS Method

gove	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
coc	-.4324486	.3527718	-1.23	0.237	1.176732	.311834
rol	-.2154491	.2220171	-0.97	0.345	-.6838641	.252966
cons	-.2894185	.0997707	-2.90	0.010	-.4999163	-.078920

The results suggest that there is no statistically significant relationship between control of corruption and government effectiveness and rule of law and government effectiveness.

Thus, these required us to use different estimation method instead above two techniques. Hence, we employed maximum likelihood estimation method to estimate the parameters. For which, we used Johansen cointegration and error correction model.

Before, performing the cointegration and error correction model, we employed ADF and PP unit root test approaches to determine the order of integration of each series which are included in this analysis. According to the results given below in Table 3, both ADF and PP unit root tests method confirmed that all three variables are non-stationary at 5% level of significance at their level form as probability values of all three series are greater than the significance level (0.05). Even though ROL is non-stationary at their first difference followed by PP unit root test, other two variables GOVE and COC are stationary at their first difference at 5% level of significance. However, ADF test endorse that all three variables are stationary at their first difference, suggesting that all variables considered in this

study are integrated in order one. Thus, this study estimation procedure was continued based on the ADF unit root test findings.

Table 3: Results of ADF and PP Unit Root Test

	Variables	ADF with Intercept	PP with Intercept
	GOVE	0.211	0.556
Level	ROL	0.342	0.528
	COC	0.063*	0.083*
1st Difference	GOVE	0.012**	0.000***
	ROL	0.042*	0.357
	COC	0.001***	0.000***

Note: probability values are given in the table. We included intercept only in the model. *, **, *** represents the variables are stationary at 10%, 5% and 1% level of significant respectively.

Once we detected the order of integration, the study process requires identifying the long-run relationships between the variables included in the model. However, before estimating this relationship we need to find out the optimal lag length of each series that can be included in the model. The lag length selection results are provided in the Table 4.

Table 4: Results of Lag Length Selection

Lag	LogL	LR	FPE	AIC	SC	HQ
0	44.94134	NA*	1.44e-06*	-4.934276	-4.787238*	-4.919660*
1	53.03443	12.37767	1.65e-06	-4.927581*	-4.239430	-4.769117
2	63.01331	11.73985	1.67e-06	-4.842742	-3.913478	-4.840431

Note: * indicates lag order selected by the criterion. LR: sequential modified likelihood ratio test statistic, FPE: final prediction error, AIC: Akaike information criterion, SC: Schwarz information criterion and HQ: Hannan Quinn information criterion test statistics.

All lag length selection criteria, except AIC suggested that to use zero lag as optimal lag length while AIC advocate to use one lag as optimum lag length. Therefore, following AIC, we included one lag in this study. Because, when we include zero as an optimum lag length in the model, then the equation may exist only with constant among the explanatory variables. Thus, in order to avoid this problem, we added one lag as an optimum lag in our model.

Both, the trace and maximum Eigenvalue statistics of Johansen co-integration technique detected one co-integrating relationship in the system of equation at 5% level of significance since we reject null hypothesis at rank 0 but we failed to reject null hypothesis at rank 1 (see Panel 1 and 2 respectively in Table 5). This indicates that there should be long run relationship between the variables under consideration in this study.

Table 5: Results of Johansen and Juselius Cointegration Test

Panel 1: Trace Statistics				
Null Hypothesis	Alternative Hypothesis	Test Statistic	Critical Value (5%)	Probability**
$H_0: r \leq 0$	$H_1: r > 0$	42.02***	29.79	0.001
$H_0: r \leq 1$	$H_1: r > 1$	11.97	15.49	0.158
$H_0: r \leq 2$	$H_1: r > 2$	2.091	3.841	0.148
Panel 2: Maximal Eigen Value Statistics				
Null Hypothesis	Alternative Hypothesis	Test Statistic	Critical Value (5%)	Probability**
$H_0: r = 0$	$H_1: r = 1$	30.05***	21.13	0.002
$H_0: r = 1$	$H_1: r = 2$	9.882	14.26	0.219
$H_0: r = 2$	$H_1: r = 3$	2.091	3.841	0.148
Panel 3: Long run Relationship				
GOVE	COC	ROL	Cons	
1.000	1.4938***	-0.0728	0.583	
	(0.2605)	(0.1274)		

Note: standard errors are given in the parenthesis in panel 3. *, **, *** indicates the rejection of null hypothesis at 10%, 5% and 1% level of significance respectively.

Panel 3 in Table 5 explains that there is a positive and a significant relationship between control of corruption and government effectiveness in the long run. That is, if the government controls the corruption by one more unit which tends to raises the government effectiveness by 1.49 units in the long run while other thing being constant. Thus, an effective measure of controlling corruption is more likely to make the government more effective. The finding of this study coincides with existing theories of corruption, the quality of government and rule of law and with some of the existing empirical studies (Rothstein, 2011; Uslaner, 2008; Persson, and Rothstein, 2015; Susan Rose, 1991; Kaufmann and Kraay, 2002; Shleifer and Vishny, 1993; North, 1990; Mauro, 1995. Although, existing literature claim that there is positive correlation between rule of law and government effectiveness (Rothstein, 2011, Leff, 1964; Huntington, 1968; Persson, and Rothstein, 2015) which is not statistically significant even at 10% level of significance in this study. This is the case in china as well where it does not show strong correlation between rule of law and government effectiveness. Therefore, this study requires further data and evidence to find out on how rule of law could possibly affect government effectiveness in the Sri Lankan context. Because the analysis concerning corruption is intrinsically related with rule of law, which means a weak rule of law or legal system implies a high level of corruption (Uslaner, 2008; Leff, 1964; Huntington, 1968; the World Bank, 2017; Rose-Ackerman (1997). Nowadays, the World Bank considers rule of law as an important dimension of governance in the control of corruption. In brief, the idea is that in the countries with a high rule of law ensure that no one is above the law and thus the corruption may decrease. As the World Bank's governance indicators suggest an increase in rule of law for the case of developing countries represents a powerful instrument for inhibiting corruption. The absence of statistical significance for Sri Lanka could be also justified due to the fact that the rule of law in Sri Lanka is relatively high or the Word Bank's data would not have captured the real situation of public and political institutions that are

supposed to maintain law and order and implement rule of law principles due to protracted civil conflict of the country.

Table 6 below shows the results of ECM. The 1st panel of this Table depicts that as shown in the existing literature (Kaufmann and Kraay, 2002; Shleifer and Vishny, 1993; North, 1990; Mauro, 1995) there is a positive and significant correlation between control of corruption and government effectiveness in the short run. That is, if the government controls the corruption by one more unit then the government effectiveness will increases by 0.856 unit in the short run when other things being constant. Whereas, in contrast to the theory, rule of law affect the government effectiveness negatively in the short run. That is, when the government strictly adheres to the rule of law principles by one unit which tends to decrease the government effectiveness by 1.215 units in the short run while other things are constant. This is more likely to prevent corrupt practices in the government institutions, abuse of power and state resources, which in its turn increases the government effectiveness. Further, government policies and programs are more likely to be implemented in an effective, efficient and impartial manner in a way to benefit all segments of society- this eventually increases the quality of government and its effectiveness.

Table 6: Results of VECM

Panel 1: Short-run Relationship			
Variables	$D(GOVE_t)$	$D(COC_t)$	$D(ROL_t)$
$D(GOVE_{t-1})$	0.839**	0.359	0.545
	(2.516)	(1.387)	(1.725)
$D(COC_{t-1})$	0.856**	−0.255	0.225
	(2.715)	(−1.041)	(0.755)
$D(ROL_{t-1})$	−1.215**	0.062	−0.177
	(−2.456)	(0.161)	(−0.379)
C	−0.006	−0.012	−0.022
Panel 2: Long run Adjustment			
Coint-Eq1	−0.612***	−0.174	−0.460**
$ECT_{(t-1)}$	(−2.936)	(−1.077)	(−2.332)

Note: test statistics values are given in the parenthesis. *, **, *** show that variables are significant at 10%, 5% and 1% level of significant respectively.

The Panel 2 of Table 6 indicates the speed of adjustment coefficients which explain that how above model is adjusting towards long-run steady state line from the short run deviation due to external shocks. Negative and significant error correction coefficient (-0.612) of GOVE (1st elements of Coint-Eq1) reveals that around 61.2% disequilibrium is corrected by each period one period after the exogenous shocks. This implies that government effectiveness moves downward towards long run steady state line with the speed of 61.2% in each period one period after the exogenous shocks.

Granger causality test identified bidirectional causality between government effectiveness and control of corruption in the long run since we reject the null hypothesis of both (see Table 7 below) as probability value is less than the 5% significant level. That is, if the government effectively controls the corruption then the government will be more effective, at the same time, when the government is more effective which can control the corruption. Moreover, we detected unidirectional causality between government effectiveness and rule of law in the long run that stemming from rule of law to government effectiveness. That is, when the government follow the strict rule of law principles which make the government more effective.

Table 7: Results of VECM Granger Causality/Block Exogeneity Wald test

Null Hypothesis	Probability value	Decision
GOVE does not Granger Causes COC	0.044**	Reject H_0
COC does not Granger Causes GOVE	0.006***	Reject H_0
GOVE does not Granger Causes ROL	0.165	Accept H_0
ROL does not Granger Causes GOVE	0.014**	Reject H_0
COC does not Granger Causes ROL	0.297	Accept H_0
ROL does not Granger Causes COC	0.704	Accept H_0

Note: probability values are given in the parenthesis. *, **, *** show that variables are significant at 10%, 5% and 1% level of significant respectively.

5. Conclusion and Policy Recommendations

This study attempts to identify the relationship between corruption, government effectiveness as well as government effectiveness and rule of law using the time series data of Sri Lanka over the period of 1996-2015. The correlation test did not identify the relationship among the variables and OLS also did not found any significant link between the variables. The ADF unit root test confirmed that all the variables are integrated in order one suggesting to use co-integration technique to identify the long run relationship between the variables. AIC advocates to employ one lag as an optimal lag length for this study. Johansen cointegration method detected one cointegrating relationship among the variables. According to this result, we identified significant and positive relationship between government effectiveness and control of corruption in the long run while rule of law does not have significant impact on government effectiveness. The ECM model suggests that there is a positive and significant correlation between government effectiveness and control of corruption while negative and significant link between rule of law and government effectiveness in the short run. Granger causality test concludes that more government effectiveness is more likely to control the corruption, at the same time; if the government effectively control the corruption then the government can be more effective. This Granger causality test reveals that government should be more effective to control the corruption while maintaining strict rule of law principles. This informs policy makers and officials that corruption has close nexus between government effectiveness and rule of law.

The main results from this empirical analysis can be highlighted in two points. Firstly the idea is that corruption is intrinsically connected with government effectiveness and rule of law. In particular, it is observed that an improvement in controlling corruption is capable of promoting a positive effect on government effectiveness in the developing countries. Secondly, the traditional argument that an increase in rule of law represents a good strategy in the fight against corruption is valid for developing countries, though it does show a significant relationship in the long run in the case of Sri Lanka. Moreover, based on the estimations, it is important to stress at the policy level on the importance of the quality of government to control corruption and to improve rule of law.

As this study shows corruption is closely connected with poor or low quality of government which has been the main factor for eroding quality of life, equality, subjective human well-being and social trust. If citizens are being confronted with corruption and such practices in governance, they have few reasons to develop trust on the quality of the government. The Sri Lankan case suggests that democratic governance or good governance or institutional creations are necessary, but not sufficient element in controlling corruption. In this regard, the output side of democracy is much more important such as rule of law, effectiveness and efficiency, impartial, fair, accountable and uncorrupt public institutions. Further, recruitment based on meritocracy, gender equality in public sector and strong and unified tax system, political and bureaucratic commitment and strong leadership at the anti-corruption agencies are vital to improve government quality and control corruption. It is also relevant to note that the recent UN agenda of sustainable development goals (SDGs) also largely emphasizes the significance of impartiality, quality, effective, accountable and inclusive government institutions to advance and achieve SDGS.

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