Combating Corruption: Look Before You Leap

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A lack of progress in eradicating corruption could be due to misguided strategies

STATISTICS on corruption are often questionable, but available data suggest that it accounts for a significant proportion of economic activity. In Kenya, "questionable" public expenditures noted by the Controller and Auditor General in 1997 amounted to 7.6 percent of GDP. In Latvia, a recent World Bank survey found that more than 40 percent of households and enterprises agreed that "corruption is a natural part of our lives and helps solve many problems." In Tanzania, service delivery survey data suggests that bribes paid to officials in the police, courts, tax services, and land offices amounted to 62 percent of official public expenditures in these areas. In the Philippines, the Commission on Audit estimates that $4 billion is diverted annually because of public sector corruption.

Moreover, a 2004 World Bank study of the ramifications of corruption for service delivery concludes that an improvement of one standard deviation in the International Country Risk Guide corruption index leads to a 29 percent decrease in infant mortality rates, a 52 percent increase in satisfaction among recipients of public health care, and a 30–60 percent increase in public satisfaction stemming from improved road conditions. Studies also show that corruption hurts growth, impairs capital accumulation, reduces the effectiveness of development aid, and increases income inequality and poverty.

Not surprisingly, therefore, there has been a growing global movement to condemn corrupt practices, resulting in the removal of some country leaders. In addition, many governments and development agencies have devoted substantial resources and energies to fighting corruption in recent years. Even so, it is not yet clear that the incidence of corruption has declined perceptibly, especially in highly corrupt countries. This article argues that the lack of significant progress can be attributed to the fact that many programs are simply folk remedies or one-size-fits-all approaches and offer little chance of success. For programs to work, they must identify the type of corruption they are targeting and tackle the underlying, country-specific causes, or "drivers," of dysfunctional governance.

The many forms of corruption

Public sector corruption is a symptom of failed governance at the country level. Here, we define "governance" as the traditions and institutions by which authority in a country is exercised—including the process by which governments are selected, monitored and replaced, the capacity of the government to effectively formulate and implement sound policies, and the respect of citizens and the state for the institutions that govern economic and social interactions among them.

Corruption is not manifested in one single form; indeed, it typically takes at least three broad forms.

Petty administrative or bureaucratic corruption. Many corrupt acts are isolated transactions by individual public officials who abuse their office, for example, by demanding bribes and kickbacks, diverting public funds, or awarding favors in return for personal considerations. Such acts are often referred to as petty corruption even though, in the aggregate, a substantial amount of public resources may be involved.

Grand corruption. The theft or misuse of vast amounts of public resources by state officials—usually members of, or associated with, the political or administrative elite—constitutes grand corruption.

State capture/influence peddling. Collusion by private actors with public officials or politicians for their mutual, private benefit is referred to as state capture. That is, the private sector "captures" the state legislative, executive, and judicial apparatus for its own purposes. State capture coexists with the conventional (and opposite) view of corruption, in which public officials extort or otherwise exploit the private sector for private ends.

Corruption is also country-specific; thus, approaches that apply common policies and tools (that is, one-size-fits-all approaches) to countries in which acts of corruption and the quality of governance vary widely are likely to fail. One needs to understand the local circumstances that encourage or permit public and private actors to be corrupt.

And if corruption is about governance and governance is about the exercise of state power, then efforts to combat corruption demand strong local leadership and ownership if they are to be successful and sustainable.

What drives corruption?

Although corruption varies from country to country, it is possible to identify some key drivers based on in-depth country studies—including a recent World Bank look at Guatemala, Kenya, Latvia, Pakistan, the Philippines, and Tanzania—and econometric studies of developing, transition, and industrial countries. The six country case studies examined the root causes of corruption and evaluated the impact of World Bank efforts to reduce corruption in each country. The key corruption drivers identified by these studies include

- ***The legitimacy of the state as the guardian of the "public interest" is contested.*** In highly corrupt countries, there is little public acceptance of the notion that the role of the state is to rise above private interests to protect the broader public interest. "Clientelism"—public office holders focusing on serving particular client groups linked to them by ethnic, geographic, or other ties—shapes the public landscape and creates conditions ripe for corruption. The line between what is "public" and what is "private" is blurred so that abuse of public office for private gain is a routine occurrence.
- ***The rule of law is weakly embedded.*** Public sector corruption thrives where laws apply to some but not to others, and where enforcement of the law is often used as a device for furthering private interests rather than protecting the public interest. A common symbol of the breakdown of the rule of law in highly corrupt countries is the police acting as law breakers rather than law enforcers—for example, stopping motorists for invented traffic violations as an excuse for extracting bribes. As well, the independence of the judiciary—a pillar of the rule of law—is usually deeply compromised in highly corrupt countries.
- ***Institutions of accountability are ineffective.*** In societies where the level of public sector corruption is relatively low, one normally finds strong institutions of accountability that control abuses of power by public officials. These institutions are either created by the state itself (for example, auditors-general, the judiciary, the legislature) or arise outside of formal state structures (for example, the news media and organized civic groups). There are glaring weaknesses in institutions of accountability in highly corrupt countries.
- ***The commitment of national leaders to combating corruption is weak.*** Widespread corruption endures in the public sector when national authorities are either unwilling or unable to address it forcefully. In societies where public sector corruption is endemic, it is reasonable to suspect that it touches the highest levels of government, and that many senior office holders will not be motivated to work against it.

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How to formulate a strategy

So what can policymakers do to combat corruption? Experience strongly suggests that the answer lies in taking an indirect approach and starting with the root causes. To understand why, it is helpful to look at a model that divides developing countries into three broad categories—"high," "medium," and "low"—reflecting the incidence of corruption. The model also assumes that countries with "high" corruption have a "low" quality of governance, those with "medium" corruption have "fair" governance, and those with "low" corruption have "good" governance (see table).

What this model reveals is that because corruption is itself a symptom of fundamental governance failure, the higher the incidence of corruption, the *less* an anticorruption strategy should include tactics that are narrowly targeted at corrupt behavior and the *more* it should focus on the broad underlying features of the governance environment. For example, support for anticorruption agencies and public awareness campaigns is likely to meet with limited success in environments where corruption is rampant and the governance environment deeply flawed. In fact, in environments where governance is weak, anticorruption agencies are prone to being misused as tools of political victimization. These types of intervention are more appropriate to a "low" corruption setting, where one can take more or less for granted that the governance fundamentals are reasonably sound and that corruption is a relatively marginal phenomenon.

One size does not fit all

Effective anticorruption policies recognize the impact of the broader institutional environment on corruption in each country.

Incidence of corruption	Quality of governance	Priorities of anticorruption efforts
High	Poor	Establish rule of law; strengthen institutions of participation and accountability; establish citizens' charter; limit government intervention; implement economic policy reforms.
Medium	Fair	Decentralize and reform economic policies and public management.
Low	Good	Establish anticorruption agencies; strengthen financial accountability; raise public and official awareness; encourage anti-bribery pledges; conduct high-profile prosecutions.

Where corruption is high (and the quality of governance is correspondingly low), it makes more sense to focus on the underlying drivers of malfeasance in the public sector—for example, by building the rule of law and strengthening institutions of accountability. Indeed, a lack of democratic institutions (a key component of accountability) has been shown to be one of the most important determinants of corruption. When Malaysia adopted a "client's charter" in the early 1990s that specified service standards and citizens' recourse in the event of noncompliance by government agencies, it helped reorient the public sector toward service delivery and transform the culture of governance.

In societies where the level of corruption lies somewhere in between the high and low cases, it may be advisable to attempt reforms that assume a modicum of governance capacity—such as trying to make civil servants more accountable for results, bringing government decision making closer to citizens through decentralization, simplifying administrative procedures, and reducing discretion for simple government tasks such as the distribution of licenses and permits.

Insights into past failures

With this model in mind, it is not hard to understand why so many anticorruption initiatives have met with so little success. Take, for example, the almost universal failure of wide-ranging media awareness campaigns and of seminars and workshops on corruption targeted at parliamentarians and journalists. As the model shows, such poor results would be expected in countries with weak governance, where corruption is openly practiced but neither the general public nor honest public officials feel empowered to take a stand against it and even fear being victimized. In contrast, awareness campaigns would be expected to have a positive impact in countries where governance is fair or good and the incidence of corruption is low.

Decentralization provides a further illustration of the importance of understanding the circumstances in which corruption occurs. On the one hand, there is indeed evidence that decentralization can be an effective antidote to corruption because it increases the accountability of public authorities to citizens. On the other hand, decentralization creates hundreds of new public authorities, each having powers to tax, spend, and regulate that are liable to being abused in environments where governance is weak. As the World Bank's analysis of the Philippines in the 1990s shows, decentralization may multiply, rather than limit, opportunities for corruption if implemented under the wrong circumstances.

As for raising civil service salaries and reducing wage compression—the ratio between the salaries of the highest- and lowest-paid civil servants in a given country—the model provides some insights. The evidence suggests that in environments where governance is weak, wage-based strategies are not likely to have a significant impact on civil service corruption. Moreover, reducing wage compression may even encourage corruption if public sector positions are viewed as a lucrative career option. For instance, in corrupt societies, public positions are often purchased by borrowing money from family and friends. Raising public sector wages simply raises the purchase price and subsequent corruption efforts to repay loans.

How about establishing "watchdog" agencies—something most developing countries have done—with a mandate to detect and prosecute corrupt acts? Here, too, the governance-corruption nexus is key. Watchdog agencies have achieved success only in countries where governance is generally good, such as Australia and Chile. In weak governance environments, however, these agencies often lack credibility and may even extort rents. In Kenya, Malawi, Pakistan, Sierra Leone, Tanzania, and Uganda, for example, anticorruption agencies have been ineffective. In Tanzania, the government's

Prevention of Corruption Bureau produces only about six convictions a year, mostly against low-level functionaries, in a public sector environment rife with corruption. In Pakistan, the National Accountability Bureau does not have a mandate to investigate corruption in the powerful and influential military. Ethics offices and ombudsmen have had no more success than anticorruption agencies in countries where governance is poor.

Don't use the "C" word

Our simple model implies a dilemma: countries that are most in need of anticorruption support from organizations such as the World Bank are also the countries least likely to ask for help to combat corruption. Where governance is weak and corruption deeply embedded, external actors like the World Bank may therefore need to take an indirect approach. After all, "corruption" can be addressed without ever uttering the "C" word. The key lies in finding alternate "entry points" that will lead inevitably to the underlying governance-based drivers of corruption. For example:

- ***Service delivery performance.*** Any serious effort by donors to hold governments to service delivery standards will eventually compel those governments to address the causes and consequences of corruption. Also, given the difficulty of detecting corruption through financial audits, corruption may be more easily detected through observation of public service delivery performance.
- ***Citizen empowerment.*** This could be done through support for bottom-up reforms. In many countries where corruption is entrenched, governments lack either the will or the capability to mount effective anticorruption programs. External development partners may choose to amplify citizens' voice and strengthen exit mechanisms so as to enhance transparency, accountability, and the rule of law.
- ***Information dissemination.*** Letting the sun shine on government operations is a powerful antidote to corruption. The more influence donors can exert on strengthening citizens' right to know and on governments to release timely, complete, and accurate information about government operations, the better the prospects for reducing corruption. Information about how governments spend money and manage programs, and about what these programs deliver in services to people, is a key ingredient of accountability, which in turn may be an important brake on corruption (see box).
- ***Economic policy reform.*** Trade and financial liberalization can reduce opportunities for corruption by limiting the situations where officials might exercise unaccountable discretionary powers, introducing transparency and limiting public sector monopoly powers.
- ***Involvement of other stakeholders.*** When government commitment to fighting corruption is questionable, it is important to engage other local stakeholders in the fight against corruption. Participatory processes in which the World Bank is already involved at the country level—such as the Country Assistance Strategy and the Poverty Reduction Strategy Paper approach—that give priority to cross-cutting governance issues such as corruption, provide an important entry point for nongovernmental stakeholders.

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The old adage that "the longest way around is the shortest way there" is sound guidance for the fight against corruption. ■

Transparency: the power of knowledge

When citizens are informed about government performance, they are in a better position to pressure public officials to perform their duties in the public interest. Recent initiatives include

- The IMF's Code of Good Practices on Fiscal Transparency (released in 1998 and updated in 2001), which is based on four core principles: clarity of roles and responsibilities, public availability of information, open budget processes, and assurances of integrity.
- E-government Initiatives, which enable citizens and businesses to use the internet or electronic kiosks for services such as payment of taxes, procurement, tracking court cases, and customs.
- "Freedom of information" laws, which have already been passed in 50 countries.
- Uganda's experiment with "expenditure tracking surveys" that publish data on government expenditures in delivering services, such as education.
- The Extractive Industries Transparency Initiative, which aims to publish revenues accrued from oil, gas, and mining sectors in many developing countries.

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