

Combating Corruption: Look Before You Leap

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

Anwar Shah and Mark Schacter

Concern about corruption—the abuse of public office for private gain—is as old as the history of government. In 350 B.C.E., Aristotle suggested in *The Politics* that “. . . to protect the treasury from being defrauded, let all money be issued openly in front of the whole city, and let copies of the accounts be deposited in various wards.”

In recent years, concerns about corruption have mounted in tandem with growing evidence of its detrimental impact on development (see World Bank, 2004). Corruption is shown to adversely affect GDP growth. Corruption has been shown to lower the quality of public infrastructure, education and health services, and to adversely affect capital accumulation. It reduces the effectiveness of development aid and increases income inequality and poverty. Bribery, often the most visible manifestation of public sector corruption, harms the reputation of and erodes trust in the state. As well, poor governance and corruption have made it more difficult for the poor and other disadvantaged groups, such as women and minorities, to obtain public services. Macroeconomic stability may also suffer when, for example, the allocation of debt guarantees based on cronyism, or fraud in financial institutions, leads to a loss of confidence by savers, investors, and foreign exchange markets. For example, the BCCI scandal (uncovered in 1991) led to the financial ruin of Gabon’s pension system.

Although statistics on corruption are often questionable, the available data suggest that it accounts for a significant proportion of economic activity. For example, in Kenya, “questionable” public expenditures noted by the Controller and Auditor General in 1997 amounted to 7.6 percent of GDP. In Latvia, a World Bank survey found that more than 40 percent of Latvian 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 ICRG 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.

As a result of this growing concern, there has been universal condemnation of corrupt practices, leading to the removal of some country leaders. Moreover, 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.

It is also known that corruption is 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.

Finally, we know that 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, Philippines, and Tanzania—and econometric studies of developing, transition, and industrial countries (see World Bank 2004, Gurgur and Shah, 2002 and Huther and Shah, 2000). 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 that are 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.

Box 1. Fresh insights on combating corruption

Neo-institutional economics analyzes corruption as an expected consequence of a “principal-agent problem.” Public officials are “agents” authorized to act on behalf of citizens (who are “principals”). Principals have “bounded rationality”— they act rationally based on the incomplete information that is available to them. The high cost to citizens of obtaining and processing fuller information about what their agents are actually doing means that public servants always know more than citizens about what is truly going on in the public service.

This “information asymmetry” allows agents to indulge in opportunistic behavior (corruption). The difficulty that the principals have in gaining information about what their agents are doing is compounded by the absence, or inadequacy, of countervailing institutions to enforce accountability. The problem is further exacerbated by “path dependency” (that is, a major break with the past is difficult to achieve because major reform efforts are likely to be blocked by influential interest groups that benefit from the *status quo*), cultural and historical factors, and mental models whereby those who are victimized by corruption (citizen-principals) conclude, from prior experience, that attempts to deal with corruption will lead to further victimization.

In such an environment, citizen empowerment—for example, through citizen’s charters, bills of rights, elections, and other forms of civic engagement—assumes critical importance because it may have a significant impact on the incentives faced by public officials to be responsive to the public interest.

Source: Shah (2006)

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 anti-corruption strategy should include tactics that are narrowly targeted to corrupt behavior and the *more* it should focus on the broad underlying features of the governance environment. For example, support for anti-corruption 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, anti-corruption agencies are prone to being misused as a tools of political victimization. These types of interventions are more appropriate to a “low” corruption setting, where one can take for granted (more or less) that the governance fundamentals are reasonably sound and that corruption is a relatively marginal phenomenon.

The model also suggests that 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 (Gurgur and Shah 2002). When Malaysia adopted a “client’s charter” in the early 1990s that specified service standards and citizens recourse in the event of non-compliance 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 anti-corruption 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 to parliamentarians and journalists. As the model shows, this outcome 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 (see Box 1). On the other hand,

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.

Table 1. One Size Does Not Fit All : Effective anti-corruption policies recognize the impact of 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; anti-bribery pledges, conduct high-profile prosecutions

Source: Huther and Shah (200)

Decentralization provides a further illustration of the importance of understanding the circumstances in which corruption occurs. There is indeed evidence that decentralization can be an effective antidote to corruption because it increases the accountability of public authorities to citizens (for additional references and evidence, see Gurgur and Shah (2002) and Shah, Thompson and Zou (2004)). 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 Bank's analysis of the Philippines in the 1990s has shown, decentralization may multiply rather than limit opportunities for corruption if it is 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—again, 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 (see Huther and Shah, 2000 for references). 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 the establishment of “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, Tanzania and Nigeria, for example, anti-corruption 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 difficult dilemma: countries that are most in need of anti-corruption 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 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 through support for bottom-up reforms.*** In many countries where corruption is entrenched, governments lack either the will or the capability to mount effective anti-corruption programs. In such countries, 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 anti-dote to corruption. The more influence that donors can exert on strengthening citizens' right to know and governments to release timely, complete, and accurate information about government operations, the better the prospects for reducing corruption. Information about how governments spend money, manage programs and 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 2).

- ***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 Bank is already involved at the country level—such as the Country Assistance Strategy (CAS) and the Poverty Reduction Strategy Paper (PRSP)—which give priority to cross-cutting governance issues such as corruption, provide an important entry point for nongovernmental stakeholders.

Box 2**Transparency: Citizen Empowerment The Power of Knowledge**

Increasing transparency can strengthen the lines of accountability between government and citizens. When citizens are informed about government performance, they are in a better position to put pressure on public officials to perform their duties in the public interest.

E-government initiatives have been launched in many countries so that citizens and businesses can use the internet or, in some cases electronic kiosks for services such as payment of taxes, procurement, tracking court cases, and customs. These initiatives appear to have met with some success. Computerization of administrative procedures and municipal transactions in Campo Elias, Venezuela, lowered perceptions of corruption by almost 50 percent. “Freedom of information” laws have already been passed in 50 countries, according to an estimate by the Bank’s legal department, and a number of other countries are considering them.

Other examples of efforts to disseminate information to improve transparency and promote accountability include Uganda’s experiment with “expenditure tracking surveys” that publish data on government expenditures in delivering services. The World Bank Group has also endorsed the Extractive Industries Transparency Initiative (2002), which aims to publish revenues accruing from oil, gas, and mining sectors. Participatory budgeting for example in Porto Alegre, Brazil, and Citizens’ charter as in Naga city, Philippines and citizens’ report card on government services such done by an NGO in Bangalore, India also enhance transparency and accountability. Most important of all is the clients’ charter by Malaysia which empowers citizens to demand accountability from government if specified service standards are not met.

Conclusions

Targeted measures such as anti-corruption agencies and media and public-awareness campaigns have an understandable appeal as tactics for dealing with the abuse of public office for private gain. Ironically, though, such approaches appear to have a good chance of succeeding only in environments where corruption is a relatively modest problem. Both research and experience related to public-sector corruption suggest that where corruption is widespread, anti-corruption programs must begin with broader efforts to address the dysfunctional governance environment that nurtures corruption.

When tackling the hardest cases of public-sector corruption, external actors like the Bank and the Fund face a “demand dilemma”: countries most in need of support to fight corruption are the least likely to be interested in asking for help. The best strategy for donors under these circumstances may be to take an indirect approach – focusing on areas such as improved service delivery, bottom-up reforms, information dissemination, economic policy reform and stakeholder involvement. Progress on these issues will inevitably be linked to the same factors that drive corruption. The old adage that “the

longest way around is the shortest way there” is sound guidance for the fight against corruption.

Anwar Shah is Lead Economist and Program Leader in Public Sector Governance in the World Bank Institute, and Mark Schacter is a consultant to the World Bank.

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