

Anticorruption in Transition

A Contribution to the Policy Debate

The World Bank
Washington, D.C.

Copyright © 2000
THE WORLD BANK
1818 H Street, N.W.
Washington, D.C. 20433, USA

All rights reserved
Manufactured in the United States of America
First printing September 2000
1 2 3 4 03 02 01 00

The opinions expressed in this report do not necessarily represent the views of the World Bank or its member governments. The World Bank does not guarantee the accuracy of the data included in this publication and accepts no responsibility whatsoever for any consequence of their use.

The material in this publication is copyrighted. Requests for permission to reproduce portions of it should be sent to the Office of the Publisher at the address shown in the copyright notice above. The World Bank encourages dissemination of its work and will normally give permission promptly and, when the reproduction is for noncommercial purposes, without asking a fee. Permission to copy portions for classroom use is granted through the Copyright Clearance Center, Inc., Suite 910, 222 Rosewood Drive, Danvers, Massachusetts 01923, USA.

ISBN 0-8213-4802-7

Library of Congress Cataloging-in-Publication Data has been applied for.

TABLE OF CONTENTS

Foreword	vii
Acknowledgments	ix
Abbreviations	xi
Executive Summary	xiii
Chapter 1 The Level and Pattern of Corruption in the Transition Countries	1
The Extent of Corruption in the Transition Countries.....	6
Unbundling Corruption in Transition.....	7
Measuring Administrative Corruption.....	7
Measuring State Capture	9
Developing a Typology of Corruption in Transition.....	14
Chapter 2 The Economic and Social Consequences of Corruption in Transition Countries	18
Investment and Growth.....	18
Poverty.....	20
Inequality.....	21
Fiscal Implications.....	21
Credibility of the State.....	22
Chapter 3 The Origins of Corruption in Transition Countries	25
Institutional Legacies.....	26
Economic Legacies.....	28
Transition Paths	29
The Redistribution of Assets.....	32
The Role of Foreign Investment and Assistance.....	33
Vicious or Virtuous Circle?.....	35
Chapter 4 A Multi-pronged Strategy for Combating Corruption	39
Increasing the Accountability of Political Leaders	40
Strengthening Institutional Restraints	41
Strengthening Civil Society Participation.....	44
The Role of the Media.....	46
Creating a Competitive Private Sector.....	47
Economic Policy Reform.....	48
Enhancing Competition.....	49
Regulatory Reform.....	49
Corporate Governance	50
Business Associations	51
Transnational Cooperation.....	51
Reforming Public Sector Management.....	52
The Multi-pronged Approach.....	56

Chapter 5 Designing Effective Anticorruption Strategies	58
Medium State Capture/Medium Administrative Corruption.....	59
Medium State Capture/High Administrative Corruption.....	63
High State Capture/Medium Administrative Corruption.....	66
High State Capture/High Administrative Corruption.....	71
Implementing an Anticorruption Strategy.....	74
Common strategic challenges	75
Sequencing.....	77
Sustainability.....	77
Chapter 6 Conclusion	79
References	82
Annex I Methodological Annex for Figures in the Text	89

List of Text Boxes

Box 1.1:	The Concept of State Capture	3
Box 1.2:	The Business Environment and Enterprise Performance Survey.....	5
Box 1.3:	Who Captures Whom?.....	9
Box 1.4:	Corruption When Transition is Stalled	11
Box 1.5:	Corruption in the Judiciary.....	14
Box 3.1:	Comparison of the Transition in Poland and Russia.....	30
Box 4.1:	Disclosures of Conflict of Interest.....	40
Box 4.2:	Political Party Financing: Experience And Mechanisms.....	42
Box 4.3:	Transparency and Recourse in Administrative Decisionmaking.....	43
Box 4.4:	Anti-money Laundering.....	44
Box 4.5:	Giving the People Voice	45
Box 4.6:	Challenges of Confronting State Capture in the Energy Sector	48
Box 4.7:	Regulatory Reform in Hungary, Poland, and the Czech Republic	50
Box 4.8:	Business Ethics	51
Box 4.9:	International Collective Action.....	52
Box 4.10:	Tackling Informal Payments with Structural Reforms in the Health Sector.....	55
Box 5.1:	Poland.....	62
Box 5.2:	Albania.....	65
Box 5.3:	Post-conflict Environments.....	68
Box 5.4:	Windows of Opportunity in Croatia and the Slovak Republic	69
Box 5.5:	Latvia	70

Box 5.6:	Azerbaijan.....	72
Box 5.7:	Russia.....	74
Box 5.8:	Diagnosing the Problem.....	76
Box 6.1:	Lessons from International Experience.....	80

List of Tables

Table 1.1	Share of Firms Affected by Different Forms of State Capture.....	13
-----------	------------------------------------------------------------------	----

List of Figures

Figure 1:	World-wide Perceptions of Corruption.....	xiv
Figure 2:	State Capture Index.....	xvi
Figure 3:	Administrative Corruption.....	xvii
Figure 4:	Typology of Corruption.....	xviii
Figure 5:	Resource Endowments and Corruption.....	xx
Figure 6:	Statehood and Corruption.....	xx
Figure 7:	Multi-pronged Strategy: Addressing State Capture and Administrative Corruption.....	xxii
Figure 1.1:	World-wide Perceptions of Corruption.....	6
Figure 1.2:	Administrative Corruption.....	8
Figure 1.3:	State Capture Index.....	13
Figure 1.4:	Typology of Corruption.....	15
Figure 2.1:	Corruption and Output Decline.....	19
Figure 2.2:	Corruption and Poverty.....	20
Figure 2.3:	Corruption and Income Inequality.....	21
Figure 2.4:	The Unofficial Economy.....	21
Figure 2.5:	Quality of Macroeconomic Governance.....	22
Figure 2.6:	Organized Crime as a Problem Doing Business.....	23
Figure 3.1:	Statehood and Corruption.....	27
Figure 3.2:	Habsburg Legacy and Corruption.....	27
Figure 3.3:	Democracy and Corruption.....	28
Figure 3.4:	Resource Endowments and Corruption.....	28
Figure 3.5:	Change in Leadership and Corruption.....	30
Figure 3.6:	Economic Reform and Civil Liberties and State Capture.....	31
Figure 3.7:	Foreign Direct Investment and Corruption.....	34
Figure 3.8:	Foreign Direct Investment in High-corruption Countries.....	35
Figure 3.9:	Variation Within and Between Sub-regions.....	35
Figure 4.1:	Multi-pronged Strategy: Addressing State Capture and Administrative Corruption.....	39
Figure 4.2:	Media Repression.....	47
Figure 4.3:	Business Associations and Corruption.....	51
Figure 6.1:	Change in the Extent of Bribery During the Last 5 Years.....	79