

DRAFT: COMMENTS WELCOMED

Fighting Systemic Corruption: Foundations for Institutional Reforms

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The Process of Fighting Corruption

Fighting systemic corruption requires attention both to the process and the substance of reform. Addressing the politics and vested interests involved, the process of anti-corruption reform seeks to bolster opportunities and downplay constraints in implementing reforms. This perspective highlights the importance of political leadership and coalition building for implementing and sustaining anti-corruption reforms. At the same time, the substance of anti-corruption reform entails an analytical understanding of the dimensions and determinants of corruption in order to identify the types of reforms that are needed. Data and empirical analysis, including in-depth diagnostics, provide clear input to this work. Therefore, successful anti-corruption programs need to integrate (a) political leadership; (b) coalition building; and (c) rigorous data.

Political Leadership

Political will is a critical element to develop sustainable and effective anti-corruption programs. Without it, governmental efforts designed to improve civil service, strengthen transparency and accountability, and reinvent the relationship between government and private industry prove to be ineffective. The concept of political will refers to the demonstrated credible intent of political actors to attack corruption at a systemic level. The focus is on the actors, their motives and the choices they make to promote and implement anti-corruption reforms.

It is not enough to aim at getting basic economic policies right 'on paper' without recognizing the political economy of forces at play. Fighting corruption has distributional consequences, which can mobilize powerful forces to protect vested interests. Historical accounts document well-intentioned reformers who faltered because they could not neutralize the resistance. As top-level political will for anti-corruption reform may wane with changing political circumstances, anti-corruption efforts must examine ways to bolster leaders' willingness to reform and ways to proceed when political commitment is lacking.

Coalition Building

Building coalitions between civil society and government can provide the necessary support to sustain anti-corruption efforts. By opening channels through which civil society and government stakeholders can demand greater accountability from each other, this approach can generate a citizen-government dynamic that will substantially buttress reforms. The participation of civil society, the private sector, the media, and officials from all branches of government complements top-level political commitment for institutional reforms.

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Such broad input into reforms improves the content of reforms as well as prospects for implementing them. Broadening political participation enhances the array of tools and strategies that can be utilized to deal with a wider range of needs and objectives in civil society and political systems. Because a broader cross-section of the citizenry becomes involved in defining priorities and determining trade-offs, moreover, they demand efficiency in the execution of projects. As stakeholders, they have been empowered to care about projects and monitor their performance.

Rigorous Data

In addition to political leadership and coalition building, rigorous data is critical to successful reform. Information generated by rigorous data is essential for tailoring anti-corruption efforts to the country context. Diagnosing corruption helps a country understand the shortcoming in its policies and institutions, and can help establish priorities for reform by identifying activities and agencies where corruption is concentrated.

While corruption is clearly a symptom of inefficient institutions and policies, knowing what reforms are needed is not always straightforward. Until recently, it was considered impossible to systematically measure corruption in government institutions and assess its economic and social costs. With the advent of a large number of survey instruments and other techniques, however, a rich database on government performance and corruption is emerging.

The newest frontier in the fight against corruption is to survey the parties to corruption directly and simultaneously—including households, enterprise managers, and public officials—and ask them about the costs and private returns of paying bribes to obtain public services, special privileges, and government jobs. Until recently, skeptics believed that parties to corruption had an incentive to under report it. But with appropriate survey instruments and interviewing techniques, respondents are willing to discuss agency-specific corruption with remarkable candor. Even with underreporting and non-responses to some sensitive questions, the results offer telling lower-bound estimates of corruption.

The limits of different empirical measures of corruption point to the desirability of using multiple approaches and data from different sources. Consistent findings across these approaches and sources significantly enhance the reliability and ease of acceptance of the empirical evidence—as well as the credibility of the actions it suggests.

The diagnostic approach has other advantages as well. Almost by definition, surveys of households and enterprises are participatory, and thereby help to raise awareness of the issue. Once disseminated, the data stimulate debate and broader support for reforms. Rigorous data are also difficult for corrupt agencies and politicians to refute, and so can de-politicize the debate on corruption. Further, empirical surveys establish a baseline against which the successes or failures or reform can be measured. By institutionalizing data collection and dissemination, ongoing reform efforts can also be monitored. Such institutionalized monitoring mechanisms can play a major role in reducing corruption.

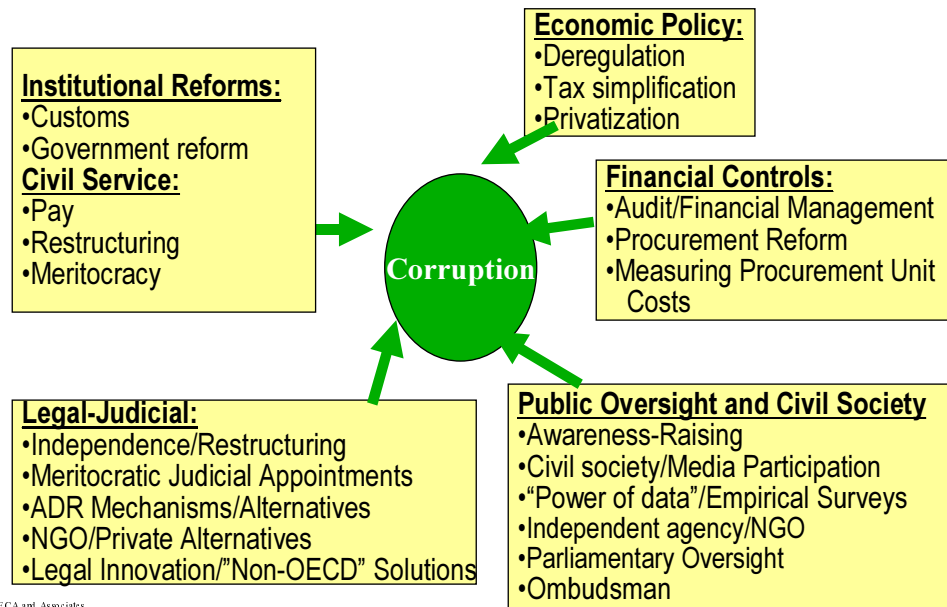
Nonetheless, rigorous surveys and analysis are just one input into a multi-faceted process for combating corruption, and can be misused if they are not carried out in the proper context. Surveyors need to be independent and methodologies rigorous; otherwise the results can be misleading.

The Substance of Anti-corruption Reforms

Anti-corruption reforms vary from country to country. Reflecting each country's problems and opportunities, action plans establish different priorities, sequences, and timing. Nonetheless,

action plans draw from the same general pool of anti-corruption reforms. These include economic reforms that reduce opportunities for corruption, institutional arrangements that

Figure 1 A Multipronged Strategy for Fighting Corruption



promote transparency and accountability, and administrative reforms that improve incentives for public officials. Figure 1 shows the key reforms for improving governance and combating corruption. It is important to recognize that incentives, prevention and systemic change within institutions play at least as important a role as traditional case-by-case enforcement initiatives.

Economic Policy

Lifting government controls offers a means to reduce opportunities for corruption. Eliminating tariffs, quotas, exchange rate restrictions, price controls, and permit requirements can strip officials of the power to extract or accept bribes. At the same time, removing such controls reduces transaction costs, eliminates bottlenecks, and fosters competition. Similarly, privatization offers a means to limit the authority of government and thereby eliminate opportunities for recurrent corrupt dealing in sales, employment, procurement, and financing contracts. To ensure the integrity of the process, however, privatization requires special measures of transparency. Further, successful privatization programs require adequate regulatory and commercial legal frameworks to protect consumers and investors and to create conditions for competition. Without these frameworks in place, privatization may only shift rent seeking from the public to the private sector.

Indeed, competition policy is an important concomitant to deregulation and privatization. The concentration of economic power in monopolies can exert political influence on the government for private benefits. The problem is particularly acute in natural resource-rich economies, where monopolies in oil, gas and aluminum, for instance, wield considerable economic and political

power that leads to different forms of corruption – nonpayment of taxes, corrupt acquisition of licenses and permits, and purchasing of votes and decrees that restrict competition.

Civil Society

Civil society oversight and participation in the decision-making and functioning of the public sector have been a crucial counterweight to corruption. This involves making the state transparent to the public and empowering the citizenry to play an active role. Empowered citizens can provide a check on government abuses and improve ownership and sustainability of reforms. Civil society involvement in government also helps to build the credibility of the state. Many reforms have proven effective in promoting civil society oversight. These include:

- Ensuring public access to government information (Freedom of Information)
- Requiring certain types of government meetings to be open to public observation
- Conducting public hearings and referenda on drafts decrees, regulations, and laws
- Publishing judicial decisions
- Strengthening the system of administrative appeals (which provide the public with a process to adjudicate wrongful decisions of state)
- Ensuring freedom of the press by prohibiting censorship, discouraging use by public officials of libel and defamation laws as a means for intimidating journalists, and encouraging diversity of media ownership
- Inviting civil society to monitor its performance, especially (i) the implementation of politically difficult reforms such as anti-corruption and (ii) key public procurements

Public Oversight

Closely related to the above, the political leadership needs to demonstrate its commitment to fighting corruption by public disclosure and transparency of its own financing, income and assets. In several industrialized democracies in the Organization for Economic Cooperation and Development, this has entailed:

- Requiring public disclosure of votes in parliament
- Reviewing desirability of parliamentary immunity
- Requiring public disclosure of sources and amounts of political party finance
- Requiring public disclosure of incomes and assets of senior public officials and their key dependents
- Preventing conflict of interest for public officials
- Protecting the personal and job security of public officials who reveal corruption by other officials in their organizations (whistleblower statutes).

There are a variety of institutional arrangements for keeping track of these disclosures and for otherwise providing oversight of official behavior. These include audit offices, ethics offices, inspectors general, and anti-corruption agencies. In this regard, coordination among the relevant institutions is a priority for effective anti-corruption.

Civil Service

Cross-country evidence shows that recruiting and promoting on merit, as opposed to political patronage or ideological affiliation, is positively associated with control of corruption. While achieving change takes time, effective reforms in this area have introduced a comprehensive performance management system, with pay and promotion linked to performance. To achieve the desired results, pay levels for managerial and key professional staff need to be broadly

competitive with the private sector, and allowances and non-cash benefits need to be simplified, monetized, and made transparent.

Experience shows that exposing public administrations to pressures and demands from their clients also has a major impact on improving service delivery. Reform measures in this area could include setting and publishing service standards; administering and publishing client surveys to assess agency performance against these standards; setting up a wide range of user groups and consultative bodies; and developing Internet-based approaches to delivering services.

Financial Controls

Basic systems of accountability in the allocation and use of public expenditures constitute a fundamental pillar for a good and clean government. Accountability in public expenditure management requires the following: i) a comprehensive budget in which all major areas of budget expenditure pass through the Treasury system and there is no substantial recourse to extra-budgetary funds; ii) transparency in the use of public expenditures through such means as posting information available on the Internet; iii) competitive public procurement through such mechanisms as transparent bidding and external monitoring; and, iv) an independent external audit, which is published and presented to the legislature.

Legal-Judicial Measures

The rule of law can be defined by opposing it to the rule of powerful men or women. This helps in understanding the challenge in many countries, where powerful politicians or leaders often influence the practical operation of judicial and law enforcement institutions. The primary objective in this context is to promote independence of the judiciary from the executive by revising procedures for appointing, assigning, remunerating, and removing judges and prosecutors to insulate them from political influence. Strengthening the institutional capacity of the judiciary is also important to facilitate swift and fair procedures. This can be done by augmenting and upgrading staffs, improving legal training, revising laws, and strengthening investigative capabilities. However, where corruption of the judiciary is endemic, innovative approaches may be needed, such as alternative dispute resolution mechanisms and a more systematic NGO involvement in monitoring.

Institutional Reforms

In most countries, customs reform is a necessary element of a comprehensive anti-corruption strategy. Customs is one of the major tax collection agencies of the central government and a notorious source of corrupt dealing. The costs of corruption in customs operations can be grievous. In addition to revenue loss, corruption in customs can hurt the competitiveness of a country's firms and scare away foreign investment. To address this problem, reforms need to reduce and simplify trade regulations, professionalize customs operations with a focus on results orientation and integrity, and reduce discretion in cargo processing.

Other government reforms can focus on restructuring operations in licensing, registries, education, health care, or other government services. Restructuring can entail simplifying procedures, limiting discretion, and improving oversight.

How Data Shapes Anti-corruption Reforms

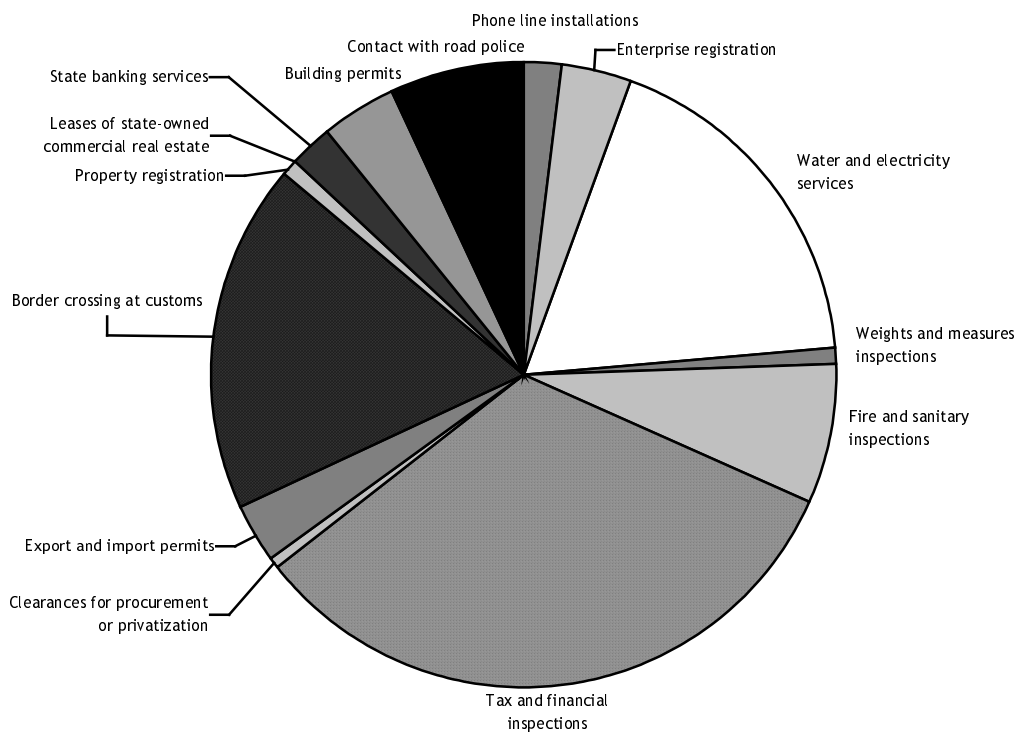
This section illustrates how data from surveys help to shape anti-corruption reforms. It draws upon recent World Bank work with partners in transition and developing countries. First, it

describes the experiences of Albania, Georgia, and Latvia in conducting detailed surveys of corruption and using the results to inform anti-corruption efforts. In these countries, the surveys led to an open and transparent process, involved civil society in the reform effort, and helped identify reform priorities. Next, it describes how a budget tracking survey in Uganda revealed large discrepancies between funds allocated and funds received in public schools, which prompted the government to publicize its expenditures and has led to major improvements in the flow of funds.

Corruption Surveys in Albania, Georgia and Latvia

The detailed surveys carried out in Albania, Georgia and Latvia showed different sources of corruption in each country, suggesting different priorities for reform. In Albania, a weak judiciary emerged as a main cause of corruption, whereas regulatory failures emerged as the main problems in Georgia and Latvia. The data further revealed which agencies were receiving the largest share of side payments (figure 2).

Figure 2 Where does corruption occur in Georgia?



Source: World Bank-GORBI survey of 350 enterprises, May 1998.

The data also revealed the costs of corruption for public finance and private sector development. Respondents indicated that they paid a large number of bribes to avoid paying taxes, customs duties, and other liabilities to the state. In Albania and Latvia, bribes account for 7 percent of revenue in firms that admit to paying them, while in Georgia bribes account for 15 percent of firms' revenue. This corresponds closely with the additional taxes firms are willing to pay if

corruption were eliminated. For such a scenario, firms would be willing to pay 6 percent of revenue in Albania, 4 percent in Latvia, and 16 percent in Georgia (table 1).

Table 1 Corruption and Lost Tax Revenue (percent)

<i>Indicator</i>	<i>Albania</i>	<i>Georgia</i>	<i>Latvia</i>
Enterprises willing to pay higher taxes if corruption were eliminated	53	71	30
Additional taxes as a share of revenue of those enterprises willing to pay higher taxes if corruption were eliminated	11	22	15
Additional taxes as a share of revenue all enterprises are willing to pay if corruption were eliminated	6	16	4

Source: 1998 World Bank survey of 483 enterprise managers in Latvia (Latvia Facts), 350 managers in Georgia (GORBI), and 356 managers in Albania (ACER).

In Albania, Georgia, and Latvia the price of obtaining “high rent” positions is well known among public officials and the general public, suggesting that corruption is deeply institutionalized (figure 3). Higher prices are paid for jobs in agencies and activities that households and enterprises report to be the most corrupt, suggesting that corrupt officials rationally “invest” when buying their public office.

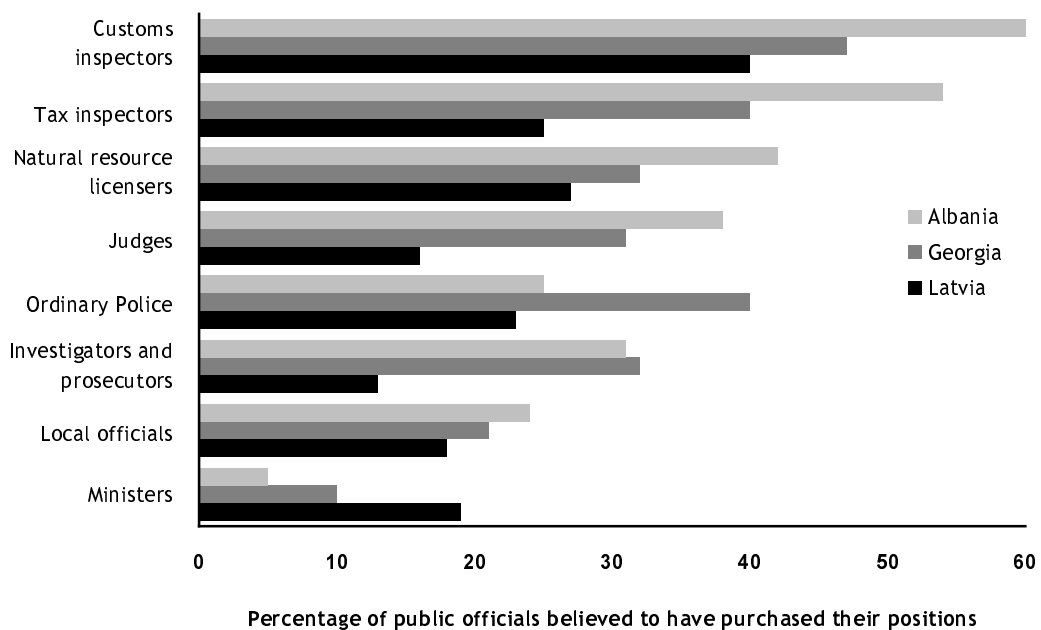


Figure 3 Purchasing Public Positions

Source: 1998 World Bank surveys of 218 public officials in Latvia (with Latvia Faces), 350 public officials in Georgia (with GORBI), and 97 public officials in Albania (with ACER).

In all three countries, the data played a large role in shaping the anti-corruption programs. In Albania and Georgia, the data were presented in workshops that were open to all branches of government, the business community, and civil society. In Albania, the data dramatically altered the policy debate, moving it from vague, unsubstantiated accusations to a process focused on empirical evidence and systemic weaknesses. In addition, the survey results were printed on the front page of every major newspaper. In Georgia, the immediate effect was less dramatic but still significant. In Latvia, the government presented the basic program at a public conference in June 1998, prior to the completion of the survey. Subsequently, the data were used to refine the program and establish priorities.

Their experience with diagnostic surveys has revealed that moving from rigorous data to institutional reforms is the most difficult stage of an anti-corruption program. A natural temptation for a country's leader is to launch the program by asking for the resignations of senior officials who manage the most corrupt agencies. But in many countries, corruption is so pervasive and systemic that it cannot be addressed solely by individualizing the problem.

Ultimately, anti-corruption efforts should focus on reforming public policies and institutions, with explicit high-level leadership and commitment. Survey data provide a picture of the most dysfunctional activities and hence priorities for reform. Based on the country-specific priorities that have emerged, the challenge is to implement credible reforms in each area. Latvia, for example, has initiated reforms to reduce corruption in customs and tax administration. But challenges remain—for instance, what can be done to reform Albania's thoroughly corrupt judicial system, and how can deregulation be implemented in Georgia and Latvia when vested interests in government ministries will devise ways of continuing to extract rents?

Budget Tracking Surveys in Uganda

In Uganda, the World Bank worked with the Ministry of Education to track the flow of funds in public schools. Expenditure tracking surveys began once it was realized that public spending on basic services had increased substantially since the late 1980s, while several outcome indicators remained stagnant. World Bank structural adjustment programs specifically supported increased spending on basic services and contained provisions to protect budget allocations. The most obvious disparity in outcome indicators was seen in primary school enrollments. Budget allocations for primary education nearly tripled between 1991 and 1995, yet there was hardly any increase in officially reported enrollment.

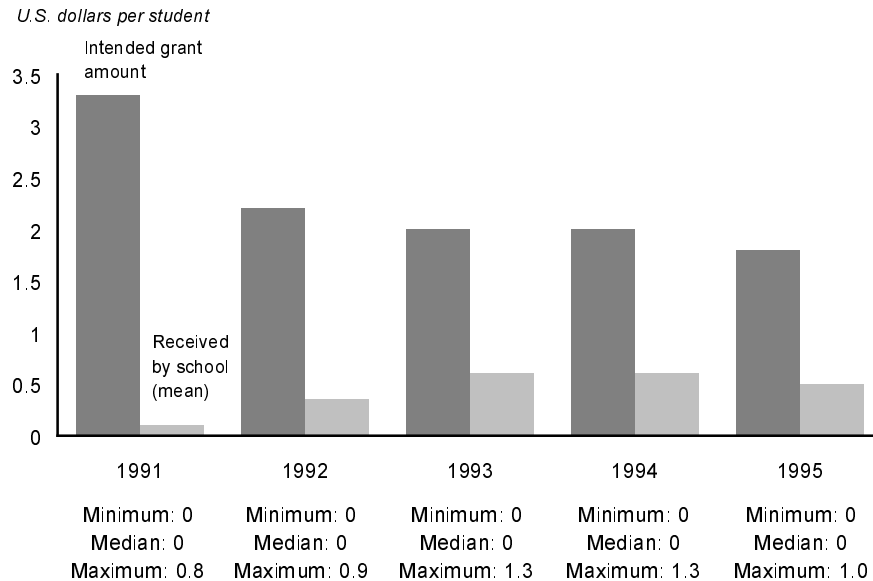
The hypothesis was that actual service delivery was much worse than budget allocations would imply because public funds did not reach the schools. Reasons for schools not receiving the allocated funds could range from competing priorities at various levels of government to corruption and misuse of public funds. Because local government accounts were not generally available, a field survey was carried out in 19 of Uganda's 39 districts, collecting budget allocations and actual spending for 1991-1995 in a random sample of 250 public schools. The survey was designed and implemented in collaboration with the Ugandan government, a local research center (Economic Policy Research Centre) and an independent Ugandan consulting firm (MSE Consultants).

The field survey confirmed the hypothesis that weak governance and lack of accountability lead to considerable losses in public funds. On average, less than 30 percent of the funds intended for non-salary public spending actually reached schools in 1991-95 (figure 4), because district authorities kept and used most of the non-salary per student grants meant for schools. Similarly, schools were allowed to keep, at best, only a third of mandatory tuition fees from parents. The rest went to district education offices. There were also large variations: at the median, school retention of both per capita grants and tuition fees was zero.

Relative to non-salary expenditures, tracking teacher salaries was complicated by the absence of disaggregated central government pay data. But salaries seem to have reached schools much better than non-wage allocations—though with considerable delay. The only systematic way of misappropriating salary funds was through “ghost” teachers on the payroll. Previous efforts by the government to clean up the teachers’ payroll give some idea of the magnitude of the leakage in salaries: in 1993 nearly 20 percent of the ghost teachers on the payroll were removed.

Figure 4 Average Grant per Student in Uganda

1991 Prices



Note: The 1991–92 exchange rate was used for all years. Minimum, median, and maximum refer to funds received by schools.

Source: Ablo and Reinikka 1998.

The survey also unearthed other problems in the functioning of the education system. First, in contrast to the stagnation in enrollments indicated by officially reported data, the school survey found that primary enrollment actually increased 60 percent in 1991–95. Such a stunning discrepancy indicates that official statistics cannot always be trusted. Second, although the government’s share of spending on public primary education increased over time, most of the burden continued to be borne by parents, who accounted for as much as 70 percent of school spending in 1991 and 60 percent in 1995. Despite higher public spending, parents’ contributions continued to increase in real terms over the survey period.

Once the survey results were released in 1996, the government responded actively to them. To increase transparency and accountability, for example, the national government required districts to report monthly transfers of public funds in the main newspapers and broadcast on radio, and to display transfers to primary education on public notice boards in each school and district center. Moreover, the government replaced the central supply of construction and other materials with school-based procurement, and has made available detailed data on teacher salaries. In 1998, the Ministry of Education replicated the school survey and found major improvements in the flow of funds. This experience demonstrates that data can be a powerful tool of change.

This type of survey differs from the more typical service delivery surveys, which examine users' evaluation of the quality of services. Inputs and outputs on the supply side—such as the flow of public funds and school enrollment rates—are left for official statistics or administrative records. The experience in Uganda shows, however, that a survey can provide a useful check on the supply side of service delivery when institutions perform poorly and official statistics are lacking or of poor quality.

Conclusion

This paper has highlighted key issues in the process and substance of anti-corruption reform. It has stressed the importance of political leadership and coalition building to buttress reform efforts, while it has outlined how data can provide a powerful tool to induce and shape policy change. While moving from survey results to concrete policies remains a challenge, the cases of Albania, Georgia, Latvia, and Uganda have given illustrations of a data-driven approach to reform.