Corruption
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Overview

Most people know corruption when they see it. The problem is that different people see it differently.

-Kimberly Elliott

Corruption is a complex issue that can be viewed from many different perspectives: economic, legal, ethical, cultural, practical...

In some cases, these fit together: bribery is illegal and unethical.
Overview

Most discussions of corruption focus on the ethical:

*Corruption is unethical*

• But moral issues often obscure ethical issues—and do not provide a guide for *how* to deal with corruption. Today, we want to focus on the practical issues
Roadmap

• Defining corruption
• Measuring corruption
• Is Corruption Really a Problem?
• Costs of corruption
• Challenges to and strategies for ending corruption
• Exercise
Is This Corruption?

• You've recently started working for a consulting firm in a neighboring country. You purchased a one-month work visa which is the only work visa available, and you need now to extend it. You desire a one-year multiple-entry extension. You have two choices:
  - You can pay the official fee of approximately $150, fill in some forms and produce some documents none of which you will get right the first time or even the second time. Once you get the paperwork right you'll wait at least three to four weeks to get your passport back.
  - You can pay an agent $300 handing over only your passport and a photograph. Your passport will be returned to you the following day with a valid one-year multiple-entry business visa extension.

—What would you do?
Defining Corruption

• The use of public office for private gain
Defining Corruption

The use of public office for private gain

• Why is this not a good definition?
Defining Corruption

The use of public office for private gain

Problems:

• Interpreted in terms of legality of act (illegal = corrupt; legal = non-corrupt?);

• Onus is on the public official
Defining Corruption

TI: The misuse of entrusted power for private gain.
Is this Corruption?
Is this Corruption?

• One of your employees is also on the social action committee in her church. She sometimes will use the office photocopier to make a few copies of flyers for church events.
Is this Corruption?

- The Governor of a State accepts nearly $200,000 in gifts from a private company.
- The Governor attends the company conventions and sets up meetings between executives and lawmakers.
Is this Corruption?

• A private pharmacy is located very close to the Provincial General Hospital. The pharmacy is owned by the Medical Superintendent in charge of the public hospital.
Is this Corruption?

• The government of country X pays $10m to accounts controlled by the vice-president of a world sports federation to “support sport development in region Y.” But the money comes with no conditions

• Shortly after, region Y votes overwhelmingly to hold a world sporting event in country X.
Is this Corruption?
A small problem

• Your office manager comes to you with “a problem.” In order to complete the sale of one of your office’s cars, she will have to convince the police to fill in the original date on the car’s registration—this will cost ~$100 with no receipts.
Is this Corruption?

A small problem

• You ask why the date was not included on the form originally and why she does not just fill in the date herself.

• She responds that she doesn’t know the exact date on which the car was registered, but the police office will have a record. If the dates on the forms don’t match, the sale cannot be completed.

Do you authorize this expenditure from “petty cash?”
Defining Corruption

TI: The misuse of entrusted power for private gain.

3 Levels to Corruption:

- Public sector officials making demands
- Private sector complying with those demands
- Commercial corruption
Measuring Corruption

• Corruption, by its very nature, is illicit and secretive.
  - How does one measure something that individuals go to great lengths to hide?
  - How does one accurately measure the extent of corruption when attempts at measurement may cause the actors involved to either reduce their illicit behaviors during the periods of measurement, or find new ways to obscure their behaviors?
Magnitude of corruption

- World cost of corruption is estimated at US$ 1 trillion out of a 30 trillion economy (World Bank, 2004)
- Some national level estimates of corruption:
  - **Mexico**: around 15 percent of GNP today
  - **India**: around 20 percent of GDP
  - **Russia**:
    - >$300 billion paid out in bribes annually
    - More than half of all Russians have at some point been asked for a payoff.
Magnitude of corruption

TI: Most corrupt leaders

- **Subarto** ($15-35 billion)
- **Marcos** ($5-10 billion)
- **Mobutu** ($5 billion)
- **Abacha** ($2-5 billion)
- **Milosevic** ($1 billion)
- **Duvalier** ($300-800 million)
- **Fujimori** ($600 million)
- **Lazarenko** ($114-200 million)
- **Alemai** ($100 million)
- **Estrada** ($78-80 million).

The magnitude of corruption is usually measured by the way it is perceived.
Measuring corruption

- Transparency international (TI)
  - Corruption perception index
    - The CPI ranks more than 150 countries by their perceived levels of corruption, as determined by expert assessments and opinion surveys.
  - Global corruption barometer
    - Public opinion survey, 59,661 respondents in 63 countries.
  - Bribe payers index 2006
    - 30 leading exporting countries, responses of 11,232 business executives from companies in 125 countries.
Corruption Perception Index
ÍNDICE DE PERCEPCIÓN DE LA CORRUPCIÓN 2014

América

68% de países con resultado inferior a 50 de 100

El índice de Percepción de la Corrupción 2014 mide los niveles de percepción de corrupción del sector público en 175 países/territorios en todo el mundo. Para ver los resultados completos visite: www.transparency.org/cpi
Is this Corruption?

• A lobbying group meets with lawmakers (including a series of trips and dinners) and convinces them that to perform an economic impact assessment of all major policies. This assessment focuses on the risk of costs to business over and above health impacts.
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Corruption and Lobbying
Corruption and Lobbying

• Like lobbying, bribes influence buying or campaign contributions. However:
  1. Lobbying affects all firms in the industry.
     • Bribes have firm-specific effects.
  2. Lobbying has more permanent effects because there are costs associated w/enacting a law.
     • A bribed official might ask for another bribe in the future.
  3. In accepting or rejecting the lobbyist’s agenda the evaluation is based on the costs and benefits for the government--bribes depend on private costs and benefits.
Is Corruption Really a Problem?
Is Corruption Really a Problem?

Few would defend corruption on ethical grounds, but many have suggested that it can serve an economically useful function.
Is Corruption Really a Problem?

“Oil in the wheels of commerce”

• Corruption reduces bureaucracy and speeds the implementation of administrative practices governing economic forces of the market.
• Corrupt public officials acquire incentives to create a development-friendly system for the economy.
  – As a result, corruption starts a chain of benefits for all the economic actors, making overregulated obstructive bureaucracies much more efficient.
Is Corruption Really a Problem?  
Natural Response to Shortages

– Often in developing countries the demand for a service such as access to the courts, education, healthcare, or the attention of civil servants and politicians far outstrips the ability of public officials to cope. To prevent the system from grinding to a complete halt, a way of rationing has to be found and corruption provides such a system.

– In effect it places a price upon a service and enables officials to prioritize and go at least some way towards dealing with all the demands upon their time and resources.
Is this Corruption?

• One of your major contractors has just delivered a Christmas gift to all 15 members of your team. The gifts are within the policy limit of the government, but come in the wake of a difficult relationship with the contractor over the last year. This contractor has never given gifts before and their contract is up for renewal soon.

• What do you do?
Is this Corruption?
Gift-Giving

• A nurse in a public hospital accepts a bag of mangos from a patient

• A health inspector accepts from a restaurant:
  – Coffee?
  – Lunch?
  – A radio?
Is Corruption Really a Problem?  
Western concept

- Many traditional societies with a “gift culture” have a different understanding of civil responsibilities and etiquette.

- The social structure and political traditions of many countries are based on the beneficial exchange of rewards for services rendered, and cannot survive in its absence.
Is Corruption Really a Problem?
Condition of developing states

– Western countries were once the most corrupted societies of the world. Not only is corruption endemic in under-developed nations, it is also an evolutionary level that precedes development and industrialization.

– Corruption is a side effect of emerging capitalism and a free market. Underdeveloped countries cannot combat corruption without having achieved the level of economic development necessary to fight it.
Is Corruption Really a Problem?
Symptom of wider problem of governance

– Misguided policies have left many countries with complex and burdensome tangles of rules and regulations administered by huge state machines.

– Crackdowns on corruption will achieve nothing until these underlying problems are addressed first.
Is Corruption Really a Problem?

But:

• Not all rules are inefficient—bribes to overlook hazards
• Without competition among bribe takers, the bribe will exceed the cost of the public service being purchased with it, distorting the allocation of resources
• Delay and uncertainty are created when multiple officials must be bribed.
• A bribery culture reduces pressure to repeal inefficient laws—in fact, it creates in public officials a vested interest in preserving such laws. In that respect, it is a protection racket.
• Long term—creates inefficiencies of its own.
  — Kaufmann and Wei: the more a company has to bribe, the more time it spends tied up in negotiations with bureaucrats.
Costs of Corruption

- Political: institutions lose their legitimacy
- Economic: depletion of national wealth
- Social: weak civil society
- Environmental Degradation
Corruption and growth

• Most studies point to a negative impact of corruption on economic growth.

• But does growth have an impact on corruption?
  – Most countries which are rich today have low levels of corruption.

• Do lower levels of corruption $\Rightarrow$ high growth.

• Does growth $\Rightarrow$ lower levels of corruption.
Correlates of corruption
(Treisman 2007)

• What are the factors linked with lower corruption?
  – Economic development
  – Liberal democracy (especially those with a free press)
  – Parliamentary systems
  – Plurality electoral systems
  – High percentage of female representation
  – Openness to trade

• What are the factors linked with higher corruption?
  – Natural resources
  – Intensive regulatory regimes
  – Unpredictable inflation
Consequences of Corruption: Economic Development

- Lower levels of Aid and investment
- Propping up inefficient firms
- Allocation of talent, capital and technology away from its most efficient use
- Resources devoted to obtaining access
- Greater levels of informality
Challenges to Ending Corruption
Challenges to ending corruption

• Low salaries of public officials
• Effort to extend status or power
• Complexity and lack of accessibility to rules
• Discretionary power (monopoly)
• Poor governance/supervision at all levels
• Lack of absorption/management capacity
• Poor public information on govt decisions
• Lack of transparency of stakeholders
• Lack of accountability

Lack of Capacity
Strategies for Ending Corruption
Best Practices
Reducing corruption: lessons from Venezuela

Involving people in policymaking can curb corruption and increase efficiency, equity, and transparency.

Providing information to the public is an essential but insufficient step in making local government more transparent. A participatory process is also needed, both to ensure accountability and to reinforce healthy relations between people and government. Empirical data linked to a participatory program for institutional reform are key for eliciting broad interest in administrative organization—enabling citizens to improve municipal management.

A recent World Bank program in Campo Elias, Venezuela, used an innovative and effective approach to build participatory institutional frameworks and to apply best practices in public policymaking. As a result, corruption has fallen and services are delivered more efficiently. The program, which ran from April 1998 to December 1999, involved the World Bank Institute, the municipal government, and civil society. The experience shows the powerful benefits that come when local political will, technical capacity to execute reforms, and strong partnership with civil society are mixed to enhance efficiency, equity, and transparency.

Program background

Venezuela decentralized government services in 1989, spawning administrative and regulatory confusion. Unpredictable procedures and duplicated functions meant that there were no accountable or transparent methods for providing public services—creating incentives for corruption among local officials. Citizens often believed that bribes were the most effective way to get services and were not motivated to participate in the public sector.

In 1997 the Bank and several local non-governmental organizations sponsored a regional workshop in Caracas, Venezuela, to expose local officials to the merits of institutional reform. Thirty-five Latin American mayors participated, twenty requested Bank assistance for government reform, and three signed letters of agreement to undertake reforms and participate in pilots. After visits to the three municipalities, Campo Elias was selected for a pilot program.

Campo Elias is in the state of Mérida, Venezuela. The municipality’s 125,000 inhabitants are 89 percent urban and 11 percent rural. About 39 percent of the population is poor. In the past, corruption undermined the provision and maintenance of services and the quality of life in Campo Elias.

Diagnosing the problem

A survey of customer perceptions was conducted in Campo Elias in June and July 1998. Enterprises and citizens were asked about the delivery of services and the integrity and credibility of municipal government. The diagnostic survey concluded that two main factors affected perceptions of corruption. First, inefficient, excessively complex, and unpredictable administrative procedures were used to certify tax payments and to grant construction, industrial, and commerce permits. Second, public information and accountability were lacking.

A mix of political will, technical capacity, and partnership with civil society can enhance efficiency, equity, and transparency in government.
Exhibit 2. Corruption Assessment Framework

Step 1

Political-Economic Analysis
-- Syndrome Designation

Basic Strategic Implications

Consider legal-institutional constraints, opportunities, priorities

Legal-Institutional Analysis
-- Status of laws, institutions, programs, stakeholders, donors, priorities -- Checklist Analysis

Apply checklist analysis in context of syndrome implications

Step 2

Step 3

Strategic Outlook in Country Context
-- Delimited Problem Definitions

Consider strategy, priorities, risks, comparative advantages, and ongoing programs

Risky Sector/Function Designation

Consider program feasibility and actor commitment

Sectoral/Functional Diagnoses

Sectoral/Functional Recommendations

Identify cross-sectoral programs

Step 4

Integrated and Prioritized Recommendations

Apply general syndrome implications in context using decision criteria
Legal Framework: Cutting off the supply-side

- Foreign Corrupt Practices Act (US-1977)
- OECD Anti-Bribery Convention (1997)
- Inter-American Convention Against Corruption (1997)
- UN Convention Against Corruption (2003)
- Bribery Act (UK 2010)
- Amendment No. 8 to Article 164 (China 2011)
- Federal Law No. 97-FZ (Russia 2011)
Bribery and the Law: Common Features

• Bribery laws often seek to punish both bribe givers and takers:
  – Extra-territoriality
  – Criminal offense
  – Foreign public officials
  – Penalties for individuals
  – Corporate liability
There is a trend towards greater enforcement. Although a majority of the prosecutions are still in the US, there is pressure for other countries to catch up.

The financial losses from a bribery incident can be high. Some of the numbers are truly eye-catching – GlaxoSmithKline agreed to pay £3bn in the largest healthcare fraud settlement in US history.
Law enforcement
(Rose-Ackerman 2010)

• Degree of social harm should guide allocation of law enforcement (not whether bribe is in public/private sector)
  – But, penalties should be tied to benefits received by the corrupt
  – Specifically, penalties should be tied to the briber’s gains (excess profits) not the size of the bribe

• Criminalize private-to-private bribery
  – e.g. Foreign Corrupt Practices Act (FCPA) in US

• Whistleblower protection

• Decriminalization (e.g. drug legalization)
Other tools

• Multiple officials with overlapping jurisdictions
• Incentive payments
• Political competition
• Economic liberalization
• Information and transparency
  – Financial disclosures
  – Random audits made publicly available
  – Freedom of Information Act and the “Right to Information”
Strategic Choices in controlling corruption:

- What type of corruption to target?
- Which mechanisms?
- Which agents?
- Country-wide or targeted at a particular sector or agency?
Carrots & Sticks: Cost-Benefit Tradeoff?

- **Carrots:** Increase economic incentives so that an individual is less tempted to take bribes and becomes more afraid of losing a higher paying job.

- **Sticks:** Increase penalties and punishment.

“A law and economics approach focuses both on improving the deterrent effect of arrest and punishment and on providing incentives for people to come forward with documentation of corrupt deeds.” – Rose-Ackerman
Design of Anti-Corruption Strategies

• Causes and impact of corruption:

• The political, economic, institutional and social environment:
  – Is corruption country-wide or institution specific?
  – Do different political, administrative and economic configurations give rise to differing levels or types of corruption?
Design of Anti-Corruption Strategies

- Anti-corruption instruments cannot rely solely on government leadership and regulation
  - State institutions are generally weak
  - Agencies and officials may not want to change the system
Mechanisms for controlling corruption

Government Institutions & Processes

• Reform judicial system
• Introduce detailed rules that severely limit discretion of front-line workers
• Improve pay
• Improve monitoring of performance of managers and front-line workers
• Increase the certainty (not necessarily the severity) of punishment
Mechanisms for controlling corruption

Scope of government
• Reduce opportunities for corruption by:
  – Privatizing service delivery
  – Reduce monopoly provision (e.g., of telephone service)
  – Simplifying regulatory processes (e.g., multi-step licensing)
  – Ending licensing and price control rules rules (e.g., requiring license to import equipment, price controls on gasoline)
Mechanisms for controlling corruption

Transparency-focused

• Facilitate “whistle-blowing”
• Audit agency accounts
• Issue report cards on agency performance from government or civil society (e.g., Transparency International rankings)
• Increase transparency and competition in procurement
Design of Anti-Corruption Strategies

Individual Approaches

• Incentives to encourage rule-abiding behavior by agents who are predisposed to be opportunistic within their currently corrupt working environment:
  – reducing the scope for corruption through policy change
  – increasing the costs of corruption through external monitoring and sanctioning
  – devising systems to induce self-restraint within government including rewards for non-corrupt behavior or the reporting of corrupt behavior
Targeted or country-wide reform:

• Country-wide reforms include:
  – Government-wide increases in civil service pay
  – Publicizing overall corruption rankings
  – Create or strengthen national audit agencies
  – Reducing judicial corruption

• Sectorally-targeted approaches include:
  – Increasing training in specific agencies
  – “Ringfencing” specific programs or projects with donor-imposed controls
  – Scorecards on service delivery or corruption levels in specific agencies
  – Targeted prosecutions of corrupt officials
Innovative Mechanisms for Controlling Corruption
Making the “best” choices requires understanding:

• Potential benefits and costs of each option (including unintended consequences), and

• Conditions that facilitate and limit the probability that a mechanism will achieve its objective
Overall Keys to Ending Corruption

• Good Governance
• Civil Society
• Leadership
• Political Accountability
• Competitive Private Sector
• Innovation