

Anti-Corruption after the Scandals

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The resignations of World Bank President Paul Wolfowitz and USAID Administrator Randall Tobias may create a crisis in world-wide efforts to reduce corruption. You can already hear a cynical Third World response. "How can we be expected to fight corruption when the anti-corruption crusaders are themselves tainted? Nothing can be done about corruption."

Few people deny that corruption is a major obstacle to justice and democracy in the developing world. India's Prime Minister Manmohan Singh recently used a popular metaphor when he said "the cancer of corruption is eating into the vitals of our body politic."² Other presidents, including in China and Vietnam, have called corruption a cancer. The Eritrean Ministry of Information declares: "Corruption is a dangerous cancer that will destroy a healthy culture, pollute the moral and accepted values of the society, undermine the rule of law, decimate the social and economic rights of the majority and retard the production capacity of the people and government. It ... is the greatest threat to national security as well as to the reconstruction efforts." Progress in Afghanistan and Iraq is undermined by systematic corruption.

Corruption is not just found in developing countries, of course, even though this article will focus on them. The cancer metaphor appeared in the title of a CNN special on Congress last year.³ The first item on the Democratic Party's 6-Point Plan for 2006 was "Honest leadership and open government": "We will end the Republican culture of corruption..." The problem is not just Republicans (think of Rep. William Jefferson's indictment), nor is it confined to

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² May 25, 2007. <http://ridingtheelephant.blogs.fortune.com/>

³ http://www.pbs.org/thinktank/show_1221.html

the U.S. government. In May 2006, the President's Corporate Fraud Task Force said it had garnered more than 1,000 guilty pleas and convictions since mid-2002, including those of 167 chief executives and corporate presidents.

If corruption is a crucial challenge, and yet everywhere individuals and leaders are susceptible to misbehavior, what possibly can be done to reduce corruption? Fortunately, the answer is "a lot." The good news is we now have many cases of cities, ministries, and countries making impressive progress against corruption. Each case is different, but some themes emerge. Those who wish to reduce systemic corruption need to change a corrupt institutional culture. They need to mobilize and coordinate a variety of resources inside and outside the government. And they have to think in terms of corrupt systems instead of corrupt individuals.

What Is Corruption?

Corruption can be defined as the misuse of office for personal gain. The office can be a public office, or it can be any position of power, not just in government but also in the private sector, nonprofit organizations, even universities. Corruption is not a synonym for crime or economic crime, nor is it the same as waste, inefficiency, or laziness on the job—although all of them sometimes accompany corruption.

Corruption is an economic crime. Morality matters, of course, but given the level of public morality (which is only weakly susceptible to short-run political influence) the amount of corruption depends on economic calculations by the parties involved in the corrupt activity. What are the benefits of the activity? What is the probability of being caught, and if one is caught, what is the expected penalty? The corrupt individual will proceed if the benefit minus the moral cost minus the probability of being caught times the expected penalty is greater than zero.

Some administrative systems are more susceptible to corruption than others. A metaphorical equation applies: corruption equals monopoly plus discretion minus accountability. If an official has monopoly power over a good or service, the discretion to decide how much a particular client receives, and is not accountable, then there will be a tendency toward extortion or bribery.

Some political situations are more susceptible than others. The levels of corruption will vary across countries and institutions, depending on their specific situations. We may hypothesize that the levels of corruption will be lower when:

- Citizens agree broadly on the value of democracy and good governance.
- Government's role is limited to well-agreed areas, especially those for which government has a comparative advantage.
- There are not emergencies ranging from war to civil disorder to financial collapse to natural disasters, all of which may require dramatic and rapid actions that the protections of democracy and civil service may be unable or unwilling to provide.
- Civil servants are fairly paid and well qualified.
- The private sector is broad and competitive, with clear rules of the game and openness to foreign competition.

A final point: there is a continuum of corruption. At one end is a situation where some people in an organization are corrupt; there are always at least a few. At the other end is systemic corruption, where the parts of the system that are supposed to prevent corruption have themselves become corrupted—budgeting, auditing, inspection, monitoring, evaluation, and enforcement. Systemic corruption is much more difficult to fight. For example, we cannot simply call for capacity building in these anti-corruption parts of government, because their capacity can be bought off and directed away from their ostensible mission.

Change the Institutional Culture

When corruption is systemic, the institutional culture grows sick. The norm is corruption; expectations are that corruption will continue. Cynicism and despair are widespread. Change seems impossible.

And yet there are cases where leaders have made substantial progress in changing the institutional culture. Not completely and not forever, but enough to enable systemic corruption to be reduced. What did the leaders do?

In all cases I have studied, the leaders begin by sending a strong signal of change to their institutions and to citizens. But in corrupt societies, words count for little. People have heard plenty of rhetoric about corruption and now don't believe it. The culture of corruption contains the idea that big fish will swim free, that the powerful enjoy impunity. Successful leaders change this idea through impressive action, not just words.

One step is to fry a big fish (or two). Thirty years ago, Hong Kong's Independent Commission against Corruption was launched. One of the first steps was to capture and punish a former police commissioner, who symbolized impunity. Just after he assumed power in Colombia in 1998,

President Andrés Pastrana's anti-corruption team flew to several regions and held hearings about supposedly corrupt mayors and governors. The team had the power to suspend people from these offices—something that leaders in other countries may not have—and the team used this power to send a signal not only to the local leaders but to the whole country. The President's anti-corruption team also went after a specific case of corruption in the Congress—choosing as the big fish people from the President's own party. In 2001-2002, President Enrique Bolaños of Nicaragua went one step further. He locked up the former President Arturo Alemán, under whom Bolaños had served as Vice President, on charges of corruption.

A second principle is to change the institutional culture by “picking low-hanging fruit.” Successful reformers do not necessarily tackle the most important problem first, if that problem is very difficult. Instead, they create short-term successes that are highly visible and change expectations: “Maybe things can change...maybe they will change.” Short-term successes built momentum for long-term reforms.

Third, successful leaders bring in new blood. Even though they work with people within existing institutions, they invite in young people to be “eyes and ears” (as Mayor Ronald MacLean-Abaroa did in La Paz, Bolivia), business people to take important public positions (for example, the Anti-Corruption Czar under President Pastrana and many leaders of President Vicente Fox's reform efforts in Mexico), and young accountants to partner with “senior heroes” and investigate cases in depth (as in the case of Efren Plana, who famously reduced corruption in the Philippines' Bureau of Internal Revenue more than two decades ago).

Mobilize and Coordinate

A successful fight against systemic corruption must involve more than one agency of government. For example, success requires the help of the supreme audit authority, the police, the prosecutors, the courts, the finance functions of government, and others. What's more, the fight against corruption requires the help of the business community and civil society. They can provide unique information about where corruption is occurring and how corrupt systems work.

This suggests an apparent paradox. The fight against systemic corruption requires a strong leader—someone strategic and brave and politically astute. But the leadership trait that is most important is the ability to mobilize other actors and to coordinate their efforts productively. The task is not command and control, but mobilization and coordination.

For example, in Colombia the Anti-Corruption Czars of Presidents Pastrana and Alvaro Uribe have created mechanisms for coordination across major ministries and agencies of government (auditing, investigation, prosecution, and so forth). In the Philippines, Bureau of Internal Revenue head Plana used investigators from the Defense Ministry, where he used to work, to document the lifestyles of the top 125 employees of the BIR. He invited the Commission on Audit to supplement the BIR's internal audits. He used the press to publicize cases of BIR corruption, which created a highly effective form of non-judicial punishment.

It is important to mobilize the employees of the systemically corrupt institutions. Surprisingly perhaps, it turns out that even people involved in corrupt systems are willing and able to analyze where those systems are vulnerable to corruption—as long as the focus is on corrupt systems and not on condemning isolated individuals.

Successful reforms also do something good for their public sector employees. For example, new systems of performance measurement are linked with better pay, promotion policies, and “prizes” such as overseas trips and courses.

Those who have successfully fought systemic corruption have involved the people. Mayor MacLean-Abaroa invited citizens' groups to become involved in local public works, which enabled new kinds of accountability. So did Mayor Jesse Robredo in Naga City, Philippines, and Mayor Elba Soto in Campo Elias, Venezuela. Mayor Soto created an Office for Development and Citizen Participation, using citizens as eyes and ears to insure successful implementation of public works. Some leaders have invited business groups and lawyers and accountants to describe how corrupt systems work and to suggest remedial measures.

Efforts in e-government are proliferating around the world, with the promise of reducing corruption. President Pastrana's team used the Internet to publicize all contracts and budgets—and also to enable citizens to denounce cases of inefficiency and possible corruption. Similar efforts in Mexico and Korea, among many others, have led to documented reductions in corruption.

Successful leaders also mobilize international assistance. Foreign aid can be used to diagnose existing corrupt systems. Aid can enable experiments, such as “report cards” where citizens give marks to different public services, as in Bangalore, India.

Reform Systems

In the longer term, reducing corruption requires new systems. Successful leaders understood that better systems go well beyond better laws and new codes of conduct. As mentioned above, corruption flourishes when someone has monopoly power over a good or service, has the discretion to decide how much you get or whether you get any at all, and where transparency and accountability are weak. So, corruption-fighters must reduce monopoly, clarify discretion, and increase transparency in many ways.

Reducing monopoly power means enabling competition, as in government contracts in La Paz and in Colombia. Mayor MacLean-Abaroa got the city of La Paz out of the construction business, meaning that public works could be carried out by any of a number of private companies. Mexico now puts online all government contracts and procurement plans before and after the decisions are made, so prices and winners are public knowledge. Argentina reduced corruption in hospitals by publishing prices of all purchases throughout the hospital system. Corrupt deals that had resulted in higher prices were quickly made evident.

Limiting discretion means clarifying the rules of the game and making them available to the common man and woman. Mayor MacLean-Abaroa created a “Manual for the Paceño,” which described simply and in three languages what was required to get a permit, build a house, start a business, and so forth. President Pastrana used the Internet to limit discretion: it became harder for a government official to trick a citizen because the rules of the game were available online. Judge Plana simplified the tax code, making it simpler to understand and reducing thereby the effective discretion of BIR employees.

Enhancing accountability means many things, and creative leaders use a remarkable variety of methods. One way to improve accountability is to improve the measurement of performance. Leaders can work with their employees and clients to create new systems for measuring the performance of agencies and offices—and then link rewards to results.

Another method is listening and learning from businesses and from citizens. This includes mechanisms for public complaints, but it goes beyond the reporting of individual instances of abuse to the diagnosis of corrupt systems. President Pastrana’s *Colombiemos* campaign linked up the *veedurías* around Colombia, enabling these non-government organizations to provide even better oversight of public programs and leaders.

Accountability is also increased by inviting outside agencies to audit, monitor, and evaluate. Finally, the press can be an important source of accountability, if

they are invited to be partners in reform instead of treated as potential political enemies.

Successful reformers recognize that corruption is an economic crime, not a crime of passion. Reformers work hard to change the risk-reward calculations of those who might give bribes and those who might receive them. Raising pay is good, especially for Ministers and other government leaders. Salaries should be somewhat competitive with the private sector—perhaps 80 percent is a good norm. But note that beyond some reasonable minimum that enables leaders to live well, the level of pay does not have much of an effect on corrupt calculations. “Should I take this bribe or not?” The answer depends on the size of the bribe (which is a function of my monopoly power and my discretion), the chance I’ll be caught (a function of accountability), and the penalty I’ll pay if I’m caught. It only depends a little on my level of income, at least once I have enough to live on. Therefore, once salaries for top officials are “reasonable,” leaders should emphasize improving information about performance and the incentives attending good and bad performance.

What about ethics and morality? Successful leaders set a good example. They sometimes create training programs for employees and citizens. Nonetheless, in the success stories I have studied, what might be called “moral initiatives” are not the key feature of the long-term reforms. The keys are systems that provide better incentives for imperfect human beings to perform in the public interest—and to avoid corruption.

Subverting Corruption

There is one final and important point to make. When corruption has become systemic, it resembles organized crime. It has its own parallel system of recruitment and hierarchy, of rewards and punishments, of contracts and enforcement. This parallel system has some inherent weaknesses. For example, in no country of the world are bribery and extortion legal. Therefore, they must be kept (somewhat) secret. The money gained must be hidden. One cannot openly recruit new members. The mechanisms for enforcement are illicit.

How can these corrupt systems be subverted? Obviously we cannot count on members of organized crime to clean themselves. Instead, we must analyze the corrupt systems and ask, “How might they be destabilized?” Who is “we”? It can be a new president and his or her team, or a new mayor or head of a public enterprise. But it can also be you and me as members of civil society. Around the world we see new examples of citizen activism, of business groups entering into “integrity pacts,” of intellectuals and journalists and religious leaders

going beyond lectures and sermons to analyze corrupt systems and work together to subvert them.

For example, a corrupt system of road building (in a country I am not free to mention) involved senators, government executives, and key business people. The system involved many “emergency works” that were let on a noncompetitive basis—at a price 30 percent higher than works bid competitively. The surcharge was shared corruptly. This system did not involve all senators, all government officials, or all businesses. The honest ones combined forces. They analyzed the corrupt system. They documented the lifestyles of the corrupt senators and officials. Finally, they publicized the results. The corrupt system could not withstand the light, and soon the key figures were in jail.

Those wishing to fight systemic corruption will mobilize people in the same way. Together, they can analyze corrupt systems and document lifestyles far out of proportion to official pay. And together, they can subvert organized crime and corruption.

All of these points mean that we must move beyond the perceived transgressions of particular leaders, in our countries and theirs. We need to remind people and policy makers that fighting corruption is not a morality play, or at least not only that. We have to focus on corrupted systems, rather than corrupt individuals. Corruption is a crime of calculation, and regarding this sensitive subject we have to be at our coolest and most cerebral to make progress. We have to analyze ways to shock corrupt administrative cultures into seeing that change is possible. We have to build political alliances and momentum. We have to reduce monopoly, clarify official discretion, and enhance accountability. And we have to find ways to involve citizens, journalists, non-government organizations, businesses, and government officials in the diagnosis and remediation of corrupt systems. Experience shows that corruption *can* be reduced, even where it seems to be endemic.