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## *Tailoring the Fight against Corruption to Country Circumstances*

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Although statistics on corruption are often questionable, the data suggest that corruption accounts for a significant proportion of economic activity. In Kenya “questionable” public expenditures noted by the controller and auditor general in 1997 amounted to 7.6 percent of GDP. In Latvia a recent World Bank survey found that more than 40 percent of households and enterprises agreed that “corruption is a natural part of our lives and helps solve many problems” (Shah and Schacter 2004: 40). In Tanzania service delivery survey data suggest 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 (Tapales 2001).

A 2004 World Bank study of the ramifications of corruption for service delivery concludes that an improvement of one standard deviation in the International Country Risk Guide 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. Studies also show that corruption slows growth, impairs capital accumulation, reduces the effectiveness of

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development aid, and increases income inequality and poverty (World Bank 2004; Hall and Jones 1999; Gupta, Davoodi, and Alosno-Terme 1998).

Not surprisingly, there has been a growing global movement to condemn corrupt practices—a movement that has resulted in the removal of some national leaders. In addition, many governments and development agencies have devoted substantial resources and energies to fighting corruption in recent years. Despite these efforts, however, it is not clear that the incidence of corruption has declined perceptibly, especially in highly corrupt countries.

This chapter 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 that 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.

This chapter examines the conceptual and empirical basis of these concerns. The next section defines corruption and governance and discusses the importance of current concerns about corruption. The second section describes some theoretical models of the drivers of corruption and summarizes lessons drawn from country case studies. The third section examines how government policy makers can approach anticorruption, depending on specific circumstances in their countries. The last section presents some conclusions.

### What Is Corruption?

*Corruption* is defined as the exercise of official powers against public interest or the abuse of public office for private gains.<sup>1</sup> Public sector corruption is a symptom of failed governance. *Governance* is defined as the norms, traditions, and institutions by which power and authority in a country are exercised. These norms, traditions, and institutions include the institutions of participation and accountability in governance, mechanisms of citizen voice and exit, and norms and networks of civic engagement; the constitutional-legal framework and the nature of accountability relationships between citizens and government; the process by which governments are selected, monitored, held accountable, and renewed or replaced; and the legitimacy, credibility, and efficacy of the institutions that govern political, economic, cultural, and social interactions among citizens and between citizens and their governments.

Concern about corruption is as old as the history of government. In 350 B.C.E., Aristotle suggested in *The Politics*, “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.”

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Concerns about corruption have mounted in recent years, in tandem with growing evidence of its detrimental impact on development (see World Bank 2004). Corruption slows GDP growth (Mauro 1995; Abed and Davoodi 2000) and adversely affects capital accumulation (Lambsdorff 1999a, b). It lowers the quality of education (Gupta, Davoodi, and Tiongson 2000); public infrastructure (Tanzi and Davoodi 1997); and health services (Tomaszewska and Shah 2000; Triesman (1999b)). It reduces the effectiveness of development aid and increases income inequality and poverty (Gupta, Davoodi, and Alonso-Terme 1998). Bribery, often the most visible manifestation of public sector corruption, harms the reputation of and erodes trust in the state. Poor governance and corruption make it more difficult for the poor and other disadvantaged groups, such as women and minorities, to obtain public services. Corruption may also affect macroeconomic stability, 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. The Bank of Credit and Commerce International (BCCI) scandal, uncovered in 1991, for example, led to the financial ruin of Gabon's pension system; the corrupt practices at Mehran Bank in the Sindh Province of Pakistan in the mid-1990s led to a loss of confidence in that country's national banking system.

Corruption is not manifested in one single form. It typically takes at least four broad forms:

- *Petty, administrative, or bureaucratic corruption*: Many corrupt acts are isolated transactions by individual public officials who abuse their office 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 people associated with, the political or administrative elite—constitutes grand corruption.
- *State or regulatory capture and influence peddling*: State capture is the collusion by private actors with public officials or politicians for their mutual, private benefit. In this form of corruption, 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.

- *Patronage, paternalism, clientelism, and being a “team player”*: Corruption occurs when officials use their official position to provide assistance to clients or colleagues with the same geographic, ethnic, or cultural origin so that they receive preferential treatment in their dealings with the public sector, including public sector employment.

### What Drives Corruption?

The factors that cause corruption are country specific. 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. Policy makers need to understand the local circumstances that encourage or permit public and private actors to be corrupt. Efforts to combat corruption also demand strong local leadership and ownership if they are to be successful and sustainable.

Public sector corruption, as a symptom of failed governance, depends on a multitude of factors, such as the quality of public sector management, the nature of accountability relations between the government and citizens, the legal framework, and the degree to which public sector processes are accompanied by transparency and dissemination of information. Efforts to address corruption that fail to adequately account for these underlying drivers are unlikely to generate profound and sustainable results.

To understand these drivers, a conceptual and empirical perspective is needed to understand why corruption persists and what can be done to stop it. At the conceptual level, a number of interesting ideas have been put forward.<sup>2</sup> These ideas can be broadly grouped into three categories: principal-agent models, new public management perspectives, and neoinstitutional economics frameworks.

### Principal-Agent Models

The most widely used modeling strategy is the principal-agent model. A common thread in these models is that the government is led by a benevolent dictator (the principal), who aims to motivate government officials (agents) to act with integrity in the use of public resources (see Becker 1968, 1983; Becker and Stigler 1974; Banfield 1975; Rose-Ackerman 1975, 1978; Klitgaard 1988, 1991).

One such view, the “crime and punishment” model of Gary Becker (1968), states that self-interested public officials seek out or accept bribes as long as the expected gains from corruption exceed the expected costs

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(detection and punishment) associated with corrupt acts. According to this view, corruption could be mitigated by reducing the number of transactions over which public officials have discretion, reducing the scope of gains from each transaction, increasing the probability for detection, or increasing the penalty for corrupt activities.

Klitgaard (1988) restates this model to emphasize the unrestrained monopoly power and discretionary authority of government officials. According to him, corruption equals monopoly plus discretion minus accountability. Under this framework, corruption is curtailed by establishing a rules-driven government that includes strong internal controls and leaves little room for discretion by public officials. This model gained wide acceptance in public policy circles and served as a foundation for empirical research and policy design to combat administrative, bureaucratic, and petty corruption. Such an approach is not appropriate in highly corrupt countries, however, where the rules enforcers themselves add an extra burden of corruption and lack of discretion is thwarted by collusive behavior by corruptors. In fact, lack of discretion is often cited as a defense by corrupt officials who partake in corruption as part of a vertically well-knit network enjoying immunity from prosecution.

Another variant of the principal-agent model integrates the role of legislators and elected officials in the analysis. In this variant, high-level government officials—represented by legislators or elected public officials—institute or manipulate policy and legislation in favor of particular interest groups (representing private sector interests and entities or individual units of public bureaucracy competing for higher budgets) in exchange for rents or side payments. Legislators weigh the personal monetary gains from corrupt practices and improved chances of re-election against the chance of being caught, punished, and losing an election with a tarnished reputation. Factors affecting this decision include campaign financing mechanisms, information access by voters, the ability of citizens to vote out corrupt legislators, the degree of political contestability, the type of electoral system, the democratic institutions and traditions in place, and the institutions of accountability in governance (see Rose-Ackerman 1978; Andvig and Moene 1990; Grossman and Helpman 1994; Flatters and Macleod 1995; Chand and Moene 1997; Van Rijckeghem and Weder 2001; and Acconcia, D'Amato, and Martina 2003). This conceptual framework is useful in analyzing political corruption or state capture.

A fine line divides theoretical models that focus on the effects of localization on corruption and those that analyze the decentralization of corruption within a multitier hierarchy from an industrial organization of corruption

type of framework. In the multitier hierarchy approach, a distinction is made between top-down corruption (in which corrupt high-level officials buy lower-level officials by sharing a portion of their gains) and bottom-up corruption (in which low-level officials share the bribes they collect with higher-level officials in order to avoid detection or punishment). Top-down corruption is more likely to exist in a federal system of governance, where power may be shared by various orders of government. Bottom-up corruption is more likely to prevail in unitary or centralized forms of governance or in dictatorial regimes.

The impact of governance on corruption networks is an interesting topic that has not been studied adequately. Tirole (1986) analyzes one aspect of this network by means of a three-tier principal-supervisor-agent model (see also Guriev 1999). This extension of a conventional principal-agent model helps draw inferences about the type of corrupt relations that could evolve under a three-tier unitary government structure. These inferences are highly sensitive to underlying assumptions about principal-agent relationships under a multitiered system of governance.<sup>3</sup> In Guriev's three-tier hierarchy model, the mid-level bureaucrat supervises the agent and reports to the principal. Guriev (1999: 2) concludes that top-level corruption "is not efficient, as it redistributes rents in favor of agents, and therefore makes it more attractive for potential entrants," thereby leading to higher total corruption.

Shleifer and Vishny (1993) use a conventional industrial organization model to analyze corruption. They conclude that decentralization is likely to increase corruption. In their model government bureaucracies and agencies act as monopolists selling complementary government-produced goods that are legally required for private sector activity. The main idea behind the model is that under centralized corruption, bureaucracies act like a joint monopoly, whereas under decentralized corruption bureaucracies behave as independent monopolies. When bureaucracies act as independent monopolies, they ignore the effects of higher prices on the overall demand for a good and hence drive up the cumulative bribe burden.

Waller, Verdier, and Gardner (2002) define decentralized corruption as a system in which higher-level officials collect a fixed amount of bribe income from each bureaucrat who takes bribes, without mandating the bribe size the bureaucrats charge. In a centralized system, in contrast, bribe size is determined by the higher level of government, which collects the bribes from bureaucrats and redistributes them after keeping a share. Waller, Verdier, and Gardner posit that decentralized corruption leads to lower levels of total corruption in the economy (lower spread), higher levels of bribe per entrepreneur (higher depth), and a smaller formal sector

than does a centralized corruption equilibrium. These results vary widely for specific “regimes” in the model, however: if, for example, wages are high enough and monitoring systems effective enough, centralized corruption may reduce total corruption and expand the formal economy.

Ahlin (2001) focuses on the effects of different types of decentralization, from a horizontal, as opposed to hierarchical, perspective. In his model a country is divided into regions, each with a given number of independent power groups. Bureaucratic decentralization affects the political organization in a region by increasing the number of power groups or bureaucracies; the number of jurisdictions captures the degree of regional decentralization. Ahlin’s theoretical results suggest that corruption is determined by mobility of economic agents across regions. Under the assumption of no interregional mobility, corruption increases with the degree of bureaucratic decentralization but is independent of the degree of regional decentralization. For perfect interregional mobility, corruption decreases with regional decentralization and is independent of bureaucratic decentralization. A key intuition of the model is that corrupt bureaucrats fail to internalize the costs of increases in bribes imposed on other bureaucrats.

Arikan (2004) uses a tax competition framework to examine localization-corruption links. In his model corruption is measured as the proportion of tax revenue appropriated by bureaucrats; decentralization is captured by the number of jurisdictions competing for a mobile tax base. Local governments decide on the levels of tax rates and corrupt earnings in order to maximize a weighted sum of corrupt earnings and citizens’ utility. A higher degree of decentralization is expected to lead to lower levels of corruption.

Bardhan and Mookherjee (2005) shed light on the determinants of capture of the democratic process. They conclude that the extent of capture is ambiguous and context specific: the extent of capture at the local level depends on the degree of voter awareness, interest group cohesiveness, electoral uncertainty, electoral competition, and the heterogeneity of interdistrict income inequality. A key assumption of this model is that the degree of political awareness is correlated to education and socioeconomic position. In particular, the model assumes that the fraction of informed voters in the middle income class is lower than or equal to the fraction of rich voters and higher than the fraction of poor voters. Uninformed voters are swayed by campaign financing, whereas informed voters favor the party platform that maximizes the utility of their class. The outcome of local and national elections in terms of policy platforms will coincide under four assumptions: (a) all districts have the same socioeconomic composition, and swings among districts (district-specific preferences for

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one of two political parties) are perfectly correlated; (b) national elections are majoritarian; (c) there is an equal proportion of informed voters in local and national elections; and (d) the proportion of rich who contribute to their lobby is equal at the national and local levels (that is, the rich are as well organized nationally as they are locally). Capture will be higher at the local level if the proportion of informed voters is lower at the national level and the rich are less organized nationally than they are locally. Greater electoral uncertainty at the local level as a result of differences in electoral competition implies less capture at the local level. If, for example, swing voters are not identical but are drawn from the same distribution across districts (assuming this distribution satisfies a regularity condition), heterogeneity of swing voters will favor different parties, implying less capture of the nationally dominant party.

No definitive conclusions can be drawn about corruption and the centralization-decentralization nexus from agency-type conceptual models. These models simply reaffirm that the incidence of corruption is context dependent and therefore cannot be uncovered by generalized models.

### **New Public Management Frameworks**

The new public management literature points to a more fundamental discordance among the public sector mandate, its authorizing environment, and the operational culture and capacity. This discordance contributes to government acting like a runaway train and government officials indulging in rent-seeking behaviors, with little opportunity for citizens to constrain government behavior. This viewpoint calls for fundamental civil service and political reforms to create a government that is under contract and accountable for results. Under these reforms, public officials would no longer have permanent rotating appointments but instead would keep their jobs as long as they fulfilled their contractual obligations (Shah 1999, 2005).

The new public management paradigm has clear implications for the study of localization and corruption, as it argues for contractual arrangements in the provision of public services. Such a contractual framework may encourage competitive service delivery through outsourcing, strengthening the role of local government as a purchaser but not necessarily a provider of local services. The new public management goals are harmonious with localization, as greater accountability for results reinforces government accountability to citizens through voice and exit mechanisms. Conceptually, therefore, new public management is expected to reduce opportunities for corruption (see Shah 1999, 2005; Von Maravic 2003).

Andrews and Shah (2005a) integrate these ideas in a common framework of citizen-centered governance. They argue that citizen empowerment holds the key to enhanced accountability and reduced opportunities for corruption. Others disagree with such conclusions and argue that new public management could lead to higher corruption rather than greater accountability, because the tendering for service delivery and separation of purchasers from providers may lead to increased rent-seeking behaviors and enhanced possibilities for corruption (Batley 1999; Von Maravic 2003). Some argue that decentralized management leads to weaker vertical supervision from higher levels and the inadequacy of mechanisms to exert controls over decentralized agencies (Scharpf 1997). This loss in vertical accountability is seen as a source of enhanced opportunities for corruption. Of course, this viewpoint neglects potential gains from greater horizontal accountability.

### Neoinstitutional Economics Frameworks

Neoinstitutional economics presents a refreshing perspective on the causes and cures of corruption. This approach argues that corruption results from opportunistic behavior of public officials, as citizens are either not empowered to hold public officials accountable for their corrupt acts or face high transaction costs in doing so. Neoinstitutional economics treats citizens as principals and public officials as agents. Principals have bounded rationality—they act rationally based on the incomplete information they have. They face high transaction costs in acquiring and processing more information. In contrast, agents (public officials) are better informed. This asymmetry of information allows agents to indulge in opportunistic behavior that goes unchecked because of the high transaction costs faced by principals and the lack of adequate countervailing institutions to enforce accountable governance.<sup>4</sup>

Corrupt countries have inadequate mechanisms for contract enforcement and public safety and weak judicial systems. These deficits raise the transaction costs in the economy, increasing the cost of private capital as well as the cost of public service provision. The problem is compounded by path dependency (the fact that a major break with the past is difficult to achieve, because major reforms are likely to be blocked by influential interest groups); cultural and historical factors; and attitudes, in which those who are victimized by corruption feel that attempts to deal with corruption will lead to further victimization, with little hope of corrupt actors being brought to justice. These considerations lead principals to the conclusion that any attempt on their part to constrain corrupt behaviors will invite

strong retaliation from powerful interests. Therefore, citizen empowerment (through devolution, citizens' charters, bills of rights, elections, and other forms of civic engagement) assumes critical importance in combating corruption, because it may have a significant impact on the incentives faced by public officials to be responsive to public interest.

### Lessons from Country Case Studies

The empirical literature on corrupt lends support to the neoinstitutional economics perspective. It identifies key drivers based on in-depth country studies (including a 2004 World Bank look at Guatemala, Kenya, Latvia, Pakistan, the Philippines, and Tanzania) and econometric studies of developing, transition, and industrial countries (see Tomaszewska and Shah 2000; Gurgur and Shah 2002; Huther and Shah 2000).

The six country case studies by the World Bank examined the root causes of corruption and evaluated the impact of World Bank efforts to reduce corruption in each country. These studies identified the following drivers of corruption:

- *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, creating 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 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 (stopping motorists for invented traffic violations as an excuse for extracting bribes, for example). The independence of the judiciary—a pillar of the rule of law—is also usually deeply compromised in highly corrupt countries.
- *Institutions of participation and accountability are ineffective.* Societies in which the level of public sector corruption is relatively low usually have strong institutions of participation and accountability that control abuses of power by public officials. These institutions are either created by the

state itself (for example, electoral process, citizens' charter, bills of rights, auditors general, the judiciary, the legislature) or arise outside of formal state structures (for example, the news media and organized civic groups). In highly corrupt countries, weaknesses in institutions of participation and accountability are glaring.

- *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 in which 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.

### What Can Policymakers Do to Combat Corruption?

Experience strongly suggests that combating corruption requires an indirect approach that starts with its 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 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 (table 7.1).

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 anticorruption strategy should include tactics that narrowly target corrupt behaviors and the more it should focus on the broad underlying

**TABLE 7.1** Priorities for Anticorruption Reforms Given Level of Corruption and Quality of Governance

Incidence of corruption/ quality of governance	Priorities for 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; introduce accountability for results
Low/good	Establish anticorruption agencies, strengthen financial accountability, raise public and official awareness, require antibribery pledges, conduct high-profile prosecutions

Source: Huther and Shah 2000.

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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 in which corruption is rampant and the governance environment deeply flawed. In fact, in environments where governance is weak, anticorruption agencies are prone to being misused as tools of political victimization. These types of interventions are more appropriate in a “low” corruption setting, where governance fundamentals are reasonably sound and corruption is a relatively marginal phenomenon.

The model also suggests that where corruption is high (and the quality of governance correspondingly low), it makes more sense to focus on the underlying drivers of malfeasance in the public sector—by building the rule of law and strengthening institutions of accountability, for example. 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). Malaysia’s adoption of a “clients’ charter” in the early 1990s that specified service standards and citizen recourse in the event of noncompliance by government agencies helped reorient the public sector toward service delivery and transform the culture of governance (Shah 1999, 2005).

In societies in which the level of corruption is moderate, it may be advisable to attempt reforms that assume a modicum of governance capacity. Such reforms include 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.

With this model in mind, it is not hard to understand why so many anti-corruption initiatives have met with so little success (table 7.2). Media awareness campaigns and workshops on corruption targeted to government officials, parliamentarians, and journalists have almost universally failed. 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. In contrast, 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.

Decentralization illustrates the importance of understanding the circumstances in which corruption occurs. There is evidence that decentralization can be an effective antidote to corruption, because it increases the accountability of public authorities to citizens (see Gurgur and Shah 2002; Shah, Thompson, and Zou 2004). But decentralization creates hundreds of

**TABLE 7.2** Empirical Evidence on Success of Selected Anticorruption Programs

Program	Empirical evidence
Anticorruption agencies	Anticorruption agencies have been successful in Australia, Chile, Hong Kong (China), New South Wales, and Singapore (Klitgaard 1997; Segal 1999). Developing country officials, however, do not view such agencies as effective anticorruption tools in countries with endemic corruption (Kaufmann 1997; Shah and Schacter 2004).
Public opinion surveys	Public opinion surveys have served as a useful tool in articulating citizen concerns (examples are the scorecard used in Bangalore, India, and the “corruptometer” used by an Argentine NGO). Transparency International surveys, such as those compiled by International, highlight countries in which corruption is perceived to be endemic.
Higher public sector wages	Van Rijckeghem and Weder (2001) find no short-run impact of raising public sector wages, as the income from bribery dominates total income. Gurgur and Shah (1999, 2000) find a negative but insignificant effect; Treisman (1999b) and Swamy and others (2001) find no relationship. The Swiss Agency for Development and Co-operation (SDC) finds no relationship between wage increases and corruption in the forestry sector in Pakistan. 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 needed to repay the loans. Where public sector wages are so low that officials cannot live on their wages, raising salaries is likely to reduce petty corruption. <span style="float: right;">[[AU: add reference here and in reference list]]</span>
Smaller public sector size	Tanzi and Davoodi (1998), LaPalombara (1994), and La Porta and others (1997) find that reducing the size of the public sector reduces corruption. Gurgur and Shah (1999) find that this result holds only when important variables such as the judiciary, democratic institutions, colonial heritage, decentralization, and bureaucratic culture are omitted. Elliot (1997) finds an inverse relationship between budget size and corruption. Privatization in some countries (such as the Russian Federation) has led to increased corruption and exploitation. <span style="float: right;">[[AU: Cite source?]]</span>
Media independence	Freedom of the press is negatively correlated with the level of corruption (Brunetti and Weder 1998).
Judicial independence	Judicial independence reduces corruption, according to Ades and Di Tella (1996), Goel and Nelson (1998), and Gurgur and Shah (1999, 2002).

*(continued)*

**TABLE 7.2** Empirical Evidence on Success of Selected Anticorruption Programs (*continued*)

Program	Empirical evidence
Citizen participation	Citizen participation leads to reduced corruption, according to Kaufman and Sachs (1998) and Gurgur and Shah (1999, 2002).
Decentralization	Decentralization and corruption are negatively correlated, according to Huther and Shah (1998), Gurgur and Shah (2002), and Fisman and Gatti (2002).
Bureaucratic culture	Gurgur and Shah (1999, 2002) find a positive relationship between command and control-type civil service orientation and corruption.

Source: Huther and Shah 2000.

new public authorities, each having powers to tax, spend, and regulate that are liable to abuse in environments where governance is weak. As the World Bank's analysis of the Philippines in the 1990s shows (Tapales 2001), decentralization may multiply rather than limit opportunities for corruption if it is implemented under the wrong circumstances.

The model provides some insights into the effect of 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). 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). Reducing wage compression may even encourage corruption, if public sector positions are viewed as a lucrative career option. 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.

The effectiveness of "watchdog" agencies with a mandate to detect and prosecute corrupt acts—which most developing countries have established—also depends on the governance-corruption nexus. Watchdog agencies have achieved success only in countries where governance is generally good, such as Australia and Chile. In weak governance environments, these agencies often lack credibility and may even extort rents. In Kenya, Malawi, Nigeria, Sierra Leone, Tanzania, and Uganda, for example, anticorruption 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 lacks a mandate to investigate corruption in the powerful and influential military. Ethics offices and ombudsmen have had

**TABLE 7.3** Relevance of Anticorruption Programs Given Country Circumstances

Program	Relevance of program when governance is				Comments
	Weak	Fair	Good		
Public awareness raising of corruption through seminars	Not relevant	Low	Medium		In countries with weak governance, corrupt practices and agents are generally well known.
Awareness raising of public officials through seminars	Not relevant	Low	Medium		Public officials may be aware of corruption but unwilling or unable to take action because of incentive problems in countries with weak governance.
Anticorruption agencies/ombudsmen	Not relevant	Low	Medium		With endemic corruption, anticorruption agencies or ombudsmen may extort rents. Their influence is likely to be positive if preconditions for good governance exist.
Ethics office	Not relevant	Low	Medium		Positive influence may be limited to societies with good governance.
Increase in public sector wages	Negligible	Low	Medium		Little impact on grand corruption; may have positive impact on petty corruption. Impact will be negative if part of problem is excessive public employment.
Reduction in wage compression	Negligible	Negligible	Negligible		More relevant as an incentive mechanism for career development than for reducing corruption. May increase corruption if greedy elements of society view public sector as lucrative career.
Merit-based civil service	Low	Medium	High		May be derailed by bureaucratic processes in highly corrupt societies.

*(continued)*

**TABLE 7.3** Relevance of Anticorruption Programs Given Country Circumstances (*continued*)

Program	Relevance of program when governance is			Comments
	Weak	Fair	Good	
Public opinion surveys	Low	Medium	Medium	Have served as a useful tools in articulating citizens concerns (in Bangalore, India, for example).
Financial accountability	Low	Low	Medium	Appropriate when democratic accountability and a substantial accounting/bookkeeping infrastructure with some integrity are in place.
Parliamentary oversight	Low	Medium	Medium	Can be helpful, but parliamentary micromanagement is not an effective form of governance.
Reduction in public sector employment	Medium	Low	Low	May reduce opportunities for corruption.
Decentralization	Medium	Low	Low	May improve accountability and increase sense of social purpose for public officials.
Client-based civil service /bureaucratic culture	Medium	Medium	Low	Success depends on service delivery orientation of public service, reinforced by accountability for results.
Economic policy reform	High	Medium	Low	Reduces potential corruption by shifting decision making to private sector.
Media and judicial independence, citizen participation	High	Medium	Low	Allows for detection, followed by accountability.
Reduction in size of public sector	High	Medium	Low	Allows officials to focus on primary objectives of the state.
Rule of law	High	Medium	Low	Essential for any progress.

Source: Hutter and Shah 2000.

no more success than anticorruption agencies in countries where governance is poor (Huther and Shah 2000; Shah and Schacter 2004).

This discussion confirms the policy conclusion that due recognition of the initial conditions is critical for the effectiveness of anticorruption policies. Anticorruption strategies are unlikely to succeed unless they recognize the pecking order of reforms in poor governance environments (table 7.3).

### Conclusions: Don't Use the "C" Word

Policy makers too often use the "C" word and focus directly on dealing with the symptoms of corruption while ignoring the broader disease of dysfunctional governance. Only by focusing on governance is the fight against corruption likely to be successful in the long run. The following considerations may be helpful in designing and implementing anticorruption strategies:

- *Recognize the pecking order of reforms.* Because corruption reflects a system of failed governance, the higher the incidence of corruption, the less an anticorruption strategy should include tactics that are narrowly targeted to corrupt behaviors and the more it should focus on the broad underlying features of the governance environment. This suggests a pecking order of reforms in highly corrupt countries. The first order of priorities in these countries should be establishing the rule of law, strengthening institutions of participation and accountability, and establishing a citizens' charter defining basic legal rights, including access to defined public services standards. Limiting government interventions and implementing economic policy reforms should be part of this package. The second order of priority should be clarifying the roles and responsibilities of various orders of government and introducing performance-based accountability to hold government to account for service delivery performance. The third order of priority should be implementing policies dealing with detection and punishment of corrupt acts.
- *Assess service delivery performance.* Any serious effort by domestic and external stakeholders to hold governments to service delivery standards will eventually compel those governments to address the causes and consequences of corruption. Given the difficulty of detecting corruption through financial audits, corruption may be more easily detected through observation of public service delivery performance. Malaysia's clients' charter represents an important innovation to empower citizens to hold government to account for delivery of defined service standards (Shah 2005).

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- *Empower citizens by supporting bottom-up reforms.* In many countries in which corruption is entrenched, governments lack either the will or the capability to mount effective anticorruption programs. Internal and external stakeholders may choose to amplify citizen voice and strengthen exit mechanisms in order to enhance transparency, accountability, and the rule of law. Strengthening local governance and establishing home rule may be important tools in this regard.
- *Disseminate information.* Letting the sun shine on government operations is a powerful antidote to corruption. The more influence donors can exert on strengthening citizens' right to know and governments' obligation to release timely, complete, and accurate information about government operations, the better the prospects for reducing corruption. Information about how governments spend money and 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.
- *Support economic policy reform:* Trade and financial liberalization can reduce opportunities for corruption by limiting the situations in which officials can exercise unaccountable discretionary powers, introducing transparency, and limiting public sector monopoly powers.

## Notes

1. This section draws on Shah and Schacter (2004).
2. For comprehensive surveys on corruption, see Jain (2001) and Aidt (2003).
3. Carillo (2000) and Bac and Bag (1998) model four-tier hierarchies.
4. Following this line of thought, Lambsdorff, Taube, and Schramm (2005) note that in fighting corruption from a neoinstitutional perspective, policy makers should aim to "encourage betrayal among corrupt parties, to destabilize corrupt agreements, to disallow corrupt contracts to be legally enforced, to hinder the operation of corrupt middlemen and to find clearer ways of regulating conflicts of interest." [[AU:  
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