

# International Cooperation Against Corruption

Robert Klitgaard , November 1997

Virtually all forms of corruption are proscribed by virtually all countries. Why, then, don't countries optimally reduce corruption? If countries have trouble fighting corruption, it may be because of insufficient will or insufficient local capacities of several kinds. These capacities include having proper strategies and structures (including incentive structures) that would optimally inhibit corruption. Sometimes these are constrained by costs, other times by a lack of know-how, even by the fact that some countries have not yet thought hard about strategies against corruption.

International cooperation can help individual countries to some degree with the will and to some degree with the capacities. The paper supplies some examples. In addition, the paper proposes several new initiatives where international cooperation could play crucial roles. One idea is to sponsor regional diagnostic studies. Here countries would cooperate on and then share studies carried out by the private sector of systematic corruption in three or four areas (perhaps procurement, health care, and courts). These studies would help identify the systematic improvements that might be made and suggest how to monitor improvements in the future.

The paper also proposes a "contest" for developing countries to develop the best national strategies to reduce corruption. Regional seminars would broach the idea of a strategy against corruption, with examples, and technical assistance would help countries that wished to enter the contest to design their proposals. The winners (perhaps one or two per continent) would be rewarded with seven years of sustained and additional aid. The rest of us would learn from the good ideas generated, many of which could be implemented even in the absence of extraordinary international assistance.

## What to Make of Corruption's Universality

In Belgium and Britain, Japan and Italy, Russia and Spain, among other countries, allegations of corruption are today playing a more central role in politics than in recent memory. Corruption is hardly a problem exclusive to the Third World or the transitional nations. True, in Venezuela a local dictionary of corruption has been published in two volumes (Many Authors 1989). But it is also true that a French author, apparently independently, had the same idea for his country (Gaetner 1991). Probably every country could publish a similar volume.

The fact that much Third World corruption has important First World participation is also now a commonplace. The international non-government organization (NGO) Transparency International focuses on corruption in "international business transactionB" and points out that there are First World givers of many Third World bribes. In coming years the World Trade Organization will find this issue a central one.

The reminder that corruption exists everywhere, in private as well as public sectors, in rich countries and poor, is salutary, because it helps us avoid unhelpful stereotypes. But to contextualize the discussion in this way is not to end it. In fact, noting that corruption is widespread may convey its own unhelpful subliminal messages. It may suggest, for example, that all forms and instances of corruption are equally harmful. Even more perniciously, it may lead lazy listeners to the conclusion that because corruption exists in every country, nothing can be done about it here. Consider the analogy of pollution or disease. Both exist everywhere on the planet. But the extent and patterns differ radically across settings. With disease, questions of degree and kind are crucial, and so is the case with corruption. No one would conclude, for example, that because water pollution and AIDS exist in every country that nothing can or should be done to reduce them.

Corruption is a term of many meanings, and indeed the beginning of wisdom on the issue is to

subdivide and unpack the vast concept. At the broadest level, corruption is the misuse of office for unofficial ends. The catalogue of corrupt acts includes bribery, extortion, influence-peddling, nepotism, fraud, speed money, embezzlement, and more. Although we tend to think of corruption as a sin of government, of course it also exists in the private sector. Indeed, the private sector is involved in most government corruption.

Different varieties of corruption are not equally harmful. Corruption that undercuts the rules of the game "for example, the justice system or property rights or banking and credit" devastates economic and political development. Corruption that allows polluters to foul rivers or hospitals to extort patients can be environmentally and socially corrosive. In comparison, some speed money for public services and mild corruption in campaign financing are less damaging. Of course the extent of corruption matters, too. Most systems can stand some corruption, and it is possible that some truly awful systems can be improved by it. But when corruption becomes the norm, its effects are crippling. So, although every country has corruption, the varieties and extent differ. The killer is systematic corruption that destroys the rules of the game. It is one of the principal reasons why the most underdeveloped parts of our planet stay that way.

## **Corruption as a System**

Consider two analytical points. Metaphorically, corruption follows a formula:

$$C = M + D - A.$$

Corruption equals monopoly plus discretion minus accountability. Whether the activity is public, private, or non-profit, whether you are in Washington or Ouagadougou, you will tend to find corruption when someone has monopoly power over a good or service, has the discretion to decide whether you receive it and how much you get, and is not accountable.

Second, corruption is a crime of calculation, not passion. True, there are saints who resist all temptations, and honest officials who resist most. But when the size of the bribe is large, the chance of being caught small, and the penalty if caught meager, many officials will succumb.

Combating corruption, therefore, begins with better systems. Monopolies must be reduced or carefully regulated. Official discretion must be clarified. Transparency must be enhanced. The probability of being caught must increase, and the penalties for corruption (for both givers and takers) must rise.

Each of these headings introduces a vast topic. But notice that none immediately refers to what most of us think of first when corruption is mentioned - new laws, more controls, a change in mentality, an ethical revolution. Laws and controls prove insufficient when systems are not there to implement them. Moral awakenings do occur, but seldom by the design of our public leaders. If we cannot engineer incorruptible officials and citizens, we can nonetheless foster competition, change incentives, enhance accountability: in short, fix the systems that breed corruption.

## **Four Components of an Anti-Corruption Strategy**

Fixing them is not easy. Successful examples do exist, however, and they contain several themes (Klitgaard 1988; Klitgaard, MacLean-Abaroa, and Parris forthcoming).

1. **Punish some major offenders.** First, successful strategies by "fry a few big fish." When a culture of impunity exists, the only way to break it is for a number of major corrupt figures to be convicted and punished. The government should quickly attempt to identify a few big tax evaders, a few big bribe givers, and a few high-level government bribe takers. Since a campaign against corruption can too often become a campaign against the opposition, the first big fish that are fried should be from the party in power.

2. **Involve the people in diagnosing corrupt systems.** Second, successful campaigns involve the people. If only they are consulted, citizens are fertile sources of information about where corruption occurs. The mechanisms for consulting them include systematic client surveys, citizens' oversight bodies for public agencies, the involvement of professional organizations, hot lines, call-in shows, educational programs, village and borough councils, and so forth. Business people and groups should participate with the protection of anonymity in diagnostic studies of how corrupt systems of procurement, contracting, and the like actually work- where the emphasis is on systems and not individuals.
3. **Focus on prevention by repairing corrupt systems.** Third, successful anti- corruption efforts fix corrupt systems. They use a formula such as  $C = M + D - A$  to carry out "vulnerability assessments" of public and private institutions. Like the best public health campaigns, they emphasize prevention. Of course reducing corruption is not all that we care about. We might spend so much money attacking corruption, or generate so much red tape and bureaucracy, that the costs and losses in efficiency would outweigh the benefits of lower corruption.

Elsewhere I have tried to provide a framework for designing anti-corruption strategies (Klitgaard 1988; Klitgaard, MacLean-Abaroa, and Parris forthcoming). The categories are: change the "agents" carrying out public activities, alter the incentives of these agents and of citizens, collect information in order to raise the probabilities of corruption being detected and punished, change the relationship between agents and citizens, and raise the moral costs of corruption. One has to work through in each case the putative benefits as well as the many possible costs of anti-corruption activities.

4. **Reform incentives.** In many countries public sector wages have fallen so low that a family cannot survive on a typical official's salary. Moreover, measures of success are often lacking in the public sector, so what officials earn is not linked with what they produce. It should be no surprise under such conditions that corruption flourishes.

Fortunately, around the world experiments in both public and private sectors are emphasizing performance measurement and the overhauling of pay schemes. Fighting corruption is only one part of a broader effort that I call institutional adjustment, the systematic recasting of information and incentives in public and private institutions (Klitgaard 1995). Institutional adjustment is the next big item on the development agenda.

## Political Will

"What you say is fine," it might be argued, "but what if the people on top are themselves corrupt? What if international business people and local business cliques have powerful incentives to do the corrupting? If the people on top in the public and private sectors are benefiting, can the reforms you mention have a chance of taking hold?"

The worry is that corrupt officials on top are monopolists unwilling to sacrifice their rents, and international and local businesses people are locked in an  $n$ -person prisoners' dilemma where the dominant strategy is to bribe. A corrupt equilibrium results, where rulers and top civil servants gain and some private companies gain, but society loses.

In such a situation what can be done? The reflexive answer is "nothing." But consider the analogous question, "Why would national leaders ever in their self-interest undertake free-market reforms, privatization, and the like, all of which sacrifice their personal control over the economy?" And yet such reforms have swept the world, as has the remarkable "third wave" of democratic reforms.

It is true that some governments resist good governance. But in the decade ahead the paradigmatic

problem will not be inducing governments to do something about corruption but deciding what in fact should be done and how. Because of democratic reforms, new leaders dedicated to fighting corruption and improving public administration are entering power as never before. Election campaigns from Nicaragua to Pakistan feature corruption as a major issue. Many new leaders would like to improve customs and tax agencies, clean up campaign financing and elections, reduce bribery and intimidation in legal systems and the police, and, in general, create systems of information and incentives in the public sector that foster efficiency and reduce corruption. Their problem is less political will than know-how.

But it is true that in many countries, leaders are of two minds. They may appreciate and decry the costs of systematic corruption. But they may also recognize the personal and party benefits of the corrupt system. To assist them in moving toward a long-term strategy, several almost psychological steps are necessary.

First, leaders must see that improvements are possible without political suicide. Here is where sensitive consulting and assistance may help leaders learn from anti-corruption efforts elsewhere, take a systematic approach, and analyze confidentially the many categories of political benefits and costs.

Second, leaders must develop a strategy that recognizes that not everything can be done at once. One should undertake behind closed doors a kind of benefit-cost analysis, assessing those forms of corruption where the economic costs are the greatest (for example, corruption that distorts policies as opposed to who gets a specific contract) but also taking into account where it is easiest to make a difference. The anti-corruption effort might begin where the public perceives the problem acutely. A good rule of thumb is that to be credible an anti-corruption campaign must have some tangible successes within six months.

Third, leaders need political insulation. International collaboration can help provide it, as countries together admit a common problem and move to address it ("corruption is not just our problem, or my party's, or my administration's"). Indeed, international conditionality that applies across many countries might help a national leader justify anti-corruption measures that might otherwise be embarrassing, or difficult to make credible.

## **How International Organizations Can Help**

International cooperation can help engender both the will to fight corruption and the capability to do so. Despite the obvious sensitivity of devising and implementing strategies against systematic corruption, international organizations can help - and indeed already do help, through aid for democratic reforms, more competitive economies, and the improvement of governance. But a more focused effort is needed: a systematic attack on systematic corruption.

Let us consider three international initiatives that could help galvanize the incipient international movement against corruption.

### **1. Regional diagnostic studies.**

*Purpose:* Mobilize systematic action by both the private and public sectors to reduce corruption in a region (for example, Latin America or Francophone Africa).

*Basic idea:* Each country invites the *private* sector to carry out confidential diagnostic surveys of *three or four* areas prone to corruption, such as government contracting, the courts, hospitals, and revenue agencies. The surveys ask business people anonymously to diagnose how possibly corrupt systems work in practice - where the holes and weaknesses and abuses may be. The idea is to analyze systems, rather than identify particular individuals in either the public or private sector. The goal is not academic research but an action-

oriented diagnostic. A small sample of 40 business people could well be sufficient for a useful report. When each country's diagnostic study is complete, an international conference shares the results and analyzes remedial measures, including possible international cooperation.

*Political benefits:* The fact that such a study is international makes clear that corruption is not just a problem of country X, but an international problem needing international solutions. It also emphasizes that corruption is not just a problem of the government (or "this" government); the private sector is part of the problem and part of the solution. Political leaders are able to make the face of the issue much more politically attractive. They can say that the diagnostic is being done continent-wide, addressing international dimensions of bribery as well; the problem is not just in their country but a world-wide problem. And they can point out that the diagnostic is being carried out by and about the private sector, members of which are usually complicit where corruption exists.

## 2. **A contest for national anti-corruption programs**

*Purpose:* Communicate the idea that a country can have a strategy against corruption. Capture the imagination of people around the world via an international contest.

*Basic idea:* Special international aid should be allocated to countries willing to undertake reforms to address systematic corruption. Suppose international cooperation creates a program that promises seven years of special and significant support to the three developing countries that proposed the best national strategies against corruption. To help kindle interest in this "contest" donors fund international and local workshops. Then cross-country studies involving both the private sector and the government might focus on key areas such as revenue raising, procurement and public works, and the justice system. (This idea obviously dovetails with the proposed regional diagnostic studies.) The focus would be on the vulnerability of systems to corruption, rather than on particular individuals. Participating countries would share the results of these studies, and national and international measures would then be designed to remedy structural defects. At this stage, interested countries would prepare their national strategies against corruption. The three best strategies "perhaps one each from Africa, Asia, and Latin America" would be supported by special funds. Other country strategies, or components thereof, might well be supported under other auspices - and, of course, by the participating countries themselves.

*Political advantages:* The existence of a competition would create incentives for countries to show they are serious about corruption, and in preparing for the competition they would be assisted in learning (including from each other) what a strategy against corruption might contain. The measures to be included in an anti-corruption strategy would depend on the context, but they would often include

- administrative reforms that designate an anti-corruption focal point and simultaneously facilitate inter-agency coordination;
- mechanisms to enhance accountability, especially through the involvement of business and citizens;
- enhancing capabilities in investigation, prosecution, and judging;
- experiments with incentive reforms in the public sector; and
- legal reforms in campaign finance, illicit enrichment, and regulatory and administrative law.

Such an initiative could also be helpful to international agencies, to show that they are taking corruption seriously. It would give them a chance to fit various development initiatives, including civil service reform and institutional development, into a new and dynamic framework with high political salience.

## 3. **"Tool kits"**

*Purpose:* Accumulate and disseminate best practice in reducing corruption, by function, sector, level of government, and other relevant categories.

*Basic idea:* International cooperation can help to assemble and disseminate examples of best practice, as well as frameworks for policy analysis - a combination that might be called "tool kits" for fighting corruption. Possible areas are revenue raising, including tax and customs

agencies; the justice system broadly construed; health care (from hospitals to pharmaceuticals); and government procurement, licensing, and contracting. Another possibility is an area where many industrialized countries have much improvement to make: the interfaces between money and politics, including political contributions, party finance, and campaigns.

*Tasks:* In each area chosen, international organizations would try to create tool kits containing the following:

- Analytical frameworks for diagnosing and dealing with corruption (generic frameworks but also specific ones for tax administration, customs administration, police, prosecution, judges, procurement, contracting, and so forth).
- Case studies of best practice and success in reducing corruption, at different levels of government and in different sectors and domains.
- Participatory pedagogies, which means a variety of devices to enable citizens, business, NGOs, the media, and government employees to learn about, and teach each other about, corrupt systems and what to do about them.

## Concluding Remarks

When corruption becomes systematic, fighting it must go beyond liberal economic policies, better laws, fewer regulations, and more training, helpful though these steps may be. Fighting systematic corruption requires a shock to a corrupt equilibrium. It might include such steps as

- the formation of a national-level coordinating body that is responsible for devising and following up a strategy against corruption, along with a citizens' oversight board;
- the identification of a few key agencies or areas where the anti-corruption effort might focus its efforts in the first year, with the hopes of achieving some momentum-building successes;
- a capacity-building strategy within key ministries that takes the problems of incentives and information seriously, including incentive reforms;
- and the identification of a few major offenders whose cases will be prosecuted.

Combating corruption should focus on the reform of systems. It requires an economic approach, coupled with great political sensitivity. The design and implementation of the measures we have been discussing must obviously be tailored to each country's conditions. And yet international cooperation can make a difference. Sometimes providing specialized skills can help, such as organizing high-level workshops, strategic consulting, or the hiring of international investigators to track down ill-gotten deposits overseas. International cooperation can also help develop political resolve. Finally, international action can convey the useful truth that we are all involved in the problem of corruption - and that we must find solutions together.

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