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**Conference Paper**

## Fighting corruption in developing countries

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## Inequality: Tackling Poverty and Social Fragmentation

# Fighting Corruption in Developing Countries

### Summary

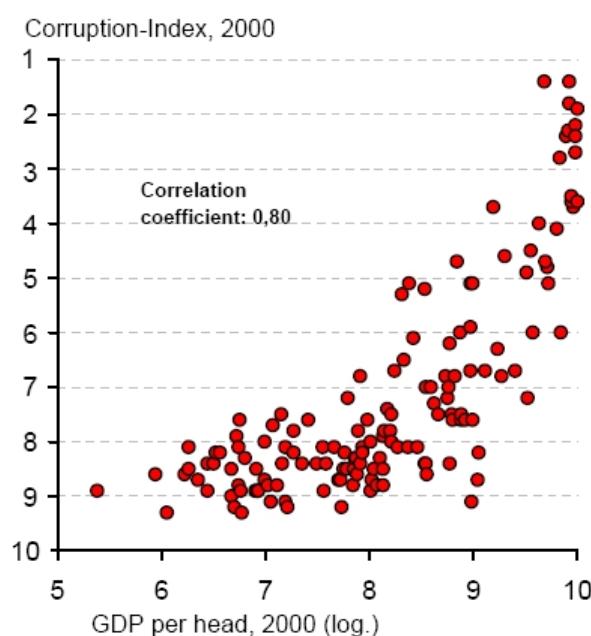
Poorer countries are clearly more corrupt than richer countries. While this is a matter of fact, the debate about causality is still open. Is corruption the single most important reason why many sensible reforms essential for economic development fail in developing economies or does economic development raise demand for fighting corruption?

At a given level of development, what are the costs of corruption and the most promising means of de-corrupting institutions – in government administration, security forces, and business? Does encouraging whistle-blowing produce desired outcomes? How can exit opportunities be provided for petty offenders? Are fostering transparency, advising citizens on how to make complaints and establishing institutions to handle the resulting cases promising solutions in practice? Are monetary incentives effective? Does cultural heritage render attempts to improve governance a futile effort? Is ethical training possible? What is the role of business in encouraging good public and private governance?



To tackle these issues and to generate concrete measures as the outcome of our panel, we propose three areas of action:

- Measuring the Costs
- Raising Transparency
- Fighting Systemic Corruption





## Proposed Solutions

### Expert Opinion

#### ***Measuring the Costs of Corruption at the Micro Level***

Corruption can be defined as the misuse of office for private gain which covers a wide array of illicit behaviours, including bribery, extortion, fraud, nepotism, graft, speed money, embezzlement, falsification of records, kickbacks, and influence-peddling. Hence, researchers still encounter difficulties in estimating the costs of this phenomenon at the micro level. Creating experiments to gather data to study the causes and consequences of corruption is an area in which one can make a plausible call for action. The corrupt system itself should be analyzed from beginning to end. In order to measure the costs of corruption and to define meaningful ways to de-corrupt institutions it is essential to know

- how corrupt buyers and sellers match,
- how they make and enforce their implicit contracts,
- what footprints their illicit transactions create, and
- what steps do they take to cover them up.

#### ***Raising Transparency and Defining Good Practice***

Raising consciousness about the existence and harms of corruption is an essential precondition for fighting corruption. Indicators which allow countries to know where they stand in international comparison have to be improved on a permanent basis. In combination with complementary information on other bottlenecks of economic development, good knowledge about corruption should stimulate and guide public debate. As an addition to quantitative information, good news should be spread. For even the most daunting problems, relative progress exists and success stories can be found. This information should be disseminated on a broad basis in order to break scepticism about potential reform efforts.

#### ***Fighting Systemic Corruption***

The potential of transparency and defining good practice will not be sufficient for cases where corruption is systematic, i.e. corruption has become the norm, political will cannot be counted on. In this case, potential drivers of anti-corruption policies have to be detected and supported. The list of potential actors for each of the aforementioned stages is long: citizens' groups, the press, religious groups, business groups benefiting from anti-corruption measures, and international organizations. While this can be thought to strengthen bottom-up demand for less corrupt institutions from the private sector, a public counterpart – a congressional committee, a supreme audit authority, independent government agencies – can act as a catalyst. Even within a (initially) corrupted agency, good knowledge about the costs of corruption, improved transparency on the level of corruption, information on good practice, and support for bottom-up demand could create a dynamic public debate for less corruption.



## Strategy Perspectives

### ***Summary of Proposed Solutions***

Peter Eigen

*Founder and Chair of the Advisory Council, Transparency International*

Indeed, corruption is the most important reason for failed reforms, and therefore immense damage, particularly in developing countries. Damage: World Bank estimate: US\$ 1 trillion p.a. paid in bribes. Real damage much higher: Perversion of economic policies, destruction of democracy.

Solutions have to be seen in the context of failing governance in globalized economy. Nation State focussed paradigm of governance is inadequate to shape globalization; new paradigm has to recognize and empower significant other actors: private sector and civil society. Coalitions between government, private enterprise and Civil Society Organisations (CSOs) offer solutions.

Genesis of International Grand Corruption illustrates helplessness of governments and business to deal with this issue on their own – even if the intent was there. Collective action is needed to avoid being penalized for corporate social responsibility. In the case of corruption a CSO, Transparency International (TI) helped introduce escape from prisoner's dilemma, building a coalition between business, government and CSOs for the OECD convention. After 1999 CSOs help to monitor enforcement. They build with help of media awareness against corruption.

The following solutions emerge:

- Empower Civil Society, globally, nationally, locally to build coalitions against corruption.
- Stop global companies from bribing decision makers in developing countries.
- Employ a holistic approach to fight corruption (i.e., not only criminal sanctions, but other elements of an “Integrity System”).

The most effective elements of a concrete Integrity System will have to be tailored to the needs and opportunities of the society it is designed to protect. They may include whistleblower protection, exit opportunities for offenders, and other solutions suggested by the organizers. A typical list of such elements is published by TI as diagnostic and remedial tool in many languages <[www.transparency.org/policy\\_research/nis](http://www.transparency.org/policy_research/nis)>, s. Annex in Virtual Library.

### ***Takeaway from Last Chapter of “Economic Gangsters: Corruption, Violence, and the Poverty of Nations”<sup>1</sup>***

Raymond Fisman

*Professor of Economics, Columbia University*

Economic principles, together with common sense, can serve as useful guides for what might be effective policies in fighting corruption. Economic incentives surely matter, so a good starting point is to think about the carrots and sticks that motivate potentially corrupt officials. Can greater government financial transparency, perhaps through Web postings of highway contract announcements and more details on the winning bids, help curtail kickbacks in

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<sup>1</sup> Authors: Raymond Fisman and Edward Miguel. Forthcoming.



Indonesian road building? Will lowering or linking tariffs on similar products dampen the incentives for bribe-paying traders? Or how about increasing the salaries of government officials to reduce the need to supplement their incomes with kickbacks?

The only way that we'll ever get systematic answers to these questions is if that governments become more experimental, quite literally, in how they seek to deal with their corruption problems. Officials need to think seriously about evaluating what does and does not work in the real world. Just as medical scientists experiment with different ways of treating human diseases, policymakers can experiment with different solutions to social problems. After all, abstract speculation can take us only so far. At some point our economic theories need to be tested in the chaos of real economies. And once we've understood which anti-corruption approaches work – whether higher salaries, government transparency, stricter punishments, or all of the above – policymakers can start to systematically work to end corruption. If they do, they may just find that applying the tools of economics with a little creativity can help to finally make corruption a thing of the past.

### ***Fighting Corruption in Developing Countries***

John Githongo

*Vice President, Policy and Advocacy, World Vision International*

- With regard to high-level corruption of the kind that captures the public imagination certain realities are now being brought to bear. First, media has grown exponentially in scale, reach and sophistication in Africa and this is reflected in the dramatic increase in coverage of corruption-related issues. The rhetoric of political leaders has matched this increase but the effectiveness of the 'machinery of anti-corruption' has not. As a result, perception is now more powerful than reality where corruption in Africa is concerned. These perceptions have a huge impact on political behaviour and often in divisive ways.
- Making the 'frying of big fish' (prosecution of senior officials involved in graft) the ultimate measure of success in the fight against corruption strategically set the campaign up to fail from the start. The prosecution of senior officials (especially top politicians) involved in graft has rare even in developed democracies and when achieved it is at considerable political costs which are mitigated by mature governance institutions. For Africa we need to set new benchmarks of what success is the fight against corruption.
- Mobilisation of resources to finance political competition has proved problematic and has had the effect of corrupting important political processes. Political campaign finance is a challenge even in mature democracies. In nascent democracies it can become a crisis because sometimes egregious corruption finances politics. We need to address this head on politically first.
- The creation of anti-corruption agencies allowed the political class to as it were 'park' corruption at the door of often-toothless institutions that are now dying across the continent. Still, the huge expectations that faced anti-corruption agencies demonstrated the weakness and failure of other governance institutions: people would even bring marital complaints to anti-corruption agencies in some countries. Indeed, corruption became the cause of ALL problems and this was convenient because these issues could be sent to those institutions and parked there like cars in a junkyard. Indeed, corruption becomes defined as leadership failure.
- The international community that has pushed the so-called governance agenda in the 1990s has been compromised morally (by the war in Iraq, complicity in corruption's largest scandals the Third World (BAE, Siemens etc). The leadership of institutions



like the World Bank in the fight against corruption is now at an end. Also there is a sense in which the West has ‘moved on’ in a changing geopolitical landscape. Corruption in Nigeria, Equatorial Guinea and other oil producing nations will no longer be something harped on about. The resultant effect on the quality of democracy in these countries and indeed their very political stability remains to be seen. The new models of governance – that basic freedoms can be contained by an efficient repressive state that is corrupt but implementing policies that are to the advantage of the private sector – has its attractions to some. One of the effects of this model is stark inequality – regional, ethnic etc that can only be suppressed and/or mitigated by direct state intervention in favour of disadvantaged groups.

- The most profound effect of corruption, especially perceptions of corruption by leaders, which are fed by their conspicuous consumption that is reported in granular detail by the media, has been to undermine confidence in leaders and governance institutions. This is by far the most troubling effect of graft in Africa, more than the huge sums of money lost. Secondly, high levels of economic growth, nascent democratic institutions, high levels of elite corruption that is visible to the public seem to lead to inequalities that find divisive political expression first within elites themselves and their political formations and then amongst the public they represent.