Corruption and Integrity Improvement Initiatives in Developing Countries

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Corruption And Integrity Improvement Initiatives In Developing Countries offers views of eminent international thinkers and practitioners on how to reduce and eventually eliminate corruption. The book shows that, while helpful, democracy is by no means a cure for corruption, nor is economic liberalisation a panacea for ending public sector crime. The contributors call for strategies that combine law enforcement, prevention through institutional reforms and public support. A strong correlation between successful anti-corruption programmes and civil liberties is demonstrated throughout the book.

Publication of this material follows an international conference in Paris on the same theme, co-sponsored by the United Nations Development Programme (UNDP) and the OECD Development Centre.

CORRUPTION AND INTEGRITY IMPROVEMENT IN DEVELOPING COUNTRIES

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Message from Transparency International

Corruption is present in almost any country, but has the most devastating effects in developing economies, because it hinders any advance in economic growth and in democracy.

Corruption wastes resources by distorting government policy against the interests of the majority and away from its proper goals. It turns the energies and efforts of public officials and citizens towards easy money instead of productive activities. It hampers the growth of competitiveness, frustrates efforts to alleviate poverty and generates apathy and cynicism. The harms caused by corruption, which are as numerous as the shapes corruption can take, have destroyed well-intentioned development projects in the South and undermined political and economic transitions in the East.

Whereas in a developed country corruption may prevail in a single component of the body politic, in a developing country, which often has weaker administrations and political institutions, the corruption problem can actually become part of the system. In Ecuador, its proliferation has endangered the country's democracy. In Tanzania, corruption has been found in all sectors of society and has appeared as the main source of public discontent.

Dealing with corruption is far from being simply a matter of law enforcement. The casualties of corruption include the country's integrity system itself, and therefore reform of the national integrity system has to take place.

In this effort, it is important from the outset that the political will is present to obtain legislative or administrative changes effective enough to contain corruption. It is also essential to have the three main actors of society working together: the government, the private sector and the civil society. The energies of all three are needed to assure changes in moral and ethical attitudes and to achieve meaningful reforms.

The role and the importance of international institutions in dealing with corruption have increased dramatically within the past few years. At the national level as well as internationally they have declared war on corruption and taken concrete steps to minimise its prevalence. Agreements over recommendations and international conventions (OECD), the introduction of specific procurement guidelines (World Bank, OECD DAC) and the development of projects promoting greater monitoring, transparency and accountability (UNDP, USAID) in countries in which donor agencies work, are examples of very effective measures towards the banishment of corruption.

This publication will provide the reader with a clear idea of the approaches mentioned above, what their strengths are and how they can weaken corruption practices. Corruption is multiple and needs to be fought on different fronts simultaneously. I therefore feel a certain relief and encouragement to see so many dedicated people and institutions, providing support and commitment to eradicate corruption.

I would also like to express my appreciation to the OECD Development Centre and to UNDP's Programme for Accountability and Transparency for having provided us, during the conference on Corruption and Integrity Improvement Initiatives in the Context of Developing Economies, with a valuable opportunity for presenting and exchanging ideas, perspectives and approaches toward the analysis of the corruption problem generally and in specific cases, as well as with regards to ways of acting to curb this scourge.

Peter Eigen, Chairman Transparency International (TI)
Berlin, Germany
April, 1998

Preface

The international community's concern with corruption issues is not a passing phenomenon. It is now an accepted fact that corruption hinders economic growth and sustainable development and often results in human right violations. A firm commitment from all players -- government, the private sector and civil society -- is required to develop and implement solutions. Such solutions must include concrete measures -- preventive as well as punitive -- that address issues of accountability, transparency and inequity at various levels of social and economic systems. In this respect, the international community has a role to play both as catalyst and supporter for these reform efforts. The particularly complex nature of corruption makes international co-operation and co-ordination even more critical to the successful implementation of strategies to improve integrity in governance.

The need to build partnerships and encourage closer collaboration among all players in the international development community was underscored at the conference *Corruption and Integrity-Improvement Initiatives in Developing Countries*, held at the OECD Headquarters in Paris on 24-25 October 1997. The conference was jointly organised by the OECD Development Centre and the UNDP Programme for Accountability and Transparency (PACT). The meeting provided a forum for participants -- policy makers, academics, government representatives, experts, international development institutions and aid agencies -- to discuss the difficulties surrounding the design of effective strategies given a context of diverse corruption patterns and country-specific circumstances. In addition, the international dimension of corruption and the role of aid and lending agencies were addressed. Finally, and perhaps most importantly, the participants had the opportunity to debate some of the solutions and strategies that are proposed to developing countries to assist in their anti-corruption campaigns.

Both the OECD Development Centre and UNDP have programmes in place to study corruption and to assist policy makers in the fight against corruption. UNDP’s involvement is rooted in its mandate to create an enabling environment for sustainable human development. The PACT serves as the focal point within UNDP to ensure a coherent and effective strategy in supporting anti-corruption programmes. Its work focuses on (i) facilitating good governance interventions in specific domains; (ii) supporting methods to curb corruption, including policy dialogue, capacity building, documentation and analysis of best practices and support to national programmes; and (iii) making reformers aware of the importance of country conditions in programme development.

At the OECD Development Centre, policy-oriented research on corruption in OECD non-Member countries has been a priority since 1996. This work has a dual objective: to provide policy recommendations to developing country governments and aid agencies in their fight against corruption; and to provide OECD Member countries with a clearer understanding of the causes and consequences of corruption in developing countries. By using an analytical framework of corruption issues to explore country case studies, the project seeks to identify the diverse forms of corruption in various countries and the ways in which they affect economic efficiency and governance.

This publication covers a broad set of issues ranging from the global consequences of corruption to specific-country reform experiences. The objective of grouping this diverse set of papers is to provide policy makers with both traditional and innovative thinking on anti-corruption strategies as well as an analysis of the effectiveness of specific approaches and initiatives already in place. Moreover, the publication of the proceedings of the conference serves as a key element in the network building and information sharing which is essential to successful collaboration and co-ordination among key players in the reform effort.

The OECD Development Centre and UNDP believe that this publication will broaden the debate on anti-corruption strategies and contribute to strengthening initiatives to improve integrity in governance. Both organisations wish to express their gratitude to the authors and participants in the conference for their excellent contributions, without which this publication would not have been possible.

The views expressed in this publication are not necessarily shared by the Executive Board and the Member countries of UNDP or the OECD Development Centre.

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UNDP also appreciates the partnership and teamwork with the OECD Development Centre in organising the conference and preparing this book. Jean-Claude Berthelemy and Irene Hors were critical to the success of both endeavours. A word of thanks also to our colleagues at the Development Centre, specially Micheline Dabos, who helped in the conference.

Most importantly, UNDP is greatly indebted to the editors, Sahr Kpundeh and Irene Hors, without their wise advise, expertise and dedication, this publication would not have been completed. Their work is immensely appreciated, particularly in skillfully editing and keeping control of the complex and multi-faceted manuscript.

This publication represents the joint efforts of the presentors, discussants and conference participants who have generously contributed their knowledge and experience to create this cutting-edge volume on corruption issues and integrity improvement initiatives. The UNDP PACT team, including Fred Schenkelaars, Ato Ghartey and Pauline Tamesis, extends its sincere thanks to all those who have made this publication possible.

Overview

Sahr J. Kpundeh and Irene Hors

The last decade has seen a growing mobilisation of the international community to combat corruption in developing countries. International organisations such as the World Trade Organisation, various United Nations agencies, the Organisation for Economic Co-operation and Development (OECD), the Organisation of American States, the European Union, and the Council of Europe are now addressing corruption as an important policy concern. Lenders such as the World Bank and the International Monetary Fund, along with some regional financial institutions have begun to recognise corruption as a problem that adversely affects their work.

Consequently, much human and financial effort is being devoted to curbing corruption. To ensure efficiency, we need to analyse past experiences, successes and failures. As Daniel Kaufmann puts it, it is useful to "pause a moment to distil the emerging lessons". It is with this perspective that the UNDP Programme for Accountability and Transparency (PACT) and the OECD Development Centre organised a conference on the issues of *Corruption and Integrity Improvement Initiatives in the Context of Developing Economies*, on the 24th and 25th of October 1997, at OECD headquarters in Paris.

One of the primary objectives of this conference was to work on a conceptual framework for the analysis of corruption in developing countries. It was important to the organisers of the conference to confront this conceptual framework with the developing countries' realities. Conceptual frameworks, although clear and well-balanced, are sometimes too far from reality, and thus irrelevant for guiding action. To address this concern, the conference brought together specialists on corruption from academic institutions in both developed and developing countries, as well as journalists, entrepreneurs and government officials from developing countries, who have to deal with the problem of corruption in their own contexts. These participants were able to analyse the experience of several countries dealing with corruption in order to try to see the key elements and conditions for the success of anti-corruption programmes.

Another objective was to discuss integrity improvement initiatives and approaches developed by multilateral and bilateral agencies, and by non-governmental organisations. There were representatives from the UNDP Management Development and Governance Division, the OECD, the World Bank, the International Monetary Fund, Transparency International, the United States Agency for International Development and United Kingdom's Department for International Development. This gathering was intended to contribute to a better definition of the role of international institutions in integrity improvement.

This book is a collection of selected texts presented during the workshop; it also includes two critical compilations of several presentations and their related discussions (see chapter on the country experiences, and the chapter presenting several institutions' activities and positions).

In chapter 1, Michael Johnston points out that the connections between cross-border and domestic corruption are simple and direct: practitioners of cross-border corruption will almost always require the co-operation of local officials to carry out and conceal their schemes. Johnston suggests that cross-border corruption should be of concern to us primarily because of its potential to interact with domestic corruption, often with the effect of intensifying both and making reform more difficult. Johnston discusses two types of cases which he thinks are the most worrisome: "source" countries and vulnerable states. Source countries are those that are home to powerful Mafia or drug cartels and those harbouring "outlaw" enterprises. Vulnerable states are those that experience severe cross-border corruption because of their political fragility--extensive domestic corruption, poverty, small size, political and administrative weakness, etc. Johnston points out that there is no single recipe for eliminating cross-border corruption. However, he suggests that efforts to control it will meet with little success unless they are supported by, and co-ordinated with, effective action against domestic abuses.

Susan Rose-Ackerman builds on Johnston's arguments by stating in chapter 2 that like any exchange, there are two actors required in corruption--a buyer and a seller. She discusses "grand corruption" and provides several examples to demonstrate that it is the preserve of top officials and frequently involves multinational corporations operating alone or in consortia with local partners, and thus that corruption cannot properly be described as "exported" by multinational firms into innocent developing countries. Similarly, the view that a culture of gift giving and patronage in the developing world induces multinational firms to demonstrate their cultural sensitivity by paying bribes is also unconvincing. Therefore, the responsibilities of cross-border corruption should be shared. Rose-Ackerman further argues that despite the two-sided nature of grand corruption, multinational firms have an obligation to refrain from bribery in their dealings with the developing world and with countries in transition, and should work to reduce its prevalence in international trade and investment. The basis for this argument she points out, is the leverage or market power that such organisations possess--leverage that can have a serious impact on the future development of poor countries. She suggests four broad arenas for international involvement: controlling corruption in project loans and grants; supporting reform programmes such as civil service reform and reform of budgetary and financial management systems; limiting corruption in international business; and controlling money laundering and international criminal enterprise.

The chapters written by Alan Doig and Stephen Riley (chapter 3) and by Daniel Kaufmann (chapter 4) address the difficulties of the design and implementation of national anti-corruption programmes. Doig and Riley address the issue of the design of anti-corruption programmes in the context of developing countries. Drawing from five papers presented during the workshop relating the experiences in fighting corruption of

Tanzania, Botswana, Ecuador and Hong Kong and the experience of Senegal and Mali in their battle against fraud in the customs administration, they raise questions about some common ideas often advanced as efficient anti-corruption solutions. An increase in official salaries, the development of democracy and political liberty, economic reforms such as privatisation and liberalisation do not always bring the expected reduction of corruption. This diversity in the results of anti-corruption measures reflects the diversity of the quality of their design and implementation as well as the contexts in which they were implemented. The authors identify a number of elements and principles to be included in anti-corruption programmes. They also propose a list of options for the design of short- and long-term strategies and programmes and suggest which options are to be chosen, not only according to the institutional context and the resources available, but also to the political orientation of the anti-corruption initiative.

Fighting corruption in an efficient and durable manner requires looking at its fundamental causes, to be found in the underlying institutional and economic structures, recalls Kaufmann. He signals a number of biases that can mislead actors in their efforts against corruption (anti-business bias, tackling-the-symptom bias, quick-fix bias, injection bias, anti-counter factual bias, etc.). Refraining from giving a list of solutions and actions to be taken, he discusses two central ingredients to the building of anti-corruption strategies: economic reforms (liberalisation and privatisation) and independent anti-corruption bodies. Drawing on several country experiences, he argues that in situations where economic reforms were counter-productive and of no help in dealing with corruption, it was because the reforms were "half-baked, poorly designed, and inadequately implemented". Well-designed and conducted economic reforms--limiting the discretionary control rights of officials and modifying the incentives of actors--address the problem of corruption at its very roots. Furthermore, Kaufmann argues that establishing independent anti-corruption bodies is not sufficient *per se*; their efficiency requires them to be supported by a strong political will, complemented by economic and institutional reforms. Finally, he stresses the significance of including certain variables in designing country-tailored anti-corruption strategies and programmes, and proposes some recommendations for the design of such programmes.

In part three, which includes chapters (5, 6 and 7) from Peter Eigen, Sahr Kpundeh and Mushtaq Khan, the role of civil society and the issue of political will are scrutinised. Peter Eigen, Chairman of Transparency International, stresses the need for a tripartite attack on corruption involving the government, the private sector and civil society. In his view, civil society plays a particularly important role as it can exert pressure on government and the private sector for greater transparency and accountability. Moreover, since the causes of corruption and the cultural context in which it operates vary from country to country, civil society is also important for linking reform measures to the experiences and expectations of real people.

Sahr Kpundeh discusses the issue of political will as a critical starting point for sustainable and effective anti-corruption strategies and programmes. Without it, Kpundeh argues, governments' promises to reform the civil service, strengthen transparency and accountability, and reinvent the relationship between government, civil society and the private industry remain merely rhetoric. Political will can easily be declared, without reflecting a credible intention of doing something. Kpundeh points out that distinguishing between reform approaches that are intentionally superficial and designed only to bolster the image of political leaders and substantive efforts that are based on strategies to create change is a principal challenge. He proposes several indicators that demonstrate genuine political will. For example: To what degree are reform initiatives participatory, incorporating a range of political actors and involving civil society? Is an objective process in place to monitor the impact of reform and incorporate findings into a strategy? Furthermore, Kpundeh analyses the forces that shape political will in the fight against corruption and proposes ways to strengthen it.

Mushtaq Khan raises some questions about the way civil society is presented in development issues. He feels the role of civil society and its definition in the early stages of capitalist development is problematic. Civil society should not be presented as a neutral body. The suggestion that civil society can act as a pressure group demanding accountability and transparency of both government and business assumes it resembles the civil society found in advanced capitalist countries. In most developing societies the predominant middle-class groups that constitute civil society do not necessarily consider the economic system and the emerging capitalist property rights to be entirely legitimate. There may be conflicts among the dominant groups in civil society. One group may contest the legitimacy of emerging capitalism to further their own interests, and another may consist of those who have, by whatever means, already acquired capitalist property rights that are not widely recognised as legitimate. Mushtaq Khan analyses closely the pattern of the patron-client networks in place in order to have a more realistic idea of the structure of civil society and its relationship with the state. Drawing from analyses of the patterns of corruption in South Asia and South East Asia, he suggests that some configurations might have more damaging effects than others. Moreover, when patron-client exchanges result in interlocking economic and political corruption at different levels of state and society, the reform of civil society itself may be a necessary precondition for development as well as for sustainable anti-corruption strategies.

Pauline Tamesis illustrates how international development and aid agencies have publicly begun to acknowledge the problem of corruption in developing and transition countries and are adopting policies to address the problem. In chapter 8, she presents the different perspectives and approaches in the work on fighting corruption and improving integrity of several institutions. Although the differences in approaches reflect each organisation's mandate, some (for example, the UK and UNDP, and the Economic Development Institute of the World Bank (EDI) and USAID) seem to be undertaking complementary programmes and initiatives. There are also contrasts in time frame--short-term versus longer-term in some of the approaches. Furthermore, the motivations and hence the orientation of the strategies differ, such as improving integrity to reduce poverty in the case of DFID; curbing corruption to alleviate poverty and attain social and people-centred sustainable development in the case of UNDP; fighting against corruption as part of improving democratic institutions in the case of USAID; the World Bank’s view of corruption as a problem for economic development; and the OECD Development Assistance Committee and Development Centre combat against corruption to facilitate economic growth, political stability and social justice. Such diversity in approaches raises questions of whether this diversity poses a potential for conflicts or is useful as a clear distinction into areas of involvement.

Alexandra Mills’ paper (chapter 9) looks at the questioning within OECD countries on how to reform the public sector in order to reinforce the integrity of officials, while integrating the new demands for efficiency and quality of public service delivery. Drawing on information collected in several OECD member countries, an ethics checklist is being drafted which will catalogue the different means used to answer this challenge in these countries. Mills suggests that even if it can be argued that the contextual differences are particularly significant when addressing corruption issues, this ethics checklist and the experience in controlling corruption in developed countries in general can certainly be of interest for developing countries.

The OECD has endorsed the need to combat cross-border corruption through effective prohibition, co-ordinated in a multilateral framework to ensure harmonised implementation among its members. Carolyn Ervin’s chapter (10) outlines the work at the OECD to combat bribery in international business, including the negotiations of an international Convention which renders bribery of foreign government officials a crime. This OECD effort is meant to cut off the "supply" side of bribes to foreign officials, with each country taking responsibility for the activities of its companies. The Convention is a major step forward in the fight against corruption, as well as a strong signal from 33 OECD and non-OECD countries of their commitment to this task. Ervin points out that these efforts are not directed at the foreign officials who may take the bribes; this is left to the responsibility of the home country of the official. It also does not cover private sector bribery or bribery for reasons not related to business.

Conclusion: Lessons learned

This publication is an attempt by UNDP and the OECD Development Centre to contribute to the debate on corruption and ways of tackling it. Several lessons have been drawn from discussions held during the conference and from the texts published in this volume.

First, it is clear that cross-border corruption indicates the need to attack corruption on an international and regional basis. The sustainability of such efforts depends heavily on the support of and co-ordination with solid, domestic anti-corruption policies, but efforts should not only focus on cross-border and "grand corruption", but "petty corruption" as well, which directly affects the living conditions of the majority. While the scale of these illegal transactions may be small, cumulatively they can do considerable economic and political damage to civil society.

Second, there is no single recipe for fighting corruption. Causes and logics of corruption vary, and the resulting differences among situations need to be taken into account in the design of anti-corruption strategies. However the following points can be generally considered:

*exceptional political and managerial will is necessary to promote and maintain anti-corruption reforms;

*as much as possible, strategies should combine three components for action: enforcement of law, prevention through institutional reforms, and mobilisation of the population;

*in addition to institutional improvements, enhancing professionalism, ensuring independence and honing technical skills should strengthen capacity in key activities (law, accounting/auditing and investigative journalism);

*enhanced professional skills, as well as political and managerial will to control corruption, are more likely to be seen in democratic societies where the pressure of political competition often force politicians to act. Democratisation is thus a necessary but not a sufficient condition for the reduction of corruption; and

*although economic liberalisation is not a panacea for public-sector corruption, reducing the size of the state reduces the size of the potential corrupt "take" and enables the public sector to improve its efficiency.

*Third, more attention still needs to be given to questions of timing and sequencing, to the identification of short-term priorities and initial actions, to the consistency in approach and to the way in which to foster the political and managerial will, all necessary to promote and sustain reform.

Finally, there is a need for caution in relying on civil society activism in the fight against malfeasance, as it would be too optimistic to believe that the inclusion of "civil society" is a sufficient guarantee of either the sustainability of anti-corruption measures or of their developmental consequences. The objective of development has to be foremost when developing an anti-corruption agenda.

1 Cross-Border Corruption: Points of Vulnerability and Challenges for Reform

Michael Johnston

Introduction

The same globalisation of markets and developmental inequalities that have helped draw renewed attention to problems of corruption in recent years also confront us with the dilemma of *cross-border corruption*. Cross-border corruption involving international interests, actors, capital and economic processes (both licit and illicit) is a potentially serious problem in affluent and developing countries alike, and raises important questions for both analysts and would-be reformers. Monitoring, oversight and the gathering of reliable data are difficult enough with respect to legitimate international trade. For cases of domestic corruption, such challenges are even greater. But cross-border corruption occurs within and among many jurisdictions, each of which may experience only a part of a much more complicated process. A world in which capital, people, information and enterprises move freely and rapidly from place to place offers new development opportunities of many sorts, but also makes accountability more difficult: because the agents of cross-border corruption are capable of doing business almost everywhere, it is difficult to hold them accountable anywhere. Even when domestic governments or international organisations decide to confront the problem, the result can be a mismatch: governments of developing states, and international organisations with their finite resources and limited mandates, may be no match politically or economically for powerful interests, often working in secret, that hold the leverage underlying cross-border corruption.

Nonetheless, the issue must be confronted. Evidence is growing that corruption slows economic growth (Ades and di Tella, 1994; Mauro, 1995, 1997; Murphy, Shleifer and Vishny, 1993; Rose-Ackerman, 1996, 1997; Rose-Ackerman and Stone, 1996; World Bank, 1997) and serves as a heavy tax upon investment (Wei, 1997). Similarly, corruption undermines political development, is linked to poor-quality national institutions (Knack and Keefer, 1995) and weakens the political will needed for effective reform. As economies and markets become more interdependent, corrupt agents and dealings can quickly gain a foothold in countries far from their own. New technology means that they need not be physically present in a country to do their business, manipulate their assets (and those of others) and work their influence; it also means that direct evidence of corrupt activities may be difficult to come by. Cross-border corruption can facilitate, and be sustained by, illegal trafficking in money, drugs, technology, arms and human beings. In such a setting, corruption in one nation can quickly become a regional or global development and law-enforcement issue. With its negative effects upon political and economic development, it can impede the development efforts of aid donors and international organisations, reduce the effectiveness of externally-funded projects (IMF, 1995; Isham, Kaufmann, and Pritchett, 1995, 1996; Rauch, 1995) and further reduce political support for aid programmes within donor countries. Countries suffering from cross-border corruption cannot make the best use of their human and natural resources, or implement effective development strategies of their own; instead, they will more likely remain dangerously vulnerable to, and dependent upon, outside interests, technology and market trends. General domestic policy and the legitimacy of leaders and institutions are likely to be undermined where cross-border corruption is most serious, often in societies where sustainable development is most desperately needed.

International Influences upon Domestic Corruption

While cross-border corruption is a serious concern in its own right, it is also worth our attention because of its potential to interact with domestic corruption, often with the effect of intensifying both and making reform more difficult. In its causes as well as in its consequences, cross-border corruption has much in common with domestic varieties; countries that have serious internal corruption problems are likely to be particularly vulnerable to cross-border forms as well. Thus, strategies for reform must be carefully integrated; while it is increasingly futile to attempt to fight corruption only within national economies and political boundaries, the inverse will be true as well. Efforts to control cross-border corruption will meet with little success unless they are supported by, and co-ordinated with, effective action against domestic abuses.[1]

In many cases the connections between cross-border and domestic corruption are simple and direct: practitioners of cross-border corruption will almost always require the co-operation of local officials to carry out and conceal their schemes. That, after all, is usually the whole point of the practice: if local authority were not available for "rent", or if officials did not have the power to aid or impede rent-paying interests in the first place, cross-border corruption would not take place. But where rent-seeking officials (or the conditions that encourage and protect them) do exist, in many cases they will be available to both domestic and international clients. Particularly where poverty keeps official salaries low, the temptations to tap into external flows of capital may be irresistible.

Other connections are longer-term and systemic. If economic interests employ cross-border corruption to gain unfair advantages over competitors both international and domestic, economic inefficiency is likely to result (Rose-Ackerman, 1996, 1997). Particularly in developing countries, domestic competitors will operate at a severe disadvantage or be driven out of business altogether. Economic development will be impaired as a result, in terms of both aggregate growth and greater difficulty of sustaining balanced development within a country. Legitimate economic opportunities will be few and often tightly controlled; many people and firms may have few alternatives to dealing with corrupt interests, and thus domestic corruption grows. On the political side, officials who enrich themselves by facilitating cross-border corruption will not surrender their positions of advantage willingly; they may thus short-circuit political competition through intimidation, electoral fraud, extensive patronage and the like. This in turn weakens effective opposition to corruption, and political pressures for accountability. And where the political and economic realms meet--at the boundaries between state and society, or between politics and the bureaucratic and judicial institutions that implement policies and interpret the laws--orderly boundaries and channels of access (Johnston and Hao, 1995) are likely to break down. More corruption will be the likely short-term result, and a shortage of opportunities to resist the longer-term consequence. This combination of forces--reduced political and economic competition, and compromised institutional boundaries and linkages between those realms--can enable both domestic and cross-border corruption to become entrenched (Johnston, 1997) and thwart sustainable political and economic development.

Varieties of Practices and Problems

If one thing is apparent in the current international corruption situation it is the variety of cross-border-corruption problems. In some cases, international influence is exercised in dubious, and at times overtly corrupt, ways through established political processes. Donations to political campaigns from foreign sources have become controversial issues in recent years in the United States, where such donations are illegal, and in the United Kingdom, where (at the moment) they are not, to name two prominent examples. Such donations can become matters of intense partisan dispute, and occasionally of public outcry; but the fact that they are channelled into orderly electoral competition between established political parties, and that news media and opposition forces are free to decry such practices, suggest that they are unlikely to do major political or economic damage. This political connection also works the other way: for many years, major powers channelled money into foreign electoral processes more or less covertly, generally seeking to maintain ideologically sympathetic forces in power (or to keep others out) rather than in pursuit of detailed influence over policy. The effects of such efforts will probably never be fully known, but they probably did little to help institutionalise fair, open political competition, and may have made it easier for other practitioners of international influence to gain entry.

Other states open themselves up to cross-border corruption through their policy choices. Tolerating or encouraging extensive banking secrecy, offshore banking operations and informal markets; running loose border and customs controls; basing growth upon the transhipment of goods or upon the creation of tax havens; and offering lax or bogus regulatory regimes may all invite extensive flows of funds and goods of dubious origins. These states can become vulnerable to the influence of interests (some of them primarily engaged in legitimate business, but others more sinister in nature) seeking to conceal or "launder" illicit money and goods, and to protect their assets from taxation, disclosure, regulation or seizure. The boundaries between licit and illicit enterprise, and between legitimate growth strategies versus those aimed at capitalising upon shadowy activities, are difficult to define. In the best such cases, the economic and political costs of corruption partially cancel out the dividends that may come from operating a wide-open economy. In the worst cases, corrupt interests may gain considerable power within a country, and use its leaders and institutions for their own ends. This situation will not necessarily lead to a general collapse; indeed, it can be quite a profitable one for entrenched interests, and can enable them to see off potential political and economic competitors (Johnston, 1997). Such a state of affairs seems unlikely, however, to foster sustainable political and economic development.

The Most Serious Cases

"Source" Countries. Two types of cases seem especially worrisome. First are those countries that are *sources* (as well as targets, in many cases) of cross-border corruption. Countries that are home to powerful *mafiyas* or drug cartels might be the leading examples; so might those harbouring "outlaw" enterprises. These groups can extend their corrupt influence into faraway countries, in the course of running and protecting illicit businesses. Even a small share of their "take" can be enough to buy legal and political protection, at home and abroad. This of course intensifies domestic corruption in both source and host countries. But another major source-country issue is foreign bribery by otherwise *legitimate* businesses. Countries with major arms- and technology-exporting industries or international construction-contracting firms, for example, might well re-examine their policies of tolerating (and even granting tax-deductibility to) bribes and "commissions" paid abroad. These concern us not only because of the direct incidence of cross-border corruption, with its negative implications for developing societies. To the extent that they

contribute to weak, ineffective governance and slower, uneven development abroad, they can also weaken their home countries' legitimate export markets, penalise the international investments of other firms and waste the resources their home countries devote to international development aid. As I will suggest below, for these reasons cross-border corruption can be a truly global problem, requiring co-operative initiatives. "Source" countries that regard international bribery as irrelevant--or even as helpful--to their own economic health might reach very different conclusions once they consider the big picture.

Vulnerable States.

The second serious kind of case is that in which countries experience severe cross-border corruption because of their political and economic vulnerability. Extensive domestic corruption (as noted), poverty, small size, political and administrative weaknesses and dependence upon external markets and technology can all facilitate such abuses; once in place cross-border corruption helps keep a country poor and politically weak. Cross-border abuses, aided by local officials with a share in the corrupt deals, will impede the growth of sound market institutions and of reliable basic economic rights (Knack and Keefer, 1995). The result can be further entrenchment of domestic corruption, delayed and distorted economic development, and diversion of talent and investment from productive enterprise and human-capital-creating public services into rent-producing activities (Rose-Ackerman, 1997; Murphy, Shleifer, and Vishny, 1993)--hardly a promising road to sustained development.

Points of Vulnerability

Under what conditions are international interests most likely to find it worthwhile to exercise corrupt influence in a country, and under what conditions are they most likely to be able to do so? How many of those sources of corruption are open to basic change, or at least to amelioration?

From this point onwards I propose to focus primarily upon cross-border corruption involving legitimate (or largely legitimate) international businesses and flows of capital and goods, rather than that perpetrated by criminal syndicates and outlaw firms that happen to operate internationally. This distinction is admittedly not always precise, and the latter groups are plainly important problems. But legitimate businesses and markets are central to strategies for sustainable development, and thus open, transparent, and efficient relationships with them are going to have to be worked out sooner or later. Their activities are central to international trade policy, and are more easily monitored by the international organisations making and implementing that policy. Illicit syndicates also are linked to a wide range of law-enforcement problems, in both their home countries and internationally, that are beyond the reach of reformers in "target" countries and clearly exceed the scope of this paper. In any event, some of the possible remedies to be discussed below may also help countries contain the influence of international criminal interests.

Another *caveat*: I do not wish to imply that strategies for dealing with cross-border corruption are separable from those aimed at domestic corruption. A country with high levels of one is likely to have a great deal of the other, as already noted; they can feed upon each other, as in the all-too-familiar cases of dictators who make personal corrupt deals with multinational economic interests, and then export their wealth to numbered bank accounts in other countries. Many contributing causes, such as poor monitoring of financial institutions, a lack of transparency in economic policy and its implementation, and, in domestic tax and expenditure policy, weak institutions and basic economic rights, and poorly-developed economic and political competition, are common to both cross-border corruption and home-grown varieties. Poor people and intimidated opposition groups exploited by a corrupt official establishment are unlikely to distinguish between local corruption and that of foreign origin. Nonetheless, we can identify some of the major points of vulnerability that can contribute to cross-border corruption problems, and in so doing identify possible strategies for reform. To the extent that possible remedies are common to the two syndromes, it will be possible to attack both at once.

Institutional Vulnerability Points

As with domestic corruption, weak and poorly run institutions increase vulnerability to cross-border corruption. Some of these have to do with international borders as geographical facts: where customs inspectors are poorly paid and trained, corruption is likely; this is all the more true when their superiors have been drawn into corruption too, and have built vertically organised systems of collective bribery and shared payments, with discipline enforced by the threat of dismissal or violence. Other military and law-enforcement agencies with border-control duties are points of risk too: "protection" may be bought and sold for the smuggling of goods and funds, for a tolerant attitude toward criminal or terrorist groups operating in neighbouring countries, and for the illegal, unlicensed or excessive extraction of natural resources. The range of possible practices is wide indeed. They have in common, though, the fact that the power to maintain a country's borders and geographical integrity affects the movement of goods, capital and enterprises, and thus can be put out for rent -- thus making the legitimate monitoring of imports and exports, and at times the protection of a nation's citizens and territorial integrity, more difficult and expensive.

International borders also exist in the form of administrative procedures and policy processes, and these too can attract substantial rents. Import and export licenses, taxes, currency exchange at favourable rates, policies regulating inward investment and joint ventures, labour and environmental regulations, treaty obligations and a variety of other requirements and processes can become issues when economic interests seek entry to a country, or when its own enterprises do business abroad. These rules and requirements may reflect valid policy goals and processes, but they can also be bought, sold and abused. A country may be well-advised to reassess its trade, taxation and regulatory policies, both as regards the opportunities for corruption created at its own legal or geographical frontiers, and in terms of their place in overall development strategies. Legitimate, productive policies must be supported by effective personnel, organisational and institutional reforms (for a fuller discussion, see Rose-Ackerman, 1978; Klitgaard, 1988); those that are outmoded, ambiguous, open to abuse or counterproductive because of the corruption they encourage may be in need of basic revision, or of repeal.

Institutions with domestic missions also enter into the picture: a weak judiciary and corrupted law-enforcement agencies are unlikely to enforce laws effectively once corrupt interests have set up shop in a country, and an ill-paid, demoralised, poorly organised bureaucracy practically invites rent-seeking and -paying activities by civil servants and entrepreneurs. These particular sources of cross-border corruption differ little from those of domestic varieties, but they are of concern because they make cross-border corruption easier to institutionalise within a country and considerably more difficult to eradicate.

Points of Political Vulnerability

Anyone intending to resist cross-border corruption from within will be taking on powerful enemies, both in government and in the economy. Reformers will thus need political resources and the opportunities to use them. Where those opportunities are scarce -- whether because of a general lack of civil liberties and political freedoms within a country, or because officials have become collaborators in corruption with external interests -- reform will be all the more difficult. Low levels of political competition mean that corrupt officials face few threats to their ability to deliver on their end of corrupt deals, and have little risk of losing power because of their abuses. Low competition also reduces incentives to respect the independence of courts and judges, and to exercise careful oversight over the domestic bureaucracy and border-maintenance agencies. Indeed, political and bureaucratic corruption can become entrenched (Johnston, 1997), with corrupt leverage and incentives being shared within and between the political and bureaucratic structures. In such a setting, would-be reformers are intimidated or frozen out of influence, and existing anti-corruption rules and agencies become empty shells.

Politically *insecure* officials--those whose hold on power is fundamentally uncertain--can be just as damaging as an entrenched elite facing no competition. Officials who do not know how long their power is likely to last have strong incentives to steal as much as they can, as quickly they can take it (Scott, 1972; Knack and Keefer, 1995), and to make sure they store as much of the take as they can in safe havens abroad. Moreover, when they do lose power they may have to flee the country lest they lose their assets, their freedom or their lives. Thus they are likely to be all the more accommodating to corrupting foreign interests that might be in a position to give them, and their money, new homes on short notice. Here too, a poorly integrated political process can open the door to substantial cross-border, as well as domestic, corruption.

A weak civil society is another source of vulnerability. Strong business, trade and professional associations can help discipline their members in their dealings with international interests, with governments and officials in other countries, and with each other. An active self-organising social sector is more likely to form and enforce strong social norms (Cooter, 1997) that might help officials and business people resist the blandishments of foreign corrupt interests and insist upon reform at home. People and groups in a viable civil society may enjoy some support and protection when they criticise corruption in government. A strong civil society is essential for the structured political competition that can remedy the political problems discussed just above, and that can reinforce the political will needed for reform. Similarly, an active civil society depends upon, and in turn can help sustain, an open and competitive economy. None of these advantages, by itself, will be decisive in the fight against cross-border corruption, and all of these problems are interconnected with others. Without a broad-based understanding of factors making for serious corruption, however, success will be unlikely.

Economic Vulnerabilities

Finally, economic policies and realities can also encourage cross-border corruption. Any law, regulation or procedure blocking, delaying or raising the cost of the movements of goods, information and capital across international borders is a potential "squeeze point" for corrupt bureaucrats or focus for bribery from economic interests. As noted above, these procedures may well be a part of essential policies; moreover, completely unimpeded movement across borders may pose real economic, social and health and safety threats for a nation's citizens. But the rent-attracting potential of any such policy must be factored into the assessment of its importance and effectiveness, and while some should be retained and enforced with vigilance, others may not be worth the costs -- in corruption terms and otherwise -- that they incur. Multiple exchange rates and systems of price control, for example, encourage the growth of unofficial markets and extensive corruption. Excessively open economies, as noted above, may become havens for corrupt interests. Conversely, preferences granted to some enterprises or trade partners but withheld from others can encourage bribery. Even legitimate, widely accepted rules, if they are unevenly enforced, poorly drafted, ambiguous or needlessly complex, can attract rents and create opportunities for official abuses. In our increasingly global and interdependent trade environment, countries will find it important to review their policies closely and to ask whether, as well as how, many of them should be maintained and enforced.

The nature of the domestic economy is an important variable as well. A country that is dependent upon technology and expertise from abroad, or upon the selling of extracted natural resources upon global markets, is vulnerable to the leverage of outside speculators and middlemen. Weak internal economic competition, or the exclusion of various regions and segments of the population from the mainstream economy, can open up opportunities for exploitation by international interests, and can render whole societies or segments of them unable to resist because of poverty, dependency and a lack of economic alternatives. Such a situation is also likely to weaken civil society and political competition, two problems discussed above.

The state of a country's market processes and economic rights is also an important concern. Where property rights and the sanctity of contracts are uncertain, international firms and investors will look for other, at times illicit, means to protect their interests. Or, they may keep their capital and enterprises as mobile as possible, ready to be withdrawn if the situation becomes threatening. Keefer (1996) has argued persuasively that uncertain legal rights, and the potential for capricious or abusive state policies (often conditions accompanying serious corruption), lead entrepreneurs to insist on quick profits rather than to invest for the long run. From officials' point of view, the uncertain future prospects thus created may increase the short-term incentives to engage in corruption. Where banking systems, currencies, equity markets and similar institutions are open to manipulation or arbitrary political interference, investors are again likely to seek extralegal protections and guarantees, and/or to stay perpetually prepared for a quick exit--that is, if they choose to do business in a country at all. These issues overlap with institutional points of vulnerability, and reform requires a sound, independent judiciary and bureaucracy as well as political will from the top. Moreover, these interlocking problems not only increase the opportunities and temptations for corrupt deals between international interests and domestic officials; they also are a poor prescription for sustainable development, and may thus help maintain a country in a state of economic dependency and vulnerability.

What Can Be Done?

At one level, the possible remedies for cross-border corruption are very similar to those for domestic varieties. Aggressive, but honest and accountable, law enforcement; careful political oversight of the bureaucracy; judicial and bureaucratic institutions that are independent of political abuse, and open and accountable to society at large; transparency in government and business dealings; proper training and realistic salaries for civil servants; the active involvement of the citizenry; and (perhaps above all) the cultivation of sustained political will and leadership from the top, are all essential parts of the mix. These anti-corruption strategies--aimed primarily upon controlling the intersections between wealth and power--while very important, are familiar to us from our efforts against domestic corruption, and thus need not be discussed at length here.

Instead, I will put more emphasis upon dimensions of the fight against cross-border corruption that may be less well-known, and that are peculiar to this problem. In the former category is the need for significant, structured competition in both the economic and political realms. Where officials stand to win, *or to lose*, significant power through orderly political competition, pressure can be placed upon them to address cross-border corruption issues, and those who are found to be involved can be sacked and punished. Political competition can place a check upon arbitrary political interference in the bureaucracy, encouraging genuine oversight in its place, and can maintain healthy opposition to political attempts to compromise judiciary and regulatory agencies. Where economic competition is sufficient to maintain strong pressures for efficiency, and orderly enough that firms and investors can look beyond immediate circumstances to longer-term costs and benefits, corruption begins to look less like a useful form of influence, or an acceptable overhead cost of doing business, and more like an unreliable, inefficient and very costly way of doing business. Corrupt officials, after all, do not always stay "bought", and bribes once paid do not necessarily clear away obstacles for all time. Indeed, once officials know that payments can be had, they may well contrive ways to extract more; once a person or firm has paid up, it has given corrupt officials evidence that can be used against them, and has effectively forfeited recourse to the law. Without significant, structured political and economic competition the opportunities and reasons to resist corruption may be few; with it, those who may now be participants in corruption can be enlisted as anti-corruption forces, and the lasting incentives that motivate them and guide their choices can sustain support for reform.

Economic and political competition can scarcely solve all problems; its benefits depend upon the free flow of information (and thus upon civil liberties and a relatively free press), a lack of pervasive violence in everyday life, a viable civil society, credible guarantees of basic economic rights and political will and determination among government and opposition leaders alike. Indeed, it can create opportunities of its own for certain kinds of cross-border corruption, as suggested by the controversies over foreign political donations and interference noted above. Thus, with political competition the struggle against cross-border corruption may be risky and difficult; but without it, the task will be even tougher, particularly in any country larger and more complex than a city-state.

Transparency in the economic and state realms makes corruption more difficult to conceal, and can help people resist dealing with corrupt interests on their terms and thus being exploited. Transparency strategies, however, depend upon civil liberties, a free press and a strong civil society: transparency means little if there is no one to look in, or if no one can act on the knowledge thus obtained. In this connection, streamlining trade policies is also worth consideration. Where transparency prevails, bottlenecks and squeeze points are more difficult to conceal and exploit, procedures move more rapidly and rent-extraction is more difficult. As noted, such basic policy revisions will have to take into account many considerations other than corruption problems, and reform will require considerable resources: raising bureaucratic salaries may well prove to be a necessary (if not sufficient) step. But where political will is strong, it should be possible to increase public scrutiny and official accountability, substantially reducing officials' opportunities to create petty (or major) monopolies, and/or to exercise discretion in self-serving ways (Klitgaard, 1988). When this has been done, corruption at a country's geographical and administrative frontiers is likely to decline.

Many of the foregoing statements apply not just to cross-border corruption but to corrupt dealings in general. Cross-border corruption, however, may demand regional and international responses unique to its particular dynamics. Regional co-operation in customs and law-enforcement may raise the costs or cut the rewards of illicit movements of people, goods and capital, and make it more difficult to conceal corrupt deals and illicit enterprises. Harmonisation of laws regarding contraband and forbidden substances might similarly help individual countries reduce dangers along their own borders. Regional economic co-operation that opens up borders and reduces the administrative costs of trade can reduce opportunities for rent-seeking; similar policies that pursue broad-based regional economic development may, over time, help a group of countries become less dependent upon single resources or exports, and upon outside markets, investment and technology. Regionally based economic development may also increase overall economic (and perhaps indirectly, political) competition. Like any other strategies, regional responses have their risks: regional customs unions or law-enforcement consortia will only be as strong as their weakest links, and once inside, corrupt interests may find large regional markets and easy internal movement very much to their liking. But to the extent that small countries and those overly dependent upon single resources or markets can pool their strengths, their chances of resisting cross-border corruption may improve.

Finally, the more affluent nations and major international organisations must take important initiatives. The American Foreign Corrupt Practices Act, enacted in the late 1970s, remains unique a generation later. A full assessment of its impact is beyond the scope of this discussion, but it does seem to have reduced bribery by American corporations to a significant extent, and at times is invoked by the corporations themselves as a way of resisting extortion. Views on its implications for economic competitiveness vary; but if all or most of the major exporting nations were to adopt *and enforce* similar legislation, comparative disadvantages would cease to be a major issue and important incentives to cross-border corruption might dry up. The OECD's initiative to end the tax-deductibility of bribes is an equally important and promising initiative, as is the recent commitment by the Organisation of American States to criminalise bribery in the Western Hemisphere. Such reform strategies will take a long time to bear fruit, and raise major questions about content and implementation. But to the extent that countries that are *home* to sources of cross-border corruption begin to move against the problem, major progress and widely shared economic benefits begin to seem a real possibility. Further opportunities exist for international organisations. Technical assistance programmes, and surveys of best practices and their effects (in routine administrative services such as customs processes, as well as in the field of anti-corruption reforms) could be of great value to reformers in many nations. Substantive policy reviews to eliminate rent-seeking opportunities, such as those arising in the course of shipping agricultural commodities among the nations of the European Union, should also be a high priority.

There is no single recipe for eliminating cross-border corruption. Practices, the interests and countries involved, and the policies that do and do not apply to relationships among them, vary so widely and are so complex that in this discussion I have only been able to discuss the problem in general terms. What is clear, however, is that fighting corruption only within the boundaries of individuals nation-states is an enterprise that is doomed to failure; equally, efforts to combat cross-border corruption must dovetail with domestic reforms. International and regional co-operation offer real opportunities for reform, particularly in the current climate of globalisation and regional integration of markets, and of renewed concern over corruption in general. The substantial political, economic and developmental costs of cross-border corruption demand that those opportunities not be lost.

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2 Corruption and the Global Economy

Susan Rose-Ackerman

Corruption, like any exchange, requires two actors--a buyer and a seller. The buyer in the private sector pays a bribe to the seller in the public sector to obtain something valuable. Bribes can be used to allocate perfectly legal, but scarce, benefits such as foreign exchange, import licenses, credit or public contracts, or they may provide something the buyer does not deserve such as exemption from a valid regulation, an illicit tax break or permission to carry on an illegal business. Bribes can even be used to induce public authorities to harass and investigate one's competitors. Bribery does not always involve public officials--private purchasing agents have been implicated in corruption scandals, as have loan officers in private banks. The common feature is a person with authority to distribute a scarce benefit who uses some method to select beneficiaries other than the willingness to bribe.

Corrupt buyers and sellers frequently develop systems that are mutually reinforcing and persist over time. Such systems are not just effective ways of hiding payoffs and managing the disposal of illicit funds. They may also be organised to affect the very types of services and contracts the government provides. Government decisions about what kinds of public works projects to support and what types of concessions and privatisations to sponsor may be intimately linked to the corrupt system. Since corruption benefits the participants on both sides, neither group has an incentive to end the relationship unilaterally. There is no way to disentangle the network to affix blame on just one of the participants. All bear responsibility.

Some legal systems, however, make a distinction between bribery and extortion. In the former the private individual actively seeks a corrupt benefit from the government official and in the latter the public official extracts money from the private individual in return for not imposing a cost or not withholding a benefit. Although it may be meaningful to speak of extortion when an ordinary person deals with a powerful government official, the bribery/extortion distinction is not relevant for most major public projects. In suggesting that the bribe payer is not responsible, a claim of extortion creates a false impression of injured innocence. Conversely, the criminal law in some countries distinguishes between "active" and "passive" corruption. The briber is viewed as the "active" party and the public official as "passive". This distinction also does not capture the variety of circumstances under which corruption can occur (M. Yves, 1996: 311). No corrupt deal can go through unless both sides agree to it and both agree to keep quiet about it. Yet expressions of coercion and lack of responsibility are common from both international firms, on the one hand, and from high-level public officials, on the other. Each argues that necessity forces them to participate in corruption.

This paper first reviews the situations under which high-level or "grand" corruption can occur and outlines the costs that such corruption can impose on developing countries and on the efficiency of economic activity. With this background, I argue that multinational firms have an obligation to refrain from corruption and to work to reduce its prevalence in international trade and investment. This is so in spite of the two-sided nature of grand corruption. The final section of the paper presents a strategy for the international community, both international organisations and international businesses.

"Grand" Corruption

Corrupt payments to win major contracts, concessions and privatising of companies are generally the preserves of large businesses and high-level officials. Although sometimes low-level clerks are bribed to reveal information, and some smaller businesses bribe to get routine supply contracts, the important cases represent a substantial expenditure of funds and can have a major impact on a government's budget and a country's growth prospects. These deals are by definition the preserve of top officials and frequently involve multinational corporations operating alone or in consortia with local partners. One observer calls this "grand" corruption (Moody-Stuart, 1994).

When the government is a buyer or a contractor, there are several reasons to pay off officials. First, a firm may pay to be included in the list of prequalified bidders and to restrict the size of the list. Second, it may pay for inside information. Third, bribes may induce officials to structure the bidding specifications so that the corrupt firm is the only qualified supplier. Fourth, a firm may pay to be selected as the winning contractor. Finally, once a firm has been selected as the contractor, it may pay to get inflated prices or to skimp on quality.

Corruption in contracting occurs in every country even those at the high end of the honesty index such as Singapore and New Zealand. A few examples will suggest the range of possibilities.

In Zimbabwe collusion between senior ministers in Posts and Telecommunications and a Swedish telecommunications company may have led local tender board procedures to be circumvented. Kickbacks up to $7.1 million have been alleged.

In an airplane deal between South Korea and several United States companies, bribes were allegedly paid to President Roh Tae Woo. Multinational suppliers have been questioned, but deny involvement. Roh Tae Woo's national security advisor acknowledged receiving money from businesses hoping to get arms contracts. He is accused of accepting $300,000 in connection with fighter plane purchases. In particular, the head of a Korean conglomerate was accused of giving $65,000 to the advisor. He admitted giving the money but said it was a gift.

A major scandal in Singapore, involving several multinational firms and a senior official of the Public Utility Board, concerned payments made to receive confidential information about tenders. The case led to the blacklisting of five major multinationals implicated in the scandal. The official received a 14-year jail term.

Developed countries have recently been involved in similar procurement scandals. In Germany bribes were apparently paid to win contracts worth DM 2.5 billion to build Terminal 2 at Frankfort Airport. According to the public prosecutor, corruption led to an increase in prices of about 20-30%. In the French department of Seine-Maritime, 14 people have been charged with corruption in connection with contracts for computers. Civil servants distorted normal procedures for the award of contracts leading to a loss estimated at 50 million francs according to the French Department of Interior. In Belgium $1.9 million in bribes is believed to have been paid to senior figures in the Socialist party in connection with a defence contract.

Not all procurement and contracting scandals involve large-scale construction or capital goods projects. Goods that are used up in consumption are prime candidates for payoffs since it may be difficult *ex post* to discover whether or not the goods were actually delivered in the proper quantity and quality. For example, auditors in Malawi found that millions of dollars of non-existent stationery had been "purchased" by the Government Press Fund. The agency had no approved written control system for local purchases. In Kenya, the government lost about $1.5 million through irregular drug procurement by the Ministry of Health.

Privatisation of state-owned enterprises can improve the performance of the economy and, in the process, reduce corruption. However, the process of turning over state assets to private owners is fraught with opportunities for corruption and self-dealing. The sale of a large parastatal or public firm is similar to the process of tendering for a large public infrastructure project. Thus the incentives for malfeasance are similar. Corruption may undermine the efficiency rationale that lies behind economic justifications for privatisation. If firms pay to preserve the monopoly power of the enterprise after it enters private hands, the result may simply be a transfer of profits from the state to the new owners. The employees of the newly privatised firm may then face demands from suppliers and customers seeking to share in the monopoly benefits.

Is there anything distinctive about corruption in government contracting and privatisations other than the size of the deals? At one level, they appear analogous to cases in which government disburses a scarce benefit, only this time the value of the benefit is valued in many million, not a few thousand dollars. Under competitive conditions the high briber will be the most efficient firm, and the winner will behave efficiently *ex post* irrespective of whether or not it used a bribe to obtain the benefit.

Nevertheless, systemic corruption can introduce inefficiencies that reduce competitiveness. It may limit the number of bidders, favour those with inside connections over the most efficient candidates, limit the information available to participants and introduce added transactions costs. But does the scale of the corrupt deal and involvement of high-level officials change anything?

One essential difference is the likelihood in such cases that rulers are effectively insulated from prosecution. They can thus be less restrained in their corrupt demands than lower-level officials who may be subject to more external and internal constraints. High-level corrupt officials can obtain a higher share of the gains than lower-level ones. Since deals involving major contracts, concessions and privatisations can each have a noticeable impact on the government budget and the country's overall prosperity, the size and incidence of the payoffs are especially relevant. Second, those who obtain licenses and tax breaks through the bribery of low-level officials are rarely thought to behave inefficiently once the benefit is obtained. In contrast, for the major deals considered here the contrary argument is often made. But is there anything to it? To answer these questions, first consider the incidence of corrupt payoffs and, second, ask if corruption breeds inefficiency in firms that pay bribes.

Consider a logging concession obtained corruptly by a company over the higher bids of competitors. Suppose, to begin, that the corruption "market" is efficient so that it operates just like an idealised competitive bidding process. Then we can distinguish between the impact of corrupt payments on government behaviour and the way corruption can affect the efficiency of the concessionaire. Suppose that as a result of corruption, the government obtains less than fair market value for the resources under its control. If corruption does not restrict entry and if the official cannot affect the size of the concession, the high briber is the firm that values the benefit the most. It is the most efficient firm that would offer the highest price in a fair bidding procedure. The losses are the dead weight losses of the extra taxes that must be collected and the foregone benefits of public programmes not undertaken. Honest officials receive distorted information about the value of the concession and may in the future support fewer of them. A similar analysis applies to corrupt contracts and privatisation projects. The most efficient firm will be selected under competitive bribery, but the benefits to the government are reduced. In the contracting case, for example, part of the cost of the bribe may be hidden in the value of the contract.

The bribe will be extracted partly from returns that would otherwise flow to government and partly from the profits of the winning firm. In the idealised competitive case, the winner is indifferent to whether he wins the concession through an honest or a dishonest auction. However, in some cases the corrupt official may have more leverage than the honest one and be able to extract a larger share of the profits. The firm prefers to deal with honest officials. Alternatively, the corrupt official may be able to structure the deal so that it is more lucrative for firms than an honest deal, designing the concession to maximise the profits available to share between officials and the bidding firm. In so doing he may sacrifice values that would be reflected in an honestly negotiated contract. For example, in a timber contract, environmental damage or harm to indigenous people may be ignored. The same problem may arise for privatisation projects and for contracts. Thus corrupt officials can promise to preserve the monopoly position of a privatised enterprise or contract for "white elephant" projects with little value in promoting economic development.

Now consider a firm that has obtained a secure long-term timber concession at a bargain price even when the bribe is added in. If it operates in the international market, its subsequent actions should depend upon the market for timber. The fact that it has underpaid for the concession should not affect its production decisions. It still seeks to maximise profits, and the concession payment is a sunk cost. The cost of corruption is felt by the public fisc, but no inefficiency has been introduced into the international timber market. Even if the total payment is above that expected in an honest system, there should be no impact.

The claim of no impact on firm behaviour is an important result, but it is too simple to reflect reality. The operative terms are *secure* and *long-term*. A corrupt system is not just one in which individuals in key positions can benefit at the expense of the state and ordinary citizens. Rather, the corrupt nature of the deal introduces uncertainties into the economic environment that can have additional effects on the way private firms do business. Difficulties may arise even if the most efficient firm wins. The corrupt nature of the deal may give the firm a short-run orientation. There are two reasons for this. First, the concessionaire (or contractor or purchaser of a privatised firm) may fear that those in power are vulnerable to overthrow because of their corruption. A new regime may not honour the old one's commitments. Second, even if the current regime remains in power, the winner may fear the imposition of arbitrary rules and financial demands once investments are sunk. It may be concerned that competitors will be permitted to enter the market or worry that its contract will be voided for reasons of politics or greed. Having paid a bribe in the past, the firm is vulnerable to extortionary demands by those who can document the illegal payments. For these reasons, the corrupt firm with a timber contract may cut down trees more quickly than it would in less corrupt countries. It may also be reluctant to invest in immovable capital that would be difficult to take out of the country should conditions change. In the electric power area, the most dramatic examples of this are the floating power stations put in place in several developing countries to make exit easy and relatively inexpensive. In short, both the timing of production and the input mix may be *inefficiently* chosen as a result of the corrupt nature of the system.

Furthermore, it is unlikely that corruption will be limited to a one-time payment to top officials to cement the deal. Instead, the winner may be a firm more willing than others to engage in ongoing corrupt relationships up and down the hierarchy to protect its interests. For example, if the timber concession includes a royalty per log that is calibrated by the type of timber, the firm may pay inspectors to misgrade the logs. It may also pay to cut down more trees than the concession permits. Under a construction contract, the high briber may anticipate bribing building inspectors to approve work that does not meet the nation's safety standards (Park 1995). In fact, the expectation of a long-term relationship may be part of the appeal of signing with a corrupt firm in the first place. Alternatively, the corrupt firm may itself hold back some promised bribes as a way to guarantee performance by the country's officials. Thus a firm might sign a contract to deliver cement to a road-building agency but only pay bribes as payments are received from the public authority. Frequently, such arrangements take the nominal form of consulting contracts with payments tied to the receipt of funds under the contract.

"Imported" Corruption and Obligations of Multinational Business

The preceding discussion had demonstrated that corruption cannot properly be described as "imported" by multinational firms into innocent developing countries. Similarly, the view that a culture of gift giving and patronage in the developing world induces multinational firms to demonstrate their cultural sensitivity by paying bribes is also unconvincing. Authors from the developing world argue persuasively that it is quite insulting to suppose that a traditional culture of gift giving will support massive payoffs to political leaders (e.g. Ayittey 1992). Survey evidence from Thailand, for example, shows that people make quite sophisticated distinctions between appropriate and inappropriate gifts. They do not look with tolerance on major payoffs involving high-level officials and major investors (Phongpaicht and Piriyarangsan, 1994).

Sometimes multinational firms that pay bribes argue that antibribery laws in the host country are dead letters that mean nothing. The laws are seldom enforced, and when they are, political opponents of the regime in power seem to be targeted. The managers of such firms ask why they should keep to a higher standard than domestic companies. Even officials in international aid and lending agencies sometimes argue that nothing will get done if they do not ignore evidence of corrupt dealings. However, even acknowledging the two-sided nature of all corrupt deals, I believe that large multinationals have an obligation to refrain from bribery in their dealing with the developing world and with countries in transition. International aid and lending organisations, less controversially, should also face a similar constraint. The basis for these claims is the leverage or market power that such organisations possess--leverage that can have a serious impact on the future development of poor countries. Responsible corporate and institutional behaviour will be spurred by recent OECD efforts to induce members to end the tax deductibility of overseas bribes and to criminalise foreign bribery, but the basic argument does not depend upon the success of these political efforts.

In contrast with large multinationals, some developing countries may reap relatively few benefits from limiting bribery in their international dealings. There may be honest systems that are little better for the country in question than corrupt ones. For example, suppose a country must deal with a single firm that is the monopoly purchaser of the country's key mineral or agricultural export. Such a firm does not need to pay high bribes since the country's rulers have no choice but to deal with it. As a monopolist, it can strike a hard bargain (Rose-Ackerman 1998). A programme to end payoffs under such conditions is likely merely to raise the profits of the multinational with no benefit to the country's citizens. Competition is needed, not just transparency. This is a lesson that developing countries need to learn when they push for greater honesty in international business dealings; they should also be pushing for a more competitive environment. In fact, one way to reduce the pressure on individual firms and investors to behave "responsibly" is to create an environment in which corrupt behaviour is not profitable. This implies a more competitive environment where other firms have an incentive to expose the corrupt deals of their competitors (Rose-Ackerman, 1996, 1998).

But the market power of multinational firms and aid organisations cannot always be eliminated. Their position depends upon the nature of their dealings with government and upon the size of their deals relative to the size of the government. Firms may have contracts to extract hard rock minerals or petroleum, to cut down trees or to produce and market agricultural products. They may purchase privatising firms or establish new manufacturing plants or service firms. When the deal represents a sizeable share of a country's national income or state budget, firms cannot responsibly adopt the position that their own business interests are all that is at stake. They may claim that they ought to be under no obligation to take a broader perspective, but they cannot claim that their actions are irrelevant to conditions in the developing or transitional country.

The struggle to appropriate the gains of public projects can have a destructive impact on a developing country's economic and political system. When the struggle generates no productive benefits and is just a fight to divide a fixed pie, economists call it "rent seeking" (Kreuger, 1974). Talented people may concentrate their effort on such rent seeking rather than on productive activities. This can occur on both sides of the corrupt transaction. Similarly, potential entrepreneurs may abandon the private sector and become public officials charged with allocating rents. In a democracy, people may seek political office, not to fulfilll some idea of public service, but to extract as many rents for themselves and their supporters as possible (Diamond, 1993, 1995). Private business people may concentrate on the struggle for publicly provided benefits, be they mineral concessions or aid contracts, rather than on establishing productive enterprises.

Troubling cross-country evidence suggests that a strong natural resource base frequently does not help a country develop and does little to benefit those at the bottom of the income ladder (Gelb et al., 1988; Sachs and Warner, 1994). Capital investment often produces few long-term growth benefits in developing countries; much investment seems to have simply disappeared. Evidence on the benefits of foreign aid is mixed at best. A secure source of foreign aid is a little like a diamond mine or an oil deposit; countries with access to such largesse have a cushion that others lack, but this largesse can be used for good or for ill.

Weak public sector institutions are one reason why rent-seeking is endemic, and one symptom of a poorly functioning state is the prevalence of corruption. Weak states may face the paradoxical situation where increases in resources undermine political stability. So long as the state is poor, few may care about controlling the levers of power. If, however, the state acquires a large foreign aid package or gains control over a newly valuable mineral, new political figures may arise seeking to claim a share of the benefits or even outright control of the state. The political struggle becomes a fight to control the state's wealth for a period of time. Insiders try to prevent outsiders from benefiting except to the extent payoffs are needed to buy their assent to the status quo. In such unfortunate situations, increases in wealth are destabilising and can lead to subsequent falls in the wealth of ordinary citizens. We can describe the "absorptive" capacity of a state as its ability to use additional resources for social benefit rather than for the private gain of the rulers (Coolidge and Rose-Ackerman, 1997).

But such explanations are too one-sided. They ignore the active role that outside investors and aid organisations can play. If multinationals actively participate in corrupt systems and if aid organisations tolerate endemic corruption, it is overly harsh to place the blame entirely on internal failures in the developing country.

International aid and lending institutions have begun publicly both to acknowledge the problem of corruption in developing and transitional countries and to adopt policies to address the problem. Debate over the most effective techniques is ongoing, but the basic commitment seems clear enough (IMF, 1997; World Bank, 1997; United Nations, 1997; UNDP, 1997). These institutions should not support aid projects that increase the value to individuals of controlling the government. On the more constructive side, loans and grants should seek both to improve the performance of state institutions and increase the accountability of the public sector.

Unlike international aid organisations, multinational businesses have not generally considered the impact of their behaviour on the long-term prospects of the countries where they invest and trade. One still hears expressions of cynicism and resignation from business leaders and their advisors. However, in an international environment with no effective means of regulating inefficient behaviour, large firms have a stronger obligation to behave responsibly than in the developed world with its network of regulations and its reasonably responsive political systems. In most OECD countries, firms can focus on profit, confident that other institutions exist to worry about monopoly power, environmental externalities and misleading business practices. A firm that operates within the laws of the United States can argue that the constraints imposed by tax and regulatory laws are sufficient to fulfilll its obligations. Such a position is controversial even in the developed world, but it is, at least, plausible. This view, however, will not do when investment and trade occur in overseas environments where legal rules are either poorly specified or overly restrictive and where the accountability of top government officials to the long-term success of their country's economic and social development is in doubt. Of course, there are very few cases where a multinational firm can single-handedly influence the operation of a state. The number of modern day "banana republics" is probably quite small. Some countries such as China, India or Russia are so large that they have market power on their own. Even in those countries, however, some companies have leverage at the national level, and the regional impact of other deals is large. For example, consumer goods companies with strong international brand recognition may be such a symbol of successful development that they can successfully resist corrupt demands. Other companies with a strong market position in their fields of business can refuse to participate in corrupt arrangements. Even if such firms lose out on corrupt deals, some countries may be induced to operate more cleanly so as not to sacrifice the firms' business. Large, highly diversified firms may have a further advantage if they can credibly threaten to exit a country entirely in the face of corruption in one line of business. Such a firm may also have the bargaining power to protect local subsidiaries from acquiescing to corrupt demands. Firms that successfully use the leverage they have will not only help contribute to the long-term growth prospects for the country but also will generally benefit in the short run as well.

The important issue for companies operating in a corrupt environment is whether to participate actively, quietly refuse to deal, or report corruption to local authorities and to those in the outside world. Keeping quiet is probably the worst option. The firm not only loses the business; it also has done nothing to change the underlying situation for the better. The advantage of the current interest and concern with corruption is that reporting corrupt demands can lead to international embarrassment for the corrupt officials that may, in turn, produce reforms. Companies that claim to abhor corruption while accepting it as a necessary evil are not acting consistently so long as one assumes that the pressure of international public opinion can have an impact both on corrupt public officials and on bribe-paying business firms.

The Role of the International Community

The growing interest of the international community in limiting corruption is part of a general rethinking of the function of international aid and lending organisations in the post-cold-war age. The end of the cold war has changed the balance of forces and removed any need to support corrupt regimes for national security reasons. The widespread corruption and organised crime influence in many countries have made the problem difficult to ignore. Some Latin American and Asian countries are threatened by the corrupting influence of the illegal drug business. The failure of Africa to develop in the face of substantial progress in many parts of Asia and Latin America raises questions about the role of the state in development. The worldwide move to privatise and deregulate requires a rethinking of the relationship between the market and the state.

Even some who acknowledge the costs of highly corrupt governments argue that the control of corruption should not be linked to international trade and lending policy and question the involvement of international aid and lending agencies. In line with the debate over human rights and labour standards, they argue that trade policy and development assistance should not be tied to "non-economic" issues. But corruption is in large part an economic issue. It affects the competitiveness of the global economy and the efficiency of investment and development projects worldwide.

Certain strategies are possible today that would have been infeasible just a few years ago. There are four broad arenas for international involvement.

1. When the funds of international organisations are at stake either as loans or as grants, these organisations will have an interest in the effective use of their resources.
2. Aid agencies may directly support anti-corruption efforts such as civil service reform and reform of budgetary and financial management systems. Other types of reform projects designed to improve economic performance or to democratise politics may produce new forms of corruption and self-dealing. Reformers must seek to control these new types of malfeasance.
3. International efforts should be focused on reducing the willingness of multinational businesses to pay bribes and on enlisting them to assist the developing world to carry out reforms. Perhaps a co-operative relationship could develop between the IMF, the World Bank, or the UNDP, on the one hand, and multinational businesses on the other.
4. International programmes to control the flow of illicit funds can help check corruption by making it more difficult to transfer secret funds abroad where they cannot be traced. Other types of co-operation in the control of international criminal activity can help check corruption.

Controlling Corruption in Project Loans and Grants

Aid organisations, concerned with the success of the projects they support, will obviously be troubled by endemic corruption. For example, suppose that 20% of aid funds are lost due to corruption. That 20% represents not bribes per se, but the inflated contracting costs and the loss of equipment and other inputs from tolerating bribery. Then a project with a budget of $100 million could have been completed for $80 million in an honest system. Consider a simple project where funds invested in the present earn a return one year hence (and only in that year), and suppose that an investment must earn an annual return of 10% in order to pass muster. Then an honestly administered project would need to generate benefits of $88 million. The corrupt project would need to produce returns of $110 million, a difference of $22 million. A project that should have cost $80 million must return $110 million in order to be worthwhile--a rate of return on productively used resources of 37.5%. Even in the developed world, not many projects have such a high return. In the absence of corruption many more projects would seem worth doing.

Furthermore, if corrupt opportunities vary across projects and if a country's corrupt top officials have a say in which projects are sponsored, they will favour those with large opportunities for private gain thus skewing the ranking of projects. The problem, then, is not just that too few projects will seem worthwhile to the aid and lending agencies, but also that an inefficient mixture will be supported. One recent buzzword in development circles is "ownership". Projects will fail unless the borrower feels that it "owns", or has a stake in, the project. Unfortunately, one form of ownership is all too common. Political figures in borrower countries and firms in lender countries express an "ownership" interest in projects that produce personal benefits for the politicians and profits for the firms. They will oppose projects that spread the benefits more broadly to the poor and that assure free competition. "Ownership" is a questionable value in cases where a country’s rulers do not seem committed to poverty alleviation.

In the future the UNDP and the World Bank may have no choice but to impose more stringent controls and improve oversight. Until recently, the main focus has been on analytical rigor at the project approval stage and on transparent procurement processes under Bank and UNDP loans and grants. Some projects with strong support from a country’s rulers were not supported because of the concern that they would simply create pools of rents for the powerful. At the World Bank procurement guidelines sought to assure some level of competitive bidding on most large contracts, but worries about corruption were implicit. In 1996, however, the Bank revised its procurement guidelines to state explicitly that corruption and fraud would be grounds for cancelling a contract if the borrower has not taken appropriate action. Companies found to be corrupt by the Bank can be excluded from bidding on future projects. The new rules permit Bank audits of contractors and require contractors to record all payments to agents both before and after the bidding since such payments are frequently the route by which payoffs are made. The importance of these changes will depend upon how they are implemented in the field, but they represent a promising first step.

The procurement changes might be supplemented by a requirement that potential bidders sign an Integrity Pact under which they pledge to refrain from corruption. Transparency International (1995) has recommended this practice, and Ecuador has experimented with it, but it has never been put into broad use. This is a variant of the prequalification processes used by procurement offices in many jurisdictions. The number of bidders might fall, but the selective elimination of corrupt firms will enhance the competitive nature of the process, not reduce it. Although such pledges look redundant since corruption is, in any case, illegal, they may have the advantage of highlighting the issue in countries with little respect for the formal law on the books. However, when such pacts exist, losers have an incentive to accuse the winner of corruption even if none occurred. The international aid and lending community needs a way to make constructive use of the information contractors can provide without becoming enmeshed in investigating the claims of every disappointed bidder. Since bid challenges are often costly and time-consuming, those experimenting with this method must decide how to balance the need for a speedy sale against a process designed to deter corruption in this and future deals.

Other reforms should be considered. For example, projects could be designed with the fragility of a country’s procurement processes in mind. If that were done, project officers would favour off-the-shelf items sold in international markets rather than specialised goods. These standard goods could simply be purchased in the market with no specialised procurement procedures. Another possibility is to develop external benchmarks for certain types of procurement. In such cases the price of comparable products in the private sector can help limit the price inflation that often accompanies payoffs in procurement.

At the World Bank, the Controllers Office is exploring ways to improve *ex post* monitoring so that there is more review of goods and services actually provided. Instead of relying mostly on paper records, Bank auditors are considering more physical inspections and on-site reviews. The Operations Evaluation Division is the World Bank’s own inside/outside oversight agency. A study done for its annual evaluation review found that highly corrupt countries were less likely to have successful World Bank projects (Kilby, 1995). This result suggests that the OED itself take up this issue as part of its review of Bank priorities. The UNDP is sponsoring a series of projects designed to improve the accountability of aid (UNDP, July 1996).

Aid and lending organisations must acknowledge the political and organisational dynamics that make corruption control difficult. They must self-consciously review their own control institutions to isolate areas of deficiency. If they do not carry out the oversight function themselves, they may end up having it thrust upon them by outside observers.

Supporting Reform Programmes

The UNDP, the World Bank, the bilateral aid agencies and the regional development banks have a good deal of leverage with their borrowers and grantees. They have often been reluctant to use it for fear of being accused of lacking cultural sensitivity or of being heavy-handed advocates of democracy and "Western" values. This attitude may be changing as the costs of systemic corruption for development become clear. Citizen surveys and expressions of public outrage suggest that widespread tolerance of corruption is not the rule in most countries. Furthermore, organisations concerned with the reduction of poverty need to remember that even if elites are tolerant of corruption and benefit from it, this will seldom be true of the intended beneficiaries of aid.

The international institutions are acknowledging the problem of corruption in countries in transition in eastern Europe and Asia and considering how aid projects might provide constructive help in alleviating its worst excesses. Once such projects are contemplated in Russia and Turkmenistan, it is difficult to argue that they are inappropriate for Guinea, Pakistan or Brazil. In fact, as private capital becomes more important in some traditional areas of World Bank lending, its role in institutional reform should increase. The UNDP is basically a grant-making organisation that is already in the business of providing technical support for governments.

These institutions already support public sector management and "governance" projects in a wide range of areas. The UNDP has also provided aid for the development of democratic institutions (UNDP July 1996, 1997a). At the World Bank some projects began as part of the structural adjustment lending carried out in the eighties and, at a somewhat reduced level, up to the present. This is an awkward vehicle for institutional reform efforts, and free-standing projects are now being carried out. Other loans aiming to reform regulatory authorities, taxation agencies, the judiciary, and other public institutions are being considered or implemented. The Bank frequently advises countries on the privatisation process. Aid agencies such as UNDP and the bilateral donors have been leaders in developing institutional reform projects. All these initiatives require a long-term commitment of funds and expertise and a realisation that "output" measures will not be easy to formulate precisely. Nevertheless, the development community can play a role in providing a framework within which development can proceed as a partnership between the public and the private sectors.

Sometimes the problem is not just reducing corruption in existing institutions, but also preventing it from arising in new ones. A privatisation auction can be tarnished by payoffs and insider deals. A new regulatory agency established to oversee privatised firms can be corrupted. Illegal campaign contributions and vote buying can undermine a fledgling democratic process. Thus reform programmes supported by outside aid need to assess the opportunities for corruption and self-dealing that can arise as a result of reforms that are otherwise beneficial.

International aid and lending agencies can work with reform-minded government and individual countries to develop a realistic programme to reduce corruption. The priorities for reform will differ across countries, but the basic factors that must be considered include substantive law reform to reduce corrupt incentives in particular sectors, reform of the legal framework and improvements in the integrity of monitoring and law enforcement reform of the civil service, and the strengthening of checks and balances.

Greater success in improving the institutional environment for development would be likely if both the international aid lenders and borrower governments took a more straightforward approach to controlling corruption and other forms of malfeasance. The UNDP and World Bank try to manoeuvre between the economic interests of poor and wealthy states and to manage the tensions between charitable goals and the politics of aid and lending policy. The issue is a complex one, but a place to start is with an acknowledgement of the problem of corruption and self-dealing and with concerted efforts to limit its impact on efforts to promote growth and reduce poverty. The goal should not be to insulate aid projects from a country’s corrupt climate or from the payoffs that have become routine in some areas of international business. Instead, the goal should be to seek fundamental changes in attitudes and institutions in situations where corruption and governmental ineffectiveness go together.

Limiting Corruption in International Business

Multinational business firms face a dilemma when they deal with corrupt regimes. Each believes it needs to pay bribes in order to do business, but each knows that all of them would be better off if none of them paid. The playing field is tilted toward unscrupulous, but less efficient, firms who would not fare so well in an honest system. This realisation has fed recent international efforts at limiting corruption in international business. Such efforts could complement the solutions outlined above which largely focus on what a country can do whose leaders are committed to reducing the level of malfeasance. Current activity includes multinational efforts, especially at the Organisation for Economic Co-operation and Development (OECD) and at the Organisation for American States (OAS), to constrain corruption and efforts by the business community to promulgate voluntary codes of conduct. In addition to measures currently under way, another proposal merits discussion--the idea of an international tribunal to resolve disputes.

Some have recommended the creation of new international capacities to deal with global corruption. The involvement of the World Trade Organisation (WTO) has been proposed, but worries over tying trade policy too closely to a range of other issues from labour conditions to human rights to corruption, suggest that this will not be the first line of action. Within the WTO the most feasible possibility is a revision of the Agreement on Government Procurement so that more countries will join. The present agreement entered into force on January 1, 1996, but only a few countries, mostly in the developed world, have adopted its provisions. One possibility is to redraft the Agreement to focus on anti-corruption aspects in the hope of attracting more countries.

The idea of a dispute resolution mechanism deserves further scrutiny to determine if there is a feasible way to create a body to hear complaints by firms claiming to have lost business to rivals as the result of corruption. In establishing a general forum for resolving disputes, there are clearly some difficult problems of proof and standards of decision. Nevertheless, some models exist in the international legal arena that may provide ideas about how to proceed. For example, the World Bank Group’s International Center for the Settlement of Investment Disputes (ICSID) resolves disputes under contracts where it is the forum of choice (Shihata and Parra, 1994). ICSID panels are not formally courts, and their use is based on the prior consent of the parties, but they do occasionally deal with issues that are indirectly related to corruption. The process has difficulties because of a review mechanism that lacks finality and that has sometimes taken an overly technical and formalistic approach. Nevertheless, these problems have apparently become somewhat less severe in recent years (Reisman, 1992, pp. 46-106). ICSID has not, however, heard disputes arising at the contract awarding stage, and it may not have jurisdiction in such matters. It is also an expensive and time-consuming process that is not presently able to handle a large volume of cases.

Tribunals also exist in the fields of human rights, international labour standards, and nuclear energy that might be dispute resolution models (Barratt-Brown, 1991). Non-governmental organisations can bring complaints before them and participate in the presentation of evidence. Each of the existing bodies has its own problems, and none is a perfect model for those concerned with anti-corruption efforts. Nevertheless, a more careful examination of the possibilities for some kind of international tribunal needs further exploration.

Alternatively, the international community could establish a forum to review cases of suspected corruption in privatisation or contracting processes, perhaps in connection with an Integrity Pact mechanism. Cases brought by disappointed bidders or defrauded lenders would require that the country involved make a transparent accounting of its behaviour. The actual payment of bribes would not necessarily need to be documented. Instead, the focus would be on the terms of the deal. If it seems to diverge significantly from what would have been expected in an honest process, the remedy could be to require the project to be rebid. One difficulty in making the process operational, however, is that the rebid will not simply be a more transparent and honest rerun of the old one. All the players have new information as a result of the first round that will affect their behaviour in the second round. The strategic aspects of this proposal need to be carefully analysed to avoid creating an even more unfair system.

Such a process would, of course, discourage some projects from going ahead. That might not be such a bad thing. When an inside deal appears inevitable, privatisation should be delayed, since a public firm is much easier to monitor than a private one. Similarly, a public works project may have been designed with bribes in mind, not economic development. Moreover, unlike the arbitration processes carried out under ICSID, the cost of the proceeding might be subsidised by the international community if a developing country emerges victorious from a challenge. And the jurisdiction of the tribunal could be limited to countries that volunteer to establish an Integrity Pact system in return for World Bank or UNDP technical advice and other support for the process of carrying out a privatisation or a contract. This proposal is an example of the more general principle that one way to fight corruption is to give losers a means of lodging a complaint, whether the harm they have suffered is a lost contract, control of a privatised company or access to subsidised housing for the poor (Alam, 1995).

Another method of checking the effectiveness of a country's policies would be to permit firms that are pressured for bribes to report their experience to the IMF. The IMF would not investigate individual complaints, but a pattern of reports could induce the IMF to take a hard look at a country's institutions. Such reports could be part of the information used by the IMF under its new policy of requiring reforms of public sector institutions and improvements in the transparency of procedures. The aim is to limit corruption and improve the effectiveness of IMF financial assistance. Such strings were attached to the packages negotiated with the Philippines and Thailand; Kenya's unwillingness to reform led to an IMF pullout. Indonesia will be an important test case for this policy.

Similarly, as part of their arrangement with the IMF, top officials who feel pressured to accept payoffs by businesses seeking contracts, concessions or other favours could also report to the IMF. Such reports, passed on to the World Bank, could be a preliminary step in implementing the World Bank's new procurement policy that explicitly contemplates actions to discipline firms by restricting access to projects supported by World Bank loans (World Bank, 1996). The Bank, the IMF, and the United Nations cannot engage in individual investigations of corrupt officials. That is for the legal systems in member countries. They can, however, set up enforcement strategies for their own assistance and loans and can draw on the experience of multinational firms in doing so.

Becoming a clearinghouse for allegations is a way of revealing to both sides that high-level corruption is a game in which the developing country is the loser and in which neither private nor public actors can absolve themselves of responsibility. If both a top official and a firm complain about corrupt pressures exerted by the other, the stage may be set for meaningful reforms that reduce the underlying incentives for such deals to be made in the first place. Without trying to affix blame, the international organisations could begin a dialogue with a country's leaders and major investors on ways to improve the situation for the benefit of the country's citizens. Reducing corruption requires a commitment from both sides of potentially corrupt deals, even though only one side actually needs to be honest to eliminate bribery. The problem is one of expectation. If everyone thinks that everyone else is corrupt, then all but the saints will be tempted to engage in malfeasance. If clear statements can change expectations on both sides, followed by consistent actions and a credible commitment to report corrupt pressures, progress seems possible.

The IMF would not investigate individual complaints, but a pattern of reports could induce the IMF to reopen negotiations. The international business community is beginning to recognise the costs of corruption to the global investment environment. Insofar as this is true, it suggests another approach to reform in the developing world and in countries in transition. Perhaps international businesses themselves could contribute to the effort by providing funds and technical assistance to countries interested in reform. This is already being done through professional associations such as the American Bar Association, but the UNDP and other aid organisations might explore the possibility of collaborative projects. Businesses that have themselves been enmeshed in corrupt networks may provide useful advice on how to eliminate them. Of course, reforming countries might be reluctant to accept help from those who have corrupted them in the past, but the UNDP might be able to establish a neutral forum in which the experience of these companies could be tapped and their suggestions for reform canvassed. If this looks a bit like asking the safe cracker for advice on how to increase the security of banks, so be it. Often those with some experience will be the most sensitive to ways to avoid the pitfalls of reform.

Many existing international efforts are very recent and some are of a purely hortatory character. The next few years will indicate whether they have any real meaning in the international business environment.

UNDP and other aid and lending organisations, along with non-profit organisations such as Transparency International, can play a monitoring role and can help sponsor programmes to develop practical reform proposals both for individual countries and for the business community.

Controlling Money Laundering and International Criminal Enterprise

Another facet of the international efforts against corruption is the effort to make it more difficult for corrupt rulers to hide their gains. The problem is not only that bribe receipts are easy to hide in offshore accounts but that, being illegal, they are especially likely to provide capital to illegal businesses worldwide. This reduces the cost of capital to such industries and fuels their growth relative to legal business ventures.

Efforts to crack down on money laundering are a useful way to increase the costs of organised crime and to make corruption more risky. The United Nations Vienna Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances adopted in 1988 and the 1990 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of Proceeds of Crime are the main international agreements (Scott, 1995). The Vienna Convention calls on countries to criminalise the laundering of money from drug transactions. The European Union also issued a directive in 1991 that obligates member states to require financial institutions to maintain systems to prevent money laundering. The main international body engaged in ongoing efforts to control money laundering is the Financial Action Task Force set up in 1989. It has representatives from the OECD, Hong Kong, Singapore, the Gulf States and the European Commission (Scott, 1995). It has developed forty recommendations for appropriate countermeasures, including the prohibition of anonymous accounts. However, as emerging markets and small "financial paradises" become increasingly used for money laundering, the problem of control is becoming more serious. Keeping the developed world pure is of little relevance. At issue is both the ease with which corrupt officials in one country can hide their gains in another and the possibility that money laundering activities can undermine the credibility of a country’s financial structure (Scott, 1995).

Money laundering controls are only negative sanctions. Such activities are unlikely to be an effective way to increase investment in capital-poor countries. A highly corrupt country is generally one with an uncertain and arbitrary business environment. Such an environment encourages local elites to invest abroad and discourages foreign direct investment. Thus although actions designed to check international money laundering can play an important subsidiary role, they are not likely to have much of an impact on poor countries unless combined with more direct efforts to improve government performance and accountability.

International efforts to control illegal businesses are a second important option for the control of corruption. In addition to their other negative effects, such businesses often have a corrupting influence on government. When corruption is combined with organised crime, the problem for international aid organisations is especially difficult. If the entire state is permeated with crime, there is probably not much outside organisations can do except wait in the wings and hope for the best. In less extreme cases, the experience of developed countries in fighting organised crime may be useful. In developing countries, unused to confronting organised crime, a combination of training and law reform is likely to be needed. Such reforms are unlikely to be sufficient unless the economy is strong and competitive. The state may need to make more direct efforts to reduce the excess profits available to criminal entrepreneurs in legitimate business. One solution is promoting the entry of well-capitalised legitimate businesses that, with some state help on the law enforcement side, can compete with mob-dominated firms.

A country’s links to the broader world can either limit or expand the scope for organised crime. On the one hand, an open trading and investment regime will make it easy for both contraband and the profits of crime to flow across borders. The existence of numerous "financial paradises" where black money can come to rest makes domestic criminal activity less risky since money can be easily hidden abroad. To counteract the negative impact of openness requires international efforts to "follow the money", and attempts to isolate those countries willing to provide safe havens for black funds. This suggests that international organisations ought to focus on international banking disclosure standards that make it more difficult to hide illicit funds.

On the other hand, open borders facilitate the investment by outsiders in a country. If these outsiders are not part of the domestic criminal bodies and are not associated with such groups elsewhere, they may challenge entrenched groups. Of course, if such investments are costly and dangerous, few may make the effort, but the lack of regulatory controls at least makes them thinkable.

The control of international criminal behaviour is an important matter, but a criminal justice approach to corruption is not sufficient. Limiting money laundering and controlling illegal businesses clearly require international co-operation, but these efforts cannot by themselves have much of an impact on the level of corruption when the underlying incentives arise not from illegal business activity but from the benefits of controlling the state.

Conclusions

In contrast to past patterns of secrecy and denial, corruption in international business dealings is now acknowledged at the highest levels in governments and international organisations and within the business community itself. A major accomplishment of the past five years, spearheaded by Transparency International and by many people both inside and outside these institutions, has been to legitimise discussion of corruption. The next five years must move beyond the establishment of an open discourse to concrete accomplishments. Successes (or failure) in one country must be available as a lesson for others who seek to reform. Although in many countries reform is needed in the delivery of services and the collection of revenue from ordinary citizens, my focus in this paper has been on corruption at the top of government that often involves the participation of multinational business firms. I have argued that neither a country’s rulers nor multinational investors can be viewed as innocent victims once the two-sided nature of high-level corrupt deals is recognised. This suggests that one role for the international community is to break through the present stalemate in which governments and firms each accuse the other of perpetuating corrupt systems. I have reviewed current efforts and suggested some ideas of my own involving both the creation of an international tribunal and the possibility of enlisting multinational firms and developing country governments directly in the reform effort. None of these reforms will be easy to accomplish, but experiments and new initiatives are necessary if the move against corruption is to be more than just a series of rhetorical flourishes.

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3 Corruption and Anti-Corruption Strategies: Issues and Case Studies from Developing Countries

Alan Doig and Stephen Riley

Introduction

Patterns of corruption vary from society to society and over time. This is particularly the case when we consider the "South", the "Third World" or the developing countries. In order to understand the immense diversity of its origins, forms and effects across developing countries, we should examine the roles of both the internal 'stakeholders' in developing societies (such as politicians, business cliques and junior civil servants) as well as external actors (including western multinational companies and international financial institutions). In addition, reform strategies should take account of widely differing economic, legal and political contexts. Effective anti-corruption strategies need to be tailored to the social environment in which corruption occurs.

As a result of this variety in patterns of corruption, there are problems in evaluating the current diversity of corruption and anti-corruption efforts; many advocate a single universal strategy to fight corruption. The intention of this chapter is to assess corruption and anti-corruption strategies in Botswana, Ecuador, Hong Kong and Tanzania, as well as attempts to reduce customs fraud in Mali and Senegal, in the light of such universal solutions. The chapter starts by outlining the current framework of governance and economic and political liberalisation within which many developing-country reform efforts are situated. This new reform agenda needs to be examined with reference to the huge upsurge in interest in reducing visible instances of public sector corruption in the late 1990s. Why has there been a 'corruption eruption' in recent years? The chapter subsequently outlines the key issues that need to be considered when combating corruption. A central section of the chapter considers the diversity of corruption and anti-corruption efforts found in the cases that were examined during the UNDP-PACT and OECD Development Centre Workshop. The concluding discussion focuses upon the major strategic choices required in designing a short-term, effective anti-corruption effort and reconsiders the universal solutions proposed.

A Framework: Good Government and Good Governance

The academic and policy-orientated debate on the character of corruption--and the effectiveness of anti-corruption strategies--has been changed markedly by events in developing countries and the former Soviet Block in the mid- and late-1980s. Arguments about curbing corruption now take place in a new context: we are in an era of political and administrative reform, structural adjustment and what Samuel Huntington has called the Third Wave of democratisation in developing and transitional countries. Progress towards the goal of reducing corruption in the late 1990s therefore needs to be set in the context of these new international policy imperatives.

However, the eradication of poverty, participatory development and the support of human rights have been long-standing goals (on paper if not in practice) for western countries and the international agencies they fund. Whether because of the ending of the cold war and thus the need no longer to support political leaderships in non-aligned or developing countries, or because of the shift in emphasis that has followed the end of Reaganite or Thatcherite approaches to the size and roles of the state, these goals have moved to the top of the agenda with a clear emphasis that funding will now be targeted to achieve them. The Final Report of the Ad Hoc Working Group on Participatory Development and Good Governance of the Development Assistance Committee of the OECD [1997], for example, has stressed the key themes: poverty reduction, promoting gender equality, raising basic education and health standards and reversing environmental degradation. The OECD report, as well as those of other agencies and governments, suggests that such themes are best achieved through more participatory, transparent and accountable societies, with an emphasis on sustainable reform, including the promotion of economic development and liberalisation, the improvement of the social, health and educational prospects of populations and the provision of a responsible and responsive political and legal framework.

This framework--usually termed "good government"--is expected to contain a number of key components: political legitimacy for the state through democratic elections and transfer of power, and an effective political opposition and representative government; accountability through transparency and the provision of information; separation of powers; effective internal and external audit; effective means of combating corruption and nepotism; official competency, such as trained public servants; realistic policies and low defence expenditure; human rights as indicated by freedom of religion and movement; impartial and accessible criminal justice systems; and the absence of arbitrary government power.

Good government is also seen as an essential condition toward the wider goal of good governance. Described as the "use of political authority and the exercise of control over society and the management of its resources for social and economic development", good governance encompasses the "nature of functioning of a state's institutional and structural arrangements, decision-making processes, policy formulation, implementation capacity, information flows, effectiveness of leadership, and the nature of the relationship between rulers and the ruled" (Serageldin and Landell-Mills, 1991). Good governance, therefore, concerns not just the organisation and activity of government but also the ends to which they are put in terms of achieving levels of economic, human and institutional development which "benefit the population as a whole" and promote the "literary, education and employment opportunities" which in turn enhance the ability of the population to demand, and participate effectively in, good government (World Bank, 1991).

In general terms, good government is as an essential precondition for good governance. Good government is intended to lead toward a governmental framework accepted by a participatory public as legitimate, responsive to the needs of the population and committed to improving its welfare, competent in providing law and order and delivering public services, and providing an effective policy environment and open-handed in its conduct. Such a system of government would also want to disengage itself from direct involvement in other areas, particularly economic production, to concentrate its efforts and abilities on societal priorities. Once political reform is under way and centrally controlled economies dismantled, this argument suggests, liberal market principles can begin to promote economic development, which in turn should promote participation in the political processes. The long-term economic and political objectives would thus complement each other to work toward "an educated population, with both political knowledge and the will to act, coupled with a modern industrial economy, a homogenous society, and a long-established set of democratic political values" (Riley, 1992, p. 18).

Such conditions would produce an internally generated, stable and sustainable tax base and a sizeable economic class outside the political system whose involvement or participation in the political and administrative processes would be less for self-gain than a belief in the promotion of, and the roles of, the state to regulate and benefit society whose confidence in, and acceptance of, the legitimacy of the neutrality and responsiveness of the state would be confirmed by its efforts on behalf of the population as a whole, in turn reinforcing the state's stability and financial viability (Theobald, 1993).

The new international policy agenda of the late 1990s thus involves a number of assumptions about corruption and the effective means to reduce it. Corruption is most obviously defined as public office, public sector or institutional corruption. The discussion of the reform of corruption is almost always conducted in the context of a 'governance' framework and involves optimistic expectations of both economic and political liberalisation. It is also assumed that public sector corruption will be reduced if the size of the state is reduced. Corruption will also be minimised through general economic liberalisation and through political liberalisation, that is, moves towards liberal, pluralist politics, involving a freer press, competitive party politics, and the revival or creation of other independent institutions, reducing corruption by making it more vulnerable to exposure. In this way, corruption will have potentially damaging political consequences.

Corruption and Change

Governments and agenices are increasingly recognising the "strategic significance that good government plays in the development process", and that good government requires the "highest standards of integrity, openness and transparency", as well as strong criminal justice systems, 'new forms and dimensions' of corruption, and its pervasive effect on government performance, on the use of public resources, on the general morale in the public services and on the legitimacy of the state and the law (United Nations, 1989). As a precondition for sustainable reform, moves toward dealing with corruption have been emphasised while evidence of so doing is taken as a key component of a commitment toward good government.

	This reaction to and concern with controlling corruption is in part a product of events: the "corruption eruption". In the 1990s there have been many well-publicised instances of public sector corruption in widely differing societies: Italy, South Korea, the United Kingdom, Kenya, Germany and South Africa, in addition to the case studies discussed in this chapter, have all had major corruption scandals (IDS, 1996; Hayward, 1997). Sierra Leone and Mobutu's Zaire (now the Democratic Republic of the Congo)] are telling instances of the grossly damaging effects of widespread systemic corruption and its effects in terms of political change (Askin and Collins, 1993; Kpundeh, 1995). There is also growing concern about corruption, fraud and organised crime in Eastern Europe and the former Soviet Union (Reed, 1994; Trang 1994; Kaufmann, 1997).

Corruption no longer seems to be just a temporary disease of modernising societies that literacy, development and good public ethics will cure. The debilitating economic, political and social effects of both petty and grand corruption can be felt everywhere. As a result, the evidence of commitment to good government and thus good governance that may have been assumed to be implicit has now become explicit both with detailed programmes for reform (as has been issued by OECD's DAC [1997]) and by the threat to curtail funding to those countries which fail to act effectively to reduce corruption (as the World Bank indicated in September 1997). Such agencies have also mapped out the macro-framework and macro-issues for, and the consequences of, a commitment to good government and dealing with corruption has become a core component for the reinvigoration of the state's institutional capacity (World Bank, 1997), for ensuring society's trust in its leadership (United Nations International Drug Control Programme, 1997) and for protecting the fabric of public life (UNDP, 1997). The numbers of public agencies and professional associations who have now issued public statements or policies on corruption and public sector fraud are substantial. But the more immediate concern of both the agencies and the countries concerned is how to approach corruption in practice: which short- and longer-term reform strategies to employ, and which perspectives on patterns and varieties of corruption to adopt to provide an appropriate framework.

Issues in Dealing with Corruption

A number of issues need to be addressed to understand corruption. For example, what is the impact of external organisations or activities? Do developing economies present different situations of corruption that vary in form, location and intensity across national boundaries? Such issues have a bearing on whether corruption should be dealt with in the same way in all political and economic contexts or whether it is even pertinent to attempt developing a universal strategy to fight corruption.

Seeking to identify generic causes or patterns of corruption within any single or specific developmental timescale, and within state activities, or without reference to related issues, is both comparatively complex and methodologically fragile. Although corruption itself is an age-old phenomenon with numerous proposed remedies (Noonan, 1984; Sen, 1997), there has been increasing attention given by academic and policy-oriented studies to the definition, origins, character and costs of corruption in developing countries since the 1960s. Corruption has often been a focus of inquiry in its own right, because it involves the undermining of public office for private gain, but also because it is intricately linked to other forms of lawlessness and maladministration, including fraud and organised crime. Its prevalence and longevity are a matter of concern for its damaging public and social consequences: it undermines the development capacities of states, distorts priorities and is often a form of redistribution of money from those in poverty to the office-holding rich (although there are a number of instances where low-level and often very poorly paid officials have responded to the failure of the state to pay them their official wages over long periods by selling their resources--for example, the sale of drugs by health care officials in Africa--to generate an equivalent source of income). Corruption is also infinitely varied in its character in regimes, institutions and groups across developing economies and is often subject to differing approaches and attention depending on its political significance or its societal impact; for example, 'grand' or high-level corruption versus low-level corruption; judicial, administrative and legislative corruption; or corruption in various public services.

Academic interest and policy-making concern with the costs of corruption in developing and transitional countries have also varied considerably since the 1960s: general theoretical surveys in the 1960s and 1980s have given way to systemic studies and more detailed empirical work, for example in relation to economic liberalisation in the People's Republic of China. Academic fashions have echoed policy-making concerns and "moral panics" about corruption. The current substantial upsurge in academic and policy interest in the (damaging) costs of corruption in the mid-1990s is a product of growing concern about the perceived growth in serious corruption worldwide. Since the 1960s, academic debates have reflected some donor and government policy priorities: with modernisation and infrastructural growth in the 1960s; with equity and access in the early 1980s; and with structural adjustment, good (and bad) governance, economic and political liberalisation, and deregulation in the late 1980s and 1990s (Charlick, 1993; Doig, 1995; Harsch, 1993; IDS, 1996; Riley, 1993).

Incidental corruption is a feature of life in almost all societies, but it can be systematic in many public institutions in developing countries, if not systemic in society as a whole (Riley, 1983), and it can be both endemic and planned. In many country cases, a key source of corruption may be a self-serving political leadership and a large, inefficient and politically-influenced and misdirected state framework within which individual and group private interests have priority over the collective good. Public officials have considerable discretion to accumulate private wealth through exploiting their monopolistic, low and irregularly paid positions, often in collusion with politicians and indigenous or foreign businessmen. Corruption thus frequently takes place in societies where there is considerable discretion for public officials, limited accountability and little transparency in governmental operations; in such societies, civil society institutions and an independent private sector are often weak or undeveloped. The establishment of corruption on a systematic or systemic basis may be a consequence of the perpetuation of existing inequalities and weak ('soft' or 'hollow' states) where it can thrive "on disorganisation, the absence of stable relationships among groups and of recognised patterns of authority" (Huntington, 1968, p. 710; Andreski, 1970) but its permanence may rest in a self-supporting dynamic because it adapts or displaces according to circumstance and context and thus its demise should not necessarily be "associated with political modernisation. Neither is corruption doomed to destruction as a political system matures. Corruption alters its character in response to changing socio-economic cultural and political factors. As these factors affect corruption, so does corruption affect them" (Werner, 1983, p. 638). At the same time, while it may be difficult to perceive "that public administration can even aspire to, let alone sustain, acceptable levels of honesty and efficiency against a background of punishing indebtedness, galloping inflation, chronic unemployment, dismal standards of living and the serious civic strains that such conditions inevitably produce, ...to assert that corruption is simply a consequence of underdevelopment runs the risk of embracing a rude evolutionism which envisages a proportionate decline in the volume of abuse with each percentage improvement in GDP" (Theobald, 1990, p. 164).

Understanding Diversity: Case Studies from Developing Countries

It is now generally agreed that corruption--whether incidental, systematic or systemic, and whether endemic or planned--has often been found to have profoundly damaging political, social and economic effects, although its political consequences are variable. It has contributed to political instability, military intervention and regime change, and undermined governmental institutions, such as customs, taxation and other revenue-generating departments, and service delivery (Wade, 1985), often as a by-product of the workings of a neo-patrimonial political order, as in Sub-Saharan Africa (Sandbrook, 1985). While the causes and consequences of corruption are sometimes difficult to disentangle from the newer issues, and the broader effects, of large-scale fraud, capital movements and money-laundering (Hampton, 1996) and organised or business crime and international theft (Levi, 1987), there is a current emphasis on the distortionary effects of corruption (IRIS, 1996; Goudie and Stasavage, 1997; Rose-Ackerman, 1978; Shleifer and Vishny, 1993). There is growing international consensus in development discourse on the damage that corruption can do to the poor, to economic growth, and to public integrity (UNDP, 1997; World Bank, 1997). For developing countries, this consensus suggests that democratisation, public sector 'downsizing' and deregulation are not only desirable goals in themselves but also a useful means to reduce extensive corruption. The general argument that an important way to reduce public sector corruption is to pursue sustained structural adjustment while also liberalising politically and continuing to pursue improvements in governance does, however, need to be assessed within the context of countries' experiences of corruption.

At the UNDP-PACT and OECD Development Centre Workshop on 'Corruption and Integrity Improvement Initiatives in the Context of Developing Economies' in Paris in 1997, a number of papers provided insights into patterns of corruption, its causes and responses to it. Case studies can identify distinctive patterns of corruption, specific approaches and possible generic solutions. The evaluation of the experiences of anti-corruption efforts in Botswana, Ecuador, Hong Kong and Tanzania, and attempts to reduce customs fraud in Mali and Senegal, also need to be set in this new international policy context.

Corruption differs considerably in developing countries. Because of this diversity, corruption is difficult to minimise or control. It is thus important to examine the specifics of corruption and anti-corruption efforts, including questions of culture, organisation and the effectiveness of campaigns, while also considering the more universalist strategies that have been developed in recent times. Examples of specific strategies follow.

Botswana

For many years, Botswana, like the former British Crown Colony of Hong Kong, has been feted as an example of a country with relatively low and manageable levels of corruption in a continent not noted for generally high levels of public integrity. For whatever reason, Botswana's political elite seemed able to manage the problem of corruption, even as they preside over a country with enviably high rates of economic growth (comparable to the growth rates of the East Asian NICs), a multiparty system and good governance. In the 1990s this reputation has been tarnished by the appearance of a series of corruption scandals. Kwame Frimpong (Frimpong, 1997) argues that corruption became a problem in the 1990s 'as a result of political complacency' and an optimistic assumption that the problem of corruption had been effectively managed. Frimpong identifies a series of scandals surrounding the government's purchase of school textbooks (which involved a loss of US$ 15.0 million), land distribution and housing management. The scandals led to three Presidential Commissions of Inquiry in 199l and 1992, which revealed that those involved were amongst the highest paid in the land. These instances of the relatively rich becoming richer through corruption are contrary to the view that much African corruption is a crime perpetrated by the poorly paid. An over-dominant ruling party in Botswana had undermined Democratic safeguards against corruption, as well as traditional forms of accountability. Subsequently, the government established a Directorate of Corruption and Economic Crime (D.C.EC) in 1994, which has reported annually to parliament. These developments reflect a political commitment to tackle the issue, with evidence of the commitment seen in the number of cases investigated by the D.C.EC, the number of cases put to the courts, and the number of convictions. The D.C.EC's 1996 Report pointed out that "earlier hypotheses that corruption existed in many spheres and at all levels in both Government and Local Government.....have proved correct". Like Hong Kong's anti-corruption strategy, Botswana's D.C.EC has developed a three-pronged attack with a focus upon investigation and prosecution, public education and prevention. Frimpong concluded his argument by suggesting that any effective fight against corruption in developing countries has to involve international collaboration because of the impact of MNC's and trade and other economic interdependence.

Ecuador

Dr. Ramiro Larrea-Santos (Larrea-Santos, 1997) spoke on his role as the Chairman of the Anti-Corruption Commission of Ecuador. The Anti-Corruption Commission was created in March 1997 with the intention of channelling civil society activities into the uncovering, investigation and surveillance of corruption. The results of the Commission's work would be handed over to the legislative and judicial elements of the Ecuadorian state. The Commission’s operations would run until August 1998 and had recently developed a draft law to institutionalise itself.

The pernicious effects of corruption in Ecuador had threatened the very stability of its democracy. Corruption was tied to some of the state's recent political dramas, including the uprising of the Ecuadorian people against the previous regime of Abdala Bucaram in February 1997. Many state activities under the old regime were affected by corruption: these included the customs and tax services, public building and other public contracts. It contributed to a completely inadequate service provision, and the politicisation of public finance and justice. Public contracts involved bribes of between 10% and 30%, while electricity blackouts of up to eight hours a day were in part a product of corruption. Customs duty evasion was massive, estimated at Sucres 210bn in six months. Dr. Larrea-Santos listed fourteen "main causes" of corruption and eleven 'most visible effects' of corruption in Ecuador. The main causes were a breakdown in ethical values, illiteracy and a non-transparent, politicised and over-centralised state. The most visible effects were violence and a sense of resignation about the effects of corruption, poor public services and increasing social polarisation and exclusion. A large number of anti-corruption initiatives in the legal, educational and social realms were under way at present, including the creation of new legal anti-corruption mechanisms, public education activities, and the investigation and prosecution of public officials from the Bucaram regime. Popular participation and civic awareness through civil society organisations were important elements in an anti-corruption strategy but, while it was recognised that educational and social issues (such as the reduction of illiteracy) were valuable, they were often long-term in impact. What was important was the identification of effective, short-term remedies.

The Ecuador case was also a timely reminder that corruption could have dramatic political effects: it had contributed to the political explosion in Ecuador in early 1997. Whether there was a direct relationship between corruption and violence was arguable; it has been suggested elsewhere (by, for example, Samuel Huntington, in the 1960s) that corruption and violence were alternatives in developing countries. Thus corruption did not always lead to violence although it often increased cynicism and decreased popular participation. Both petty and grand political corruption were profoundly politically alienating, and could have intense short-term as well as damaging long-term effects.

Hong Kong

Bertrand de Speville (de Speville, 1997) discussed Hong Kong's war on corruption from the viewpoint of his previous position as Commissioner of the Independent Commission Against Corruption (ICAC). The ICAC is a statutory body established in 1974 whose sole purpose is to fight corruption and which had evolved a three-pronged attack strategy. Hong Kong was highlighted as an example of a society where the incidence of corruption had dramatically decreased over time. The focus of de Speville's contribution involved an assessment of the transferability and adaptability of the "Hong Kong model", the costs of the ICAC, the precise character of the model itself, the future of corruption in Hong Kong now that it had ceased to be a British Crown Colony and where there were question marks over the East Asian NIC model of development.

Corruption had once been a serious problem in Hong Kong: it was widespread, deeply rooted, well-organised and tolerated. It affected every part of the public services of the Crown Colony. The causes of corruption were related to rapid population and economic growth, Hong Kong's recently-arrived immigrant population (principally from China where corruption was endemic) and the administration's wish to regulate and control the economy. Corruption was also an especially difficult problem in the police force. Public disquiet at levels of corruption, and the disappearance of a senior European police officer under investigation on corruption charges, precipitated action.

The anti-corruption strategy involved investigation, prevention, education and enlistment of support. A key element of the strategy was the ICAC, which operated in both the public and the private sector and sought to co-ordinate the separate parts of the strategy. It recruited mainly investigators from the police at first, but also employed civil servants, engineers, accountants, media experts and officers for community relations. The ICAC organised corruption prevention studies for public bodies and private sector companies. It also conducted mass media and public education campaigns against corruption. The character of investigations changed over time, with private sector corruption attracting increasing attention in response to public complaints. In the 1990s there were prosecutions of prominent members of the business community, including the Chairman of the Stock Exchange. The longer-term effects of the strategy were growing community trust in and support for the ICAC, a cleaner public service and business sector and a greater understanding of corruption and why it is damaging. In terms of the future, de Speville argued that Hong Kong would not slip back into corruption because of its experience in combating corruption, its separate juridical status and the commitments of both the Hong Kong people and the Chinese government.

How far the "Hong Kong model" would be transferable is problematic, since it is very much a product of a particular social environment and polity--a small "city-state" with a distinctive culture and a highly efficient administrative machine operating in a society characterised by sustained high economic growth. The ICAC was well-resourced and used seconded and expatriate staff. It had intensive selection and training programmes and its public education programmes were excellent. While it was thus a relatively expensive model to emulate, it is worth noting de Speville's comment that the ICAC was not the strategy itself but was a mechanism for implementing the broader strategy that included the enforcement of the law and the winning of popular support.

Mali and Senegal: Determinants of Customs Fraud

David Stasavage and Cecile Daubree (Stasavage and Daubree, 1997) examined the determinants of customs fraud in the west African states of Mali and Senegal, which have many similarities in colonial heritage, state structure and political style, membership of the Franc Zone and protectionist policies. Customs fraud is an example of both loss of revenue and corruption. The fraud can be of various types, including under-declaration of the value of goods, misclassification and underpayment of taxes due. But in whatever form it occurs, it can have significant economic consequences for such developing states, as the revenue base of the state is highly dependent upon the efficient taxation of trade.

Stasavage and Daubree used standard principal-agent models as a basis for their research, although it was accepted that such models focus upon national-level factors and cannot predict results for specific customs administrations. Instead, they sought to compare fraud on a product-by-product basis within customs administrations. Their general conclusions were that trade liberalisation had reduced levels of fraud and that pre-shipment inspection 'can be a powerful tool for reducing fraud'. In addition, to reduce customs fraud, donors should support institutional reforms that reduce the discretion of officials and improve monitoring. Customs fraud is itself a symptom of specific national political and institutional failures. Stasavage suggested that the size of public service salaries was less an issue in Mali and Senegal, when compared with other African countries. Instead, a key problem with the customs services in Mali and Senegal was the lack of funds for non-wage current expenditures, such as basic necessities (including fuel, vehicles and other administrative costs) for the officials to do their jobs. Furthermore, in both Mali and Senegal, changes in trade policies were related to the rise and decline of distinct business groups. Some groups of industrialists and merchants were losing the political clout to demand protection. Liberalisation was creating new business groups in the states, which were influencing policy.

In relation to one major possible reform--the use of pre-shipment inspection firms - Stasavage argued that there was a tension between the costs of such expensive pre-shipment inspection services and the revenue thereby gained. The improvements secured by pre-shipment inspection services were in part based upon accompanying reforms in the customs services themselves, particularly improvements in information gathering and assessment and the computerisation of the services.

Tanzania

Ambassador Alexander Muganda (Muganda, 1997) described the circumstances surrounding the establishment and the results of the Warioba report on corruption in Tanzania, which was appointed in January 1996 and reported in December 1996. J. S. Warioba, former Prime Minister and first Vice President, had chaired the Presidential Commission; Muganda had been both Secretary to the Commission and also the Director of the Prevention of Corruption Bureau in Tanzania. 1994 was a "low water mark" in Tanzania due to corruption scandals, and the 1995 elections produced anti-corruption commitments. The Prevention of Corruption Bureau was ineffective, but a further problem was the lack of political will to give the Bureau strength to act. The Bureau needed complete re-organisation and more power. One important issue regarding corruption in Tanzania was the clientelistic links between businessmen and decision-makers, particularly politicians. These links had greatly increased corruption in recent years.

The Warioba report had identified "rampant corruption in the public service" which had escalated at an alarming rate over the past two decades. There was both 'petty' corruption and 'grand' corruption at the highest public levels. Petty corruption was widespread. Muganda said that it was "a serious nuisance" and had "subverted effective service delivery". It was found in the police and judicial services, and in all the social sectors. From the evidence taken in public hearings, petty corruption affected most members of the public and was the main source of public discontent. Grand corruption had been identified in the procurement of goods and services, in the allocation of permits for hunting and mining, and in large public contracts, in particular in road-building and public construction. An assessment of 24 construction contracts had found substantial cost overruns: costs had escalated from US$ 97.4m to US$ 154.7m. There was in this an "inference of corruption", Muganda said.

A number of causes of the growth in corruption were identified, including economic deterioration, a decline in public ethics, and the lack of political leadership on the issue. The Warioba Commission had made a number of recommendations to improve public integrity, including proposed amendments to the Leadership Code of Ethics Act, short-term vetting of public officials, disciplinary action against the police and judiciary, and the reinvigoration of the Prevention of Corruption Bureau. In respect of longer-term issues, the law in Tanzania was also worth commenting upon. Some laws created opportunities for corruption; they had to be amended. A final area of significance was "social engineering". Public education, anti-corruption and positive public integrity advertising, as well as general measures raising public awareness, were all required. In Tanzania's case, it was important to remind or educate citizens to complain about corrupt acts and to try and prevent politicians from engaging in the bad habits of corruption.

Discussion of Case Studies

From a consideration of these specific country experiences, it is possible to argue that there are difficulties with an over-reliance upon one particular fashion in the anti-corruption strategy, one particular innovative idea or one model of analysis of corruption. An anti-corruption strategy must be designed with the understanding that the specific causes, occasions and appropriate corrective measures are directly related to a country's individual circumstances. Furthermore, a lot more attention needs to be given to questions of timing and sequencing, consistency in approach, the details of reform and its sustainability, and the exceptional political and managerial will necessary to promote and sustain reform in this area.

In Mali and Senegal, economic liberalisation seems to have helped reduce customs fraud, when combined with institutional reform and relatively high salaries. In Tanzania, economic liberalisation is part of the explanation for the growth of petty and grand corruption. Some states have embarked upon comprehensive reform programmes: in Ecuador and Tanzania, the anti-corruption strategies include expectations of the beneficial effects of long-term growth and literacy efforts, combined with legal reforms and institutional strengthening. But such listings raise important questions about short-term priorities and the inter-relationships between such reform efforts. Almost all the country experiences discussed at the Paris workshop raised in one form or another the issue of political or managerial will: did the political leadership have the sustained commitment to anti-corruption reform or was it engaged in a merely 'cosmetic' exercise? In Hong Kong, exceptionally high political commitment, popular support, good organisation and a coherent strategy has yielded results, yet there are questions regarding the sustainability and transferability of such an approach. Botswana's case, with an equivalent vehicle for anti-corruption work, staffed by some overseas officers, does suggest that there may be evidence that it has a role elsewhere, but its success will need to be gauged not only by the effectiveness of the judicial system but also through continuing political support as senior figures in political and public life are investigated. Tanzania's recent anti-corruption effort, with its inquiry process, needs to be turned into a sustained political and institutional commitment. The case of Ecuador clearly illustrates the outcomes of the political turmoil that gross corruption can cause.

Diversity and the Search for Public Integrity

The issue of the diversity of corruption is important. There are differing causes and consequences of corruption. The diverse outcomes of corruption and the associated scandal have significance in terms of both the short-term costs and the alleged longer-term developmental benefits. In some societies, as in East Asia, corruption may be extensive (if "isolated" within a distinct political sphere) but does not seem to be a barrier to rapid economic growth, whereas corruption is an integral part of the economic stagnation and decline of sub-Saharan Africa and has had damaging effects in Latin America (Diamond, 1987; Kpundeh, 1995; Little and Posada-Carbo, 1996; World Bank, 1994; World Bank, 1997; Saba and Manzetti, 1996). Similarly, changes in policy at state, sub-state and micro-level, have created in previous decades, and continue to create, new incentives and opportunities in levels, patterns and prevalence of corruption. Thus the Chinese government's "immediate concern over the stagnant economy and therefore the necessity of revitalising society" as it has "relaxed its control over resource allocation, given great autonomy to local authorities to direct investment and decentralised its managerial power over enterprises" in the economic sector led not only to the revival of old patron-client networks but also new patterns of corruption (Gong, 1993, pp. 317, 323-4).

Furthermore, the diversity of corruption--and the perspectives and approaches of those reporting and analysing it--has had an impact on attempts at reducing or minimising the effects of corruption through anti-corruption strategies. Often the strategy proposed is based upon a distinct viewpoint concerning the causes and character of corruption. There have probably been three distinct approaches to contemporary corruption and anti-corruption strategies: economic analyses; mass public opinion, or civic culture, perspectives; and institutional viewpoints. Economic analyses prioritise the "principal-agent" relationship to identify corruption and anti-corruption strategies while mass public opinion or civic culture perspectives examine the social or cultural context of corruption and suggest, as a result, mass attitudinal change or civic awareness anti-corruption strategies. The institutional viewpoint looks either to strengthening institutions, such as the auditor-general or anti-corruption agency functions, or controls and procedures within institutions, such as codes and register of interests, to delineate the expectations of politicians and public officials. Thus Klitgaard's strategy is based upon principal-agent economic analysis and is evaluated in a number of different developing country contexts (Klitgaard, 1988). Broadly, there have also been four levels of anti-corruption strategy: international, national, local and populist (Theobald, 1990). In the period since the mid-1990s, a series of international anti-corruption initiatives have emerged (Kaufmann, 1997; Riley, 1998; Rose-Ackerman, 1997). Earlier decades have seen strategies based upon national and local action, including anti-corruption agencies, public inquiries, complaint procedures, and public awareness campaigns (Clarke, 1983; Heidenheimer et. al., 1989). A necessary but not sufficient condition to reduce corruption would be the development of a vigorous civil society, involving a plurality of independently-organised groups able to pursue their needs and interests. Populist initiatives such as purges of civil servants have not had much success, although the issue of corruption has acquired great political salience in recent years due to the actions of NGOs and other public interest groups (Harsch, 1993; Guhan and Paul, 1997; Riley, 1998; Theobald, 1990).

A further complication has been the growth of new concerns or activities that have an increasing impact on types and levels of corruption. Increasing attention is given to the activities of multinationals and other export businesses which have traditionally exploited own-country legal inadequacies, different cultural and procedural expectations, and tacit political approval for commercial advantage while governments themselves have used similar methods in pursuit of covert foreign policy objectives. In the case of transit-route corruption in the Caribbean and Baltic states, the existence of a weak or corrupt public sector, and thus the presence of a parallel decision-making process that favours certain sections of society, may permit criminals to: continue in-country and international criminal activity by creating 'crime havens'; accelerate both general crime and judicial corruptibility; adversely affect state income through the links between corruption, cross border tax differentiation and smuggling transit routes; and subvert weak financial services regulation in creating opportunities for investment fraud, money-laundering and illicit capital movements.

It may be argued that it is difficult either to determine the causes or consequences of the diversity of corruption, or to seek to devise common strategies to deal with it. Assessing corruption in terms of instrumentality--incentive, opportunity and risk--or in terms of scenario--categorisation or actor-characterisation--also runs the risk trying to impose an artificially uniform analytical construct. Similarly, historical, definitional or cultural perspectives have a role, but only in terms of longer-term perspectives on changes to cultural and societal norms. The immediate issues must be what type or types of corruption are the most damaging; what the relationships are between corruption and the wider good government and good governance objectives; how an effective, enabling state can act to reduce corruption; and what forms of anti-corruption strategy are most likely to be most effective in the short and long term to minimise corruption, particularly for those most adversely affected by its consequences, directly and indirectly.

Within such a context, the value of understanding the international diversity of corruption becomes clear when analysing best and worst practices. It is important to recognise that if states are serious about fighting corruption they will require a detailed country-specific assessment of the costs of corruption. This must include an assessment of where corruption is likely to impose the greatest costs, including upon tax and customs revenues, business regulation, state sponsorship of infrastructure projects, institutional reform, political commitment and public involvement (Rose-Ackerman, 1997). Similarly, the approach to anti-corruption strategies requires planning, thorough assessment, a strategy that focuses on corrupt systems and not just corrupt individuals, and effective implementation (Klitgaard, 1997).

For most developing countries, the short-term goal ought to be finding the means to pursue the most effective and economical measures to control corruption. How that is arrived at depends on a number of factors, including the legacy of previous anti-corruption campaigns, the reaction of the population to anti-corruption inquiries and the impartiality of such inquiries (Findlay and Stewart, 1992).

The Choice of Strategy

Thus there are a number of framework issues that would need to be addressed when planning short-term anti-corruption strategies in order to identify sustainable and cost-effective measures that have impact. These include consideration of the following.

Office or Officeholder

Should the focus be on the office or on the officeholder? Training officials provides them with transferable skills sought after elsewhere in the public sector and by the private sector, particularly in relation to taxation, law and audit. At the same time, trained officials working within an inflexible organisation or unable to effect results become demotivated. On the other hand, training organisations or officials in procedures may assist in sustainable competencies, particularly if new officials are trained in organisational practices which are less portable but which may inhibit the initiative of the officials or imply a lack of faith in their ability to perform their duties without such a control environment. Should there also be 'golden hanD.C.uffs'—attractive inducements to retain trained staff--or should there be an emphasis on performance by sanction where failure to perform adequately the requirements of the organisation is the prime criteria--and how far should organisations be trained in competency testing and staff appraisals?

Income or Expenditure

The issue here is whether the focus of any anti-corruption strategy should be on protecting state revenue--on the integrity and competence of the tax and customs agencies and the roles of Auditor-Generals' offices--or on investigating evidence of criminal activity such as contract corruption. The former may assist in the development of a stable revenue base, while the latter may more visibly demonstrate the state's commitment to effective use of resources and to tackling corruption (investigating and prosecuting corruption usually means that the money has been spent or wasted and is often reliant on the speed and integrity of the criminal justice system for implementation).

Restitution or Retribution

What is the purpose of the search for public integrity? Is it retribution--the visible punishment of wrongdoers--or restitution, protecting state funds and seeking to return to the state those funds and related corrupt payments acquired illegally? While the former may rely on an effective internal criminal justice system, the latter would require not only on effective systems in other countries but agencies charged with asset tracing, confiscation and forfeiture.

Vehicle of Reform

Some reformers advocate the establishment of an anti-corruption agency; others suggest the development of an approach to more vulnerable departments or functions. Risk assessment of departments, procedures and activities that are most vulnerable to corruption have been done in a number of states, with the aim of identifying where corruption may have the most corrosive impact. This has the end result of targeting resources and measures. The alternative is to establish an all-purpose anti-corruption agency to undertake investigations anywhere in the public sector. Without proper business planning, such agencies may become reactive or subject to political influence and, without means of performance measurement, focus on the wrong areas for the wrong purposes and with the wrong outcomes. There are of course a number of private or non-state alternatives, including greater involvement of pre-shipment inspection firms, of expatriate management in government agencies or NGOs and other outside agencies in, for example, Build-Operate-Transfer (BOT) projects. There may also be room for schemes that focus less on the risk than on the opportunity by seeking to 'design out' corruption through one-stop services provision, customerisation, benchmarking and publicity. Similarly, the rise of corruption and fraud to fund political party activity could be constrained by state funding of parties, publication of appointments lists and controls on political contact with government departments.

Measuring Success

A key problem is often the measurement of success, which can be exceptionally difficult. How both corruption and its prevention, detection, investigation and prosecution are to be measured is the subject of much academic and professional debate. One emerging aspect of this debate concerns the question of whether the focus should be on street corruption or grand corruption. Designing out corruption is often thought of as effective, although it is difficult to measure. A more responsive and open relationship between the public and the state is often the key here. Building national integrity systems is a longer-term objective that may raise short-term expectations but not be fulfilllled and lead to public frustration. Tackling money-laundering, advanced fee fraud and organised crime in some developing countries may be part of an international response, but there is a question as to how far that response is dictated by the funding countries' requirements and where the greater benefit is accrued.

Donor Co-ordination

One of the interesting themes of the Paris UNDP/OECD workshop was the issue of donor efforts in this field. Virtually all donors now have policies on corruption, some of which are long-standing and others that have developed in the mid to late 1990s. There is a series of important questions about to how donor efforts are to be co-ordinated. Who determines inter-agency responsibilities and co-operation, and thus ownership of both responsibility and the means to fight corruption?

Such framework issues are crucial to the development of a longer-term systematic strategy. While Hong Kong's ICAC model may be too expensive and too politically threatening to many countries, and other examples of independent agencies too limited or too constrained by departmental control, an anti-corruption agency whose agenda and focus is determined from the outset after internal and external consultation may offer the opportunity, with donor support, to provide an immediate, generic building block for good government where other administrative reforms would be problematical. The comprehensive approach to public sector reform that encompasses the redrafting and updating of legislation and judicial infrastructure, as well as the training, organisation and accountability of a reduced number of public sector departments, is also costly, time-consuming and prone to substantial slippage. On the other hand, the enclave approach of transferring activities into semi-autonomous, externally led and funded agencies is, unless long-term future government support is certain, a short-term solution that may well raise political interference, resentment among other departments and the possibility of the loss of experienced personnel to other organisations (Demongeot, 1994; Dia, 1993).

Newer anti-corruption initiatives seek a more integrated approach, preferably with a focus upon identifying effective, short-term strategies, that distinguish complementary action to be taken at various levels: citizen or popular, institutional or procedural, and major contract and senior officeholder levels. Such initiatives, however, must first determine how to balance working through existing institutions with participatory groups or movements; second, such initiatives must be aware that government efforts at promoting economic development or structural administrative reform may themselves introduce new actors and patterns of corruption as development diminishes or renders obsolete existing corruption; third, they must take account of traditional, cultural and social attitudes, ensuring that reforms are seen as desirable, acceptable and practicable.

Thus, in seeking goals of political and economic development either voluntarily or under pressure from external agencies, governments must assess the most appropriate means to initiate, implement and sustain reform as well as provide a focus for co-ordinating and monitoring change.

Consideration must be given, therefore, to the degree that procedural or structural reforms may be introduced to limit the opportunities and incentives for corruption and to raise the risk of detection, while providing for citizen involvement, complaints and redress and while evaluating the appropriate means in terms of cost, impact, effectiveness and sustainability as well as the relative political and financial strengths of those involved in the corruption. These tasks may often be effectively carried out by an anti-corruption agency, and could be important in underpinning and sustaining the increasing attention which has been given to another generic response—citizen-level initiatives as part of moves toward participatory development, empowering those most adversely affected by state corruption and most alienated from the purpose of reform. The measures may include: legislative sunlight and sunset provisions; simplified administrative procedures and oversight controls (one-stop shops and the customerisation of public services, benchmarking and service delivery surveys); quick and effective complaints and redress (hotlines, whistleblowing, Ombudsmen and administrative tribunals); community involvement (awareness and education, transparency of and access to information, citizens' watchdog groups); and ensuring the independence of the media.

Many of these institutional reforms are associated with the ideas of "New Public Management" in western societies and as such are subject to various criticisms (Hill, 1997).

Citizen-level initiatives also have three further roles in terms of governance. First, they are intended to focus on the poorest members of society by controlling or minimising small-scale corruption through protection against the extractive and arbitrary nature of the state and its officials, particularly in relations between the public and the state, including structural reform (the effects of decentralisation and deregulation). Second, they encourage improvements in basic administrative activity by focusing on the citizen as consumer and customer while providing easy-to-assess performance measurement and placing in the public domain the information, the control over process and the right of redress; the previous absence of these elements has prompted the existence and persistence of low-level corruption. Third, they involve the public in a more direct way than that of party political participation, at a more local level and with more immediate benefit to themselves and their communities.

More integrated schemes involving a number of initiatives, including anti-corruption campaigns and the roles of anti-corruption agencies, have been developed within the context of what is termed National Integrity Systems where, it is argued, "leaders in the campaign against corruption can only achieve real gains when a society collectively changes its expectation of public behaviour, or when the people believe that they are entitled to expect a government that is not corrupt" and which is worked toward "in partnership with the government and the civil society" through awareness-raising among the civil society, institution building, prevention of corrupt practices and prosecution of corrupt officials and where the political and public wills are underpinned by the appropriate organisational and procedural integration (Langseth et al, 1997).

Conclusion

If there is diversity in both old and new forms of corruption, these should be taken into account when considering anti-corruption strategies. The cases considered at the UNDP/OECD Workshop illustrate both the age-old origins of, and the vitality of new forms of corruption, and the search for public integrity. However, all the cases illustrate one core approach for any successful strategy: exceptional political and managerial will is necessary to promote and maintain anti-corruption reform even though the case studies demonstrate the difficulties with universalist solutions. If, however, there are any other common elements of a universal strategy that are needed, then a number of basic suggestions can be made. In addition to institutional improvement, in all societies the professions should be strengthened--by enhancing their professionalism, independence and technical skills--as part of a strategy to control corruption. Lawyers, accountants and investigative journalists all need help. Enhanced professional skills, as well as political and managerial will to control corruption, are more likely to be seen in democratic societies where the pressures of political competition often force politicians to act. Democratisation is thus a necessary but not a sufficient condition for the reduction of corruption. Economic liberalisation is also not a simple panacea for public sector corruption. But reducing the size of the state also reduces the size of the potential corrupt 'take' and enables the public sector to move towards the contemporary ideal of an efficient, enabling state. The 'corruption eruption'--the current awareness of corruption due to well-publicised scandals--will ensure that more effective means of reducing corruption are developed.

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4 Revisiting Anti-Corruption Strategies: Tilt Towards Incentive-Driven Approaches?

Daniel Kaufmann

Introduction: Ex post versus Ex ante

With the success of the advocacy movement over the past few years, the first stage of a worldwide anti-corruption drive is coming to an end. That success is now paving the way for the next stage: implementation of concrete and sustainable action programmes. Some programmes have been initiated already, and selected country experiences of the past twenty years are now being evaluated. We argue that in the midst of this crucial crossroads it is imperative to pause for a moment to distill the emerging lessons.

Failure to critically evaluate what strategies are appropriate in the next stage of anti-corruption strategies may only exacerbate the emerging tilt towards *ex post* measures to tackle corruption: legal and institutional enforcement measures designed to improve detection, enforcement and prosecution of already committed corrupt acts. Indeed, the parallel with the field of public health is pertinent in analysing issues of corruption, and not only because corruption can be seen as an "infectious disease" of sorts (with its issues of contagion and prevalence), but also because of the now well-known advantages of focusing on systemic changes to improve prevention rather than the (requisite) individualised curatory approach.

While *ex post* ("curative") measures would be expected to be a component in any anti-corruption strategy, we argue that excessive focus on such *ex post* legal and institutional enforcement perspective, at the expense of *ex ante* preventive approaches will not be effective. And to design effective systemic changes, the understanding of the role of incentives would need to be elevated significantly. The in-depth focus on the **incentives** driving the various agents involved in a potentially corrupt activity leads to particular insights that have been underplayed so far, such as the general role of collective action with the partner business community, and the roles of deregulation, demonopolisation and well-implemented economic reforms.

The tenor of the anti-corruption rhetoric appears to be on the rise among governments in the North and South alike, often as lip service to the increasing activism of civil society, and to the more explicit determination of *some* in the international community to do something about it. This does not mean that there are no instances of serious efforts against corruption underway in some countries. But in the bandwagon of making pronouncements, passing decrees and creating special governmental anti-corruption units, there are many whose commitment to really address the problem is seriously in doubt.

Let us take the very recent case of Kenya, for instance, where the IMF suspended its lending in August 1997 due to the high prevalence and negative macro-economic consequences of corruption. In October, following mounting pressure from civil society and the international community, the President of Kenya issued pronouncements against corruption. As a follow-up to the President's remarks, the office of the Attorney General issued the following statement:

"The Government has this morning formed an anti-corruption squad to look into the conduct of the anti-corruption commission, which has been overseeing the anti-corruption task-force, which was earlier set to investigate the affairs of a Government ad hoc committee appointed earlier this year to look into the issue of high-level corruption among corrupt Government Officers." (Gado, page 6, The Daily Nation*, October 28, 1997).*

While this may be a particularly extreme example of how *not* to address the problem of corruption, in recent years many statements and decisions like this one can be compiled from press reports in countries in Asia, Latin America and the former Soviet Union. Unfortunately, when dressed in more sophisticated clothes, efforts like these are often times welcomed by some experts and officials in the international community. After all, the payoff for corrupt politicians engaging in rhetoric ostensibly aimed at "eliminating corruption" is rather high nowadays. And the pressures on the donor community to "show visible results" is also mounting.

Thus, one of the challenges at this juncture is to be able to distinguish between a seriously committed programme to control corruption, and politically convenient rhetoric, on the other. To do so, an understanding of the fundamental causes of corruption, as well as the preparedness and commitment of a government to tackle these fundamentals, is critical. Then, even if there is a sense of commitment to address the problem, the follow-up challenge is to ensure that the strategy design incorporates the appropriate elements, accounting for the *ex ante* role of incentives without undue focus on *ex post* stopgap remedial measures.

Hampering the struggle to control corruption is the emergence and existence of many misconceptions, biases and ambiguities regarding what constitutes the fundamental pillars in an anti-corruption strategy. Here we contribute to this debate by analysing some of these prevailing biases and misconceptions, by providing emerging evidence and results of data analysis on the main determinants of corruption, and by putting forth some principles for designing anti-corruption strategies. We attempt to focus squarely on the fundamentals that may determine the prevalence of corruption in a country--moving away from the (institutional or other) "quick-fixes" currently in vogue.

"Anti-Corruption Struggle": Major Crossroads Today

First, it is important to place the anti-corruption issue in perspective. Credit is due upfront: There has been an enormous success in the anti-corruption advocacy movement over the past few years. Awareness about the corruption problem is far more widespread nowadays, as is the involvement of civil society in many places. There is increasing willingness to take action by the international community in general and by some countries in particular. The role of domestic and international NGOs (such as Transparency International) has been key in raising awareness and involving civil society.

Yet the challenge of addressing corruption is now entering a crucial second stage: design and implementation of strategies and concrete actions which are likely to yield durable results. This requires looking in-depth at the **fundamental** causes of corruption, in an open-minded fashion. Just projecting mechanistically into the future from the successful *awareness-raising* advocacy approach of the recent past is likely to result in counterproductive "biases" during the *implementation* stage**.** These biases are likely to be compounded by the vested interest of some corrupt governments to *appear* active in addressing corruption and thus adopt politically palatable anti-corruption platforms.

At this juncture, some of the major biases to guard against are described below.

· **Anti-Business bias**. Blaming business people has become a useful rationalisation. It stems from the "grease" (and "speed money") literature, as well as the notion of business lobbying interests against criminalisation of bribery abroad. Conventional wisdom is that the whole business sector benefits from its ability to bribe, as it gets around excessive regulations ("grease that oils the wheels of development"). Some even argue that business bribery is beneficial to development. This bias works against the logic of collective action and thus concerted action involving the business sector as an interested party.

· **Tackling-the-symptom bias** (vs. identification of fundamental root cause). For instance, the call to "catch and jail a target number of criminals", to pass another anti-corruption law in the country, etc. The pitfalls of single-mindedly trying to fight a symptom are not exclusive to addressing corruption, of course. There was a time in the past when governments would fight inflation by instituting price control commissions.

· **Ex post (vs. ex ante) bias**. Related to the biases towards tackling symptoms (above) and providing "quick fixes" (below), often for political gain, this bias favoring an excessive focus on institutional and legal enforcement approaches has been at the expense of focussing on the role of systemic changes in *ex ante* incentives to engage in corrupt activities.

· **Quick-fix bias** (vs. importance of indirect effects). It ought to be recognised that it is important to attain some concrete results soon within a pragmatic approach. This is, *inter alia*, important to maintain momentum by civil society. At the same time, there is a danger of counterproductive ("quick-and-dirty") interventions insufficiently thought through. The incentive structure for donors and governing domestic politicians is sometimes similar: to show some quick and visible measures (whether meaningful or not in terms of long-lasting results). But are they addressing the real fundamentals? And if the general public at first does not always clearly see these fundamentals as *directly* and *visibly* associated to corruption, will a bias against focusing on the less visible, more *indirect* (yet crucial) determinants of corruption emerge?

· **Injection bias** (vs. global climate change). Like the failed Development Finance Corporation's institutional response to the perceived lack of term credit in development in the seventies, we may face a similar danger today in the work to control corruption: injection of resources for "greenfield stand-alone" institutional initiatives, such as watchdog bodies, new charters, etc., which may be detrimental to a more *comprehensive* change in the environment conducive to corruption.

· **Anti-Counterfactual bias**. Often, mistaken conclusions are derived from analysis devoid of proper counterfactuals and controls. Ascribing success to anti-corruption watchdog bodies in Botswana, Singapore and other heralded cases by focusing on the details of the watchdogs themselves, without considering the impact of fundamental reforms in the broader environment, is one example of this bias.

· **Prose bias** (vs. in-depth use of hard evidence, as input for real action). Long prose, proclamations, pronouncements, exhortations, declarations, conferences and communiqués against corruption abound nowadays. For action, it is imperative to move beyond raising awareness and focus on cold, in-depth analysis of the data and evidence at hand and the appropriate design and real implementation of programmes. In this context, it is a myth that data is virtually impossible to come by in this sensitive area.

· **Mechanistic toolkit bias** (vs. **tailor-making**, carefully considering the particularities of the types and main determinants of corruption in each setting). Recognition that both the forms of corruption as well as the relative importance of the various fundamental determinants of corruption vary across countries is vital in order to design programmes which are relevant to each particular setting.

· **Christmas tree bias** (vs. prioritisation**--**following identification of main causes of corruption in a country). This is a mistaken notion that an "ideal" programme ought to be so fine-tuned and comprehensive so as to contain many scores of measures and initiatives.

· **Anti-economic reforms bias**. It is often argued that economic reforms accentuate corruption. Others implicitly suggest that they are a neutral tool in addressing corruption: oftentimes in writings on corruption, economic reforms do not even appear in the long list of measures suggested to address the problem--or, when it is included, it is as an after-thought. This bias is related to the undue emphasis given to tackling the symptom and to quick-fixes, vs. addressing the fundamentals. Further, this anti-economic reforms bias has been fueled by insufficient attention to the role of *incentives* in understanding the prevalence of corruption and possible remedies.

The "Grease" and "Speed Money" Arguments Empirically Challenged

[The King] shall protect trade routes from harassment by courtiers, state officials, thieves and frontier guards...[and] frontier officers shall make good what is lost... Just as it is impossible not to taste honey or poison that one may find at the tip of one's tongue, so it is impossible for one dealing with government funds not to taste, at least a little bit, of the King's wealth.

—From the treatise The Arthashastra*, by Kautilya (chief minister to the king in ancient India), circa 300 B.C.–150 A.D.*

This citation attests to the ancient nature of corruption. Yet it also illustrates that even then corruption was regarded as corrosive to the development of the state and that specific measures were therefore needed in response. The king's adviser perceptively hinted at the link between illiberal trade, bureaucratic harassment at the border and corruption. And he understood that corruption encompassed far more than bribery: the theft of public revenues was explicitly addressed.

By contrast, in more recent times a revisionist view has held that corruption may not be inconsistent with development and at times may even foster it. These contemporary versions wrap corruption in a cloud of ambiguity. Ambiguity, for example, is said to cloud corruption's meaning in different cultures, implying that what is viewed as corruption in the West would be interpreted differently within the customs of emerging economies. Ambiguity also characterises the revisionist assessment of corruption's effects on economic growth, fueled by the fact that some of the Asian tigers experienced until recently both phenomenal growth and high levels of corruption. Finally, ambiguity emerges in discussions of the effects of market reforms on corruption.

A central theme of the "grease-the-wheels" argument is that bribery can be an efficient way of getting around burdensome regulations and ineffective legal systems. This rationale has not only inspired sophisticated academic models but has legitimised the behavior of private companies that are willing to pay bribes to get business. On closer examination this argument is full of holes. First, it ignores the enormous degree of *discretion* that many politicians and bureaucrats can have, particularly in corrupt societies. They have discretion over the creation, proliferation and interpretation of counterproductive regulations. Thus, instead of corruption being the grease for the squeaky wheels of a rigid administration, it becomes the fuel for excessive and discretionary regulations. This is one mechanism whereby corruption feeds on itself.

In addition to some academic writings, one school of "corruption apologists" argues that bribery can enhance efficiency by cutting the considerable time needed to process permits and paperwork. The problem with this "speed money" argument lies in the presumption that both sides will actually stick to the deal, and there will be no further demands for bribes. In India, one high-level civil servant who had been bribed could not process an approval any faster given the multiple bureaucrats involved in the process, yet he willingly offered his services to slow the approval process for rival companies.

Even in societies where myriad counterproductive regulations have been created in order to extract bribes, there should be a core of laws and regulations that serve productive social objectives. Simple and transparent building codes, sensible environmental regulations, clear regulations to assure the soundness of the banking system and stringent regulations on the trading of nuclear materials are necessary in any society. The corruption "grease" argument is particularly insidious in this context, since bribes will serve to override such regulations and harm social aims. For instance, illegal logging in tropical rainforests can be the result of illicit payments to officials. Another factor that contributes to bribery is politicians' discretion in limiting the access of potential competitors to the market of the briber—as in scandals in the energy sector in Russia and Ukraine. Unprecedented amounts of "grease" in these cases strengthen gigantic monopolistic structures. The corrupt practices inherent in poorly supervised financial systems, as well as insider lending, have contributed to macroeconomic crises in Albania, Bulgaria, and, very recently, some countries in East Asia.

Bribing and rent-seeking also exact a significant economic cost. Talent is misallocated, as the jobs with the potential to collect lucrative graft attract people who otherwise would accept the more modest financial rewards of truly productive occupations. Poor technological decisions are taken by corrupt bureaucrats, who tend to favor nonstandard, complex and expensive capital-intensive projects that make it easier to skim significant sums. A large defense or infrastructure contract may thus be favored over the construction of hundreds of primary schools and health clinics. Even more detrimental to development are the many unproductive "white elephant" projects that enrich public officials and suppliers—the recent commission of four incinerators in Lagos, none of which works properly, is one example. Further, enormous time is lost by entrepreneurs and officials engaged in corrupt activities. Queuing, negotiating, ensuring the secrecy of the deals and illicit payments and guarding against the ever-present risk of nondelivery of the promised signatures and permits are time-intensive activities—as is the frequent need to renegotiate or pay an additional bribe to another bureaucrat. All of these activities come at the expense of productively running firms and governments.

Indeed, evidence from various countries indicates that a positive relationship exists between the extent of bribery and the amount of time that an enterprise's manager spends with public officials. A 1996 enterprise survey showed that firm owners in Ukraine who pay high bribes have to spend almost one-third *more time* with bureaucrats and politicians than firm owners who pay little in bribes (Kaufman). Those high-bribing firms also need to spend 75 staff weeks per year of (nonowner) administration time in dealing with officials, as compared with a yearly average of 22 staff weeks for low-bribing firms. Moreover, using cross-country data for 3,000 firms in 59 countries we observe that in countries with *higher* incidence of bribery firms tend to spend a *higher* share of management time with bureaucrats (see Figure 1). Also, for the world at large, the evidence from over 1500 firms in 49 countries surveyed in 1996 is to the effect that where *bribing* is *more* prevalent, the costs of capital and investing for firms tend to be *higher* (Figure 2).

In terms of understanding the complex interactions between regulatory interventions, regulatory discretion and the extent and costs of bribery, the data provides insights. From various data sets it is also calculated that in settings with higher regulatory and state-bureaucratic *interference* in business, the incidence of corrupt practices is significantly higher. Further, the higher the degree of regulatory *discretion*, the higher the incidence of bribery of officials (see Figure 3). Surveys carried out in some countries of the former Soviet Union show that *high* and *discretionary* regulations and taxes are associated with the need to pay high bribes in order to survive. That situation generates a high cost of doing business. Bribery as a strategy, on balance, does not reduce the firms' management time "captured" by local politicians and bureaucrats, nor does it reduce their costs of investing. To the contrary, bribery is fueled by bureaucratic discretion in imposing regulations, fees, licenses, taxes and tariffs.

Data and research showing the deleterious effects of corruption on growth have been mounting. A recent study found that a corrupt country is likely to achieve aggregate investment levels of almost 5 per cent less than a relatively uncorrupt country and to lose about half a percentage point of gross domestic product growth per year. And there is evidence that corruption slows foreign direct investment; investing in a relatively corrupt country, as compared with an uncorrupt one, is equivalent to an additional 20 per cent ("private") tax on the investment. The statistical relationship between corruption and lower foreign investment is valid across all regions. Contrary to conventional wisdom, there is no evidence that foreign investors are any less susceptible to corruption in East Asian economies than in other countries in the world.

The evidence is therefore emerging quite clearly: Corruption is negatively associated with developmental objectives everywhere. Opportunistic bureaucrats and politicians who try to maximise their take without regard for the impact of such practices on the "size of the overall pie" may account for the particularly adverse impact corruption has in some countries of Africa, Asia and the former Soviet Union. Indeed, surveying high-level officials from the public sector and civil society in emerging economies offers complementary evidence. Public sector corruption was rated as the most severe developmental obstacle facing their country, and no significant differences exist across regions. Everywhere, policy-making elites opined that corruption, far from being a lubricant of development, was a most formidable impediment to it (see last box and figures 5-7 in this paper).

Note: Some countries ranked by Transparency International in their Corruption Perception Index (TI 97) are not included in this figure, since they had not been surveyed in the (independent) data set on firms management time (from GCS97). Thus, this figure is not intended to reflect full rankings of either variable.

Note: Each observation reflects the average of the firms' responses for one country.

Systemic Changes in Incentives: Do Reforms Fuel Corruption?

In recent years, academics and commentators in the mass media have argued that in transition economies (particularly in the countries of the former Soviet Union and Eastern Europe), and in some emerging country markets, liberalisation and privatisation have significantly increased corruption. They maintain that these reforms respond to the vested interests of corrupt élites. Even highly respected academics are ambivalent on this particular issue, advising extreme caution in initiating economic reforms when legal institutions are not yet well developed. And in the Winter 1996–97 issue of *Foreign Policy*, Robert Leiken wrote that "where corruption is systemic, market and administrative reforms . . . may even become counterproductive . . . . Loosening government controls can facilitate illicit . . . economic activity. Moreover, bureaucrats have been known to compensate for lost revenues by exacting new 'fees' in other areas".

The problem with such perspectives is that what passes for economic reform often is not. Half-baked, poorly designed, inadequately implemented market reforms may indeed boost corruption. Well-designed and properly executed market reforms do not. A public monopoly that, through obscure insider deals, becomes a private monopoly controlled by few uncontested shareholders (as happened in pre-reform Argentina) are certainly not an example of progress in the fight against corruption. Instead, a public monopoly, when demonopolised and followed by privatisation through an international, transparent bidding process, will improve matters. Thanks to deregulation and trade liberalisation, bureaucrats cannot extract as many bribes as before, and stiff competition will become less a source of corruption. Yet, lowering import tariffs does little to curb corruption if the rules that give customs officials the discretion to decide the amount of import tax on each container or to revoke an import permit are not changed. Further, counter-factuals are often ignored: analysts who see market reforms as sources of corruption often fail to consider the increasing amount of corruption that would occur in the absence of well-implemented economic reforms. A lack of economic reform can help to perpetuate corruption, since élite interests become more entrenched as their financial might accumulates through monopolistic structures. In fact, this "war chest" becomes a major weapon to impede or distort reforms. Through this vicious circle, the costs of reform delays can increase substantially over time.

By contrast, fewer regulatory and trade interventions, macroeconomic stability, and moderate, simple tax regimes with little discretion will do much to reduce the opportunities for corruption. Evidence is found that less regulations, reduced regulatory *discretion* by bureaucrats and politicians, moderate, single and uniform tax regimes, trade openness and product competition reduce corruption. Survey responses from élites in emerging economies also reject the notion that economic reform fuels corruption. The vast majority of respondents report that corruption would be ameliorated by further economic reform in the areas of deregulation and liberalisation, the budget and the tax regime, and privatisation.

FSU: Former Soviet Union, excluding Baltics.

CEE: Central and Eastern Europe.

Considering Incentive-driven Approaches to Control Corruption

The fatalist camp often points out the dearth of successes in anti-corruption drives. More generally, they stress that few countries have significantly reduced corruption in less than a century. Recently, Hong Kong and Singapore are countries that shifted—and quickly—from being very corrupt to being relatively clean. Much earlier, Britain needed many decades to improve its relatively corrupt structures.

Yet the *relative* successes are ignored in this absolutist approach to the issue: countries have managed to reduce the incidence of corruption relatively quickly, even if they are far from rendering it irrelevant. In addition to Hong Kong and Singapore, Botswana has shown improvements over the past dozen years or so; and the Philippines, Poland and Uganda, to name a few, have also scored some successes recently.

Anti-corruption Watchdog Institutions: Crucial substitutes to revamp of incentives?

What are the most common features of these successes? Anti-corruption bodies, such as the Independent Commission Against Corruption in Hong Kong and smaller institutional variations thereof in Botswana, Chile, Malaysia and Singapore are usually credited with much of the progress in fighting corruption. By contrast, often the broader and *complementary economic and institutional* reforms that have taken place simultaneously get insufficient credit. Indeed, countries like Uganda until recently may have exemplified relative success through a broader institutional approach: the Museveni government, which came to power in 1986, implemented a strategy that encompassed economic reforms and deregulation, reforming the civil service, strengthening the auditor general's office, empowering a reputable inspector general to investigate and prosecute corruption and implementing an anti-corruption public information campaign. More recently, however, with a tapering off in the broader institutional and economic reform arena it appears that corruption control has also suffered somewhat--in spite of the continuous valiant efforts of the reputable anti-corruption watchdog body. Similarly in Tanzania the courageous watchdog agency has not been able to ensure concrete progress on its own. And the case of Botswana appears to be an example of sound economic and public sector management policies early on, rather than the "later-in-the-day" advent of an anti-corruption agency.

The survey responses of elites in emerging economies provide a sobering perspective. Most respondents did not think highly of such anti-corruption bodies (see Figure 7). To be credible, they felt such institutions had to go hand in hand with a good example set by a honest leadership, and the need to be independent from political interference. Otherwise, anti-corruption bodies are easily rendered useless or, worse, misused for political gain. Further, respondents emphasised the importance of complementary economic reforms; there is no point in creating anti-corruption agencies where bureaucrats and politicians intervene at will to apply regulatory restrictions. This suggests that an in-depth analysis of the evidence on anti-corruption agencies in many countries which considers the broader institutional, public sector and economic environment (and utilises "counterfactuals" in the analysis) is long overdue, and may shed light consistent with the responses of the surveyed elites in emerging economies.

Indeed, the cleanup of the Philippine tax system in the 1970s, under the charismatic and squeaky-clean leadership of Judge Efren Plana, and the ongoing overhaul of Argentina's bloated social security system (ANSES) could be regarded as strong illustrations of effective institutional reform. In both cases the process included the immediate firing of corrupt personnel, the professionalisation of the staff, new control systems, and modern incentive and performance assessment systems. Even then, broader reforms played an important role. In the Philippines, tax reforms were implemented simultaneously with the institutional revamping of the bureau of internal revenue, tax rates were simplified and exemptions were significantly reduced. These measures severely curtailed the incentives and discretion to extract bribes. In the case of Argentina, competition is aiding in the internal cleanup and reform effort: ANSES is ceasing to be the state monopoly provider of social security; instead, private pension institutions are being set up.

Many of the other "institutional" success stories, in places such as Botswana, Chile, Hong Kong, Malaysia, Poland, Singapore and Uganda, have also involved economic liberalisation and reduced discretionary regulations. The much-heralded case of Singapore, for instance, often underplays the crucial economic liberalisation measures of the early-to-mid eighties, while the Hong Kong success in addressing police corruption must take into account the impact of legalisation of off-track betting.

The evidence emerging from some countries in the former Soviet Union is also telling. The leadership of Ukraine has repeatedly ordered various stand-alone "institutional" initiatives to address the corruption problem. New decrees have been passed, anti-corruption campaigns have been launched, and special units have been created. Yet at the same time economic regulations continue to proliferate. For instance, the Kiev province recently decreed that any firm selling goods within the fourteen counties of the province must have a special trading permit for such intra-province transactions. No anti-corruption drive can succeed in such a policy framework.

More Attention to Incentives, More Reform, Less Corruption

The evidence clearly points to promoting economic reform as a way of addressing corruption. The economic reform agenda in many countries is far from finished, and its anti-corruption potential often has been underemphasised and even maligned.

In designing reform programmes, it is important to identify the discretionary control rights at the disposal of politicians and bureaucrats. The majority of politicians are clean, civic-minded citizens, but a significantly corrupt minority can take a large toll on an economy. Typically, the main activities in need of reform are those that involve discretion, including the issuance of licenses, permits, quantitative import restrictions (quotas), passports, customs and border-crossing documentation, and banking licenses; the implementation of price controls; the blocking of entry to new firms and investors and the provision of monopoly power; the awarding of public procurement contracts; the granting of subsidies, soft credits, tax exemptions and inflated pensions and the allowing of tax evasion; the imposition of foreign-exchange controls resulting in multiple exchange rates, the over-invoicing of imports and the flight of capital; the allocation of real estate, grain storage facilities, telecommunications and power infrastructure; the discretionary application of socially desirable regulations such as those that apply to public health and the environment; and the maintenance of obscure or secret budgetary accounts as well as other "leakages" from the budget to private accounts.

The discretionary control rights of officials can be sharply curtailed through a package of economic reforms. Where some regulations ought to stay because of their social desirability, transparent market mechanisms can be used to limit abuses (auctions of pollution quotas, for example). Yet many other economic regulations need to disappear altogether. Conventional economic reforms can have a significant impact via macroeconomic stabilisation, which removes the discretion to provide subsidies and soft credits; via privatisation, with its depoliticisation of state-owned enterprises; and by the building of a constituency that favours competition and broad market liberalisation. Yet simply reforming macroeconomic policies is insufficient. Further emphasis must be placed on fuller liberalisation, microeconomic deregulation, tax reform (creating a simple and non-discretionary regime, with moderate and uniform tax rates, eliminating exemptions and with determined enforcement), government and budget reform (establishing transparent, financially sound revenue and expenditure mechanisms), and, over the long haul, broader institutional reform (revamping customs and eliminating redundant ministries and agencies) and civil service and legal reform. Setting up an improved civil service pay system, with adequate salary incentives and enforceable penalties for malfeasance, is also critical. Countries that have established a system of rewards for civil servants that are competitive with the private sector have also reduced corruption. Many countries also need to give additional focus to developing the financial sector, because market-determined interest rates, improved banking supervision by independent central banks, transparent accounting standards, reserve-requirement compliance (where owners put their own equity at real risk) and effective payment systems all reduce the opportunities for fraud-driven financial crises. They also limit the loopholes through which money-laundering grows out of control.

These pillars of the next stage of reform—government and regulatory reform—have been neglected in many developing and transition economies. The "state of the art" in these fields is not as advanced as in macrostabilisation or trade liberalisation, where the "jury has long passed a verdict" on what to do and how to do it. Along with recognising that corruption is a *symptom* of deep-seated *institutional and economic fundamentals*, emerging countries and the international community need to elevate the priority of these reform areas. The payoff on these difficult and time-consuming measures will be substantial: virtually all economic, deregulation and government-reform measures would help not only to curb corruption but also to sustain national growth strategies.

<u>Implications for Design and Implementation of Anti-Corruption Strategies</u>

In terms of the specific details of an anti-corruption strategy in a particular country, we refrain from providing long lists of solutions. The field is still in its infancy in understanding the fundamental causes of corruption and is distilling incipient lessons from experience of what works and what doesn't. Furthermore, the specifics of an anti-corruption strategy may vary significantly from setting to setting. Nonetheless, while the ongoing learning process is underway, some implications and principles for the design of anti-corruption strategies emerge. We briefly put these forth next.

The Underutilised Potential of Evidence and Data Analysis

It is increasingly evident that for a rigorous anti-corruption programme design, which is responsive to country specifics, it is imperative to gather and analyse in-depth country-specific data, as well as lessons from a comparative perspective. Data related to corruption exists, and for a country-specific, in-depth focus, further information can be gathered through appropriate survey tools, for the specific setting under review.

A. **Types of data on corruption and bribery**
Depending on the particular setting being studied, and whether the corruption issue is to be analysed comparatively across countries or more in-depth within one country, different approaches to data gathering and analysis will be called for. A number of tools are at the disposal of the analyst nowadays.

> a. **Firm-level surveys**: both cross-country comparative business surveys on perception of bribery and corruption, and country-specific in-depth surveys gathering hard data on bribery and its correlates.
>
> b. **Service delivery surveys.**
>
> c. **Citizen polls.**
>
> d. **Indices based on expert assessments.**

e. **Procurement prices** of standard and essential publicly provided good: generic medicine; standard school lunch.

f. **Balance of payment** analysis: official exports statistics vs. data from importing country.

g. **Unofficial/Black Economy** estimates.

h. **Composite Corruption Perception Index such as with Transparency International (TI).**

Each tool has its own advantages and drawbacks, and requires some expertise in question design, eliciting reliable answers and data, and data interpretation and analysis.

B. Data on potential variables determining corruption in a particular country

Equally important is to gather information and perform analysis on the main correlates of corruption within a country (and comparatively as well). Among the key variables needed for the analysis:

a.Rule of law and protection of property rights

b.Regulations/regulatory discretion/bureaucratic red tape

c.Economic policies

d.Political variables (fracture politics; length of leader in power, democracy, etc.)

e.Civil Liberties (and ability of civil society to play a role)

f.Professionalism and incentives of civil service

g.Education/literacy

h.Natural resources

i.Size

j.Ethnolinguistic fragmentation

k.Income per capita

l.Income distribution

m.Financial and accounting systems

<u>Conclusions: Some Principles in Design of Anti-Corruption Programmes</u>

From our analysis, some design principles emerge, which shy away from tailor-made tool kits to be applied in any setting, and also deviate from exclusive focus on *ex post* legal and institutional detection and enforcement measures.

A. **Forms of corruption vary** from country to country: Identify the most important types and forms of corruption for an action programme relevant to a particular country.

B. **Determinants of corruption vary**: Even for a given form of corruption, the importance of different *determinants* will vary from setting to setting. Country-specific understanding is imperative.

C. **Focus on priorities and fundamentals**: Identification of a *small* number of key fundamental determinants of main types of corruption in the country (vs. "Christmas Tree" approach) for implementation in the short-to-medium term. It may be warranted to implement a "20/80" identification approach: which 20% of key measures upfront may deliver (close to) 80% of results? Too often the reverse has been the case; a large number of (non-fundamental) measures delivering meager results.

D. **A Role for a complementary "injection"?**: Where fundamentals are seriously tackled, a selective complementary intervention (such as a watchdog body or a new Charter) *may* make sense if appropriate circumstances are in place (vs. such stand-alone interventions without tackling the fundamentals). It will be vital to identify the intervention (or institutional initiative) which best complements the reforming of fundamentals (under C above).

E. Temporary "**amnesia" about corruption could be useful?**: The Underestimated Power of Indirect Measures. The importance of stepping back and taking distance from corruption-as-a-symptom-of-weakness in the state, and reviewing what the main determinants for weak statehood in a particular setting are, ought to be emphasised. Reform of the Public Sector and Public Finances, as well as improved civil liberties of financial regulations, would be examples of the power of addressing the problem of corruption indirectly.[1]

F. **Open-minded policy advice**: Some of the conventional economic policy advice given in the past needs revisiting. Tax policy is prime example: reduction to more moderate rates, simplicity, uniformity, elimination of discretion, exemptions, loopholes, etc. if needed in many settings. Further, the powerful and complex role of *incentives* in addressing corruption needs to be emphasised more.

G. **Logic of collective action**: It is in the interest of various stakeholders, including the business sector, for collective action credibly pre-committing against bribing. This has concrete implications for policy formulation, such as non-bribery pledges, criminalisation of bribery abroad, etc.

H. **Innovation on public procurement, project execution and concessions**: Role of Incentives, and Price Surveys and Audits. New methodological approaches to procurement need to be explored and are likely to offer large benefits in ameliorating corruption. The important role of incentives in eliciting transparent bidding processes (and without obscure posterior "renegotiations") is also important in the context of public procurement.

I. **Continuing innovations of civil society in helping implement anti-corruption strategies:** Civil society, wherever it is active, is likely to be a major ally in resisting corruption, as eivdenced in the recent successes of some NGOs. However, there are many settings where civil society has not been allowed to operate. Furthering civil liberties in these countries will be important. At the same time, in a number of settings where civil society has been active, misguided advocacy has not necessarily been conducive to action on the fundamental roots of corruption. Calls for conviction of a particular politician may be a useful complement to a broad-based anti-corruption strategy, but in itself it will accomplish little. Therefore, at this juncture it may be wise to engage in an open-minded discourse with civil society on some prevailing (and potentially harmful) "biases", "myths" and misconceptions that have emerged in addressing corruption. In particular, the role of civil society in diagnosing and raising awareness of the sources and forms of corruption (i.e. through the implementation of service delivery or similar governance surveys) in their country ought to be supported.

In concluding, we emphasise the common denominator throughout the empirical and strategic suggestions provided to address corruption: better understanding and incorporation into anti-corruption strategies of the role of *incentives,* and further focus on systemic changes that alter *ex ante* such incentives to engage in corrupt practices.

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***5.* The Role of Civil Society**

Peter Eigen

Thinking in historic dimensions, civil society is a fairly new force on the global landscape. While community groups, churches and religious groups, the media or political interest groups have long played an important role on a local and national level, it is the more proactive involvement in global problems of non-governmental organisations which has only in recent decades transcended the national level. In the areas of development, the environment or human rights, NGOs have added a new dimension to traditional politics and have helped humankind to find new forms of addressing our global problems. Today, it is no longer contentious to say that without the active involvement of civil society we would live in a world ridden with much more violence and human rights abuses, burdened with greater social injustice and equipped with less sensitivity to the ecological problems we are facing.

What I just said is particularly true for strategies against corruption. We at Transparency International believe that the involvement of civil society is vital in the fight against corruption. A non-governmental organisation ourselves, we regard the mobilisation of civil society as crucial to achieving success. It is our philosophy, however, that for dealing with this overwhelming problem of corruption the best position for civil society is in a coalition consisting of three pillars: government, the private sector and civil society. All three partners have to be involved for the fight against corruption to be legitimate as well as effective and sustainable.

That co-operation is needed on all levels in our common quest to curb what we see as the "abuse of public power for private profit." This was our working definition of corruption; lately, we prefer to talk about "abuse of entrusted power for private profit" to include in the definition private-private corruption. At an early stage in their collaboration, government, the private sector and civil society will have to come together to diagnose the problem, each sector bringing in its special experience and its own perspective. Learning from each other's experience in that first phase will then help to define the problem and to see the underlying issues more sharply, which in turn will enable us to develop counter strategies. Finally, a joint approach is needed to effectively implement and monitor the concrete measures agreed upon to stem the tide of corruption--each sector needs the support of the others in this final phase.

It becomes clearer why this co-operation is so vital when one looks at the failure of those anti-corruption efforts which did not enjoy such broad support. As Frene Ginwala, the Speaker of the South African Parliament, has pointed out, the majority of military coups in post-independence Africa were publicly justified by the need to fight corruption. But the anti-corruption battles that were then fought were commanded by the generals from above--they did not involve the rank-and-file soldiers and the supply battalions. As a result, most of these battles against corruption were lost, and often the commanding generals were simply replaced by another coup.

What is true for government, is just as true for the private sector. Even if there is strong dedication in the business community not to get involved in any acts of bribery, it will be extremely difficult, if not impossible, to hold on to these principles within a framework which does not reward honesty and competition. Nicely elaborated corporate codes of conduct will wither away in a climate where government is unaccountable and where the public decision-making process does not serve the public but has become a hostage of market forces of supply and demand--perhaps the most obvious example of a place where market forces should not reign.

And there can be no doubt that civil society would become engaged in a noble fight against windmills, if it attempted to confront corruption without involving those that set the very framework in which corruption can be fought—government--and those who have the strongest interest not to replace the competition of goods and services with a competition of corruption--the private sector.

To state what does *not* work does not automatically tell us what *will* work. Looking at the cases where unilateral action by just one sector failed does not by itself explain why the collaboration of all three pillars, government, private sector and civil society is so vital for the fight against corruption to bear fruit. So why have the collaboration of all three? Would it not be sufficient if government and the private sector came up with an action plan against corruption themselves? Cannot the government introduce new laws, impose tougher sanctions and invent new control mechanisms all by itself and still fight corruption effectively?

To find answers to these questions, it is important to look at the underlying nature of all three sectors, to understand what specific contribution they can, and have to, make to overcome corrupt practices. The kind of input each of them can provide is intricately linked to the sources of legitimacy of each, with each source opening new dimensions.

It is commonly held that the legitimacy of governments is derived from the people. If government is accountable to democratic control, if it is bound by the rule of law and if it respects universally accepted standards of human rights, government can rightly claim to act on behalf of the people. It is this legitimacy which gives government the strength to undertake reforms to quell corruption that may reach far into people's lives It is this legitimacy which makes government a strong and reliable partner and which enables it to set a framework better equipped to deal with corruption.

The legitimacy of civil society also rests with the people although it is differently structured. While many non-governmental organisations can claim a mandate to speak on global concerns and represent those interests unrepresented in the traditional political process, they are not accountable to direct democratic control. Often, these organisations are not even democratically structured internally. What legitimises them is a concern about issues that are not being dealt with adequately in both the national and the international theatre, a concern about problems that often go beyond the limited reach of the nation-state. Also, many problems are simply ignored and neglected by governments or addressed in a fashion which does not take into account the legitimate interests of those affected by governmental action. And the legitimacy of not-for-profit organisations is further fostered simply because they are what they are: their concerns do not arise out of self-interest or profit-orientation but from people who care about the public interest, the well-being of both the local and the global community.

In contrast to the other two pillars, the business community can claim to be an essential partner in the fight against corruption on a somewhat different basis. One may begin with the good feeling that the one who earns the money, pays the bill, "makes the world go around", after all, should not be left out. There is some truth to that. It is the private sector we all rely on as the very fabric of our market economy, and it is economic life which is a necessary condition for all social life that is built thereon. This does not mean to say that the private sector enjoys supremacy over the other spheres--it simply means that there is mutual dependence between the economic foundations of a society and the social structures it builds thereupon.

Having assessed the different sources of legitimacy of government, the private sector and civil society, one now has a better understanding of the input each of them can make to the battle we are all here to join.

What one should expect from *governments* is, above all, political leadership. A strong dedication to come to terms with corruption will mobilise society and, if genuine, can liberate resources no government could possibly muster. Governments will be expected to reform national and international integrity systems. It is they who can set the framework of legal and economic rules which make it harder or easier to engage in bribery and extortion. It is governments which have to reform political systems marred by a lack of transparency, a lack of accountability. Both the private sector and civil society will have to help identify the problem areas, and, judging from their experience, can help to devise remedies.

The *private sector* also has a unique input to make. It is the engine of the economy, and no sustainable anti-corruption campaign can be fought against the corporate community. It is this sector's experience which has to be accounted for, its interests that need to be understood. Sound business has to be practised, not preached. The private sector thus is the testing ground for all anti-corruption models--no rules and regulations will check corruption if the gap between ethical standards and competitive forces is too wide to be bridged.

Following from this, *civil society* will increasingly have to become

active where government does not reach and where the forces of the market leave us with unwanted results. It is conventional wisdom that the forces of the market are socially blind. They may produce untenable social inequality, even injustice, and, in the case of corruption, they may become overwhelming and destructive when they go unchecked by ethical standards and legally enforceable rules. When, to give an example, public construction contracts are in huge demand, while both internal and external control mechanisms are in poor supply, even strong ethical values may not be able to prevent corruption. It is possible that under such conditions appeals to ethical standards will fail to achieve their purpose - they may even prove counter-productive if perceived to be hypocritical or grossly mismatching reality.

To continue the same example: If one assumes that the number of construction licenses cannot be increased at will, then one would have to increase the supply of control mechanisms, say, by providing greater transparency in public procurement or by opening the planning process to public scrutiny. It would be the natural role of civil society to convince the private sector that action is better than inaction and that corruption does not have to be accepted as a necessary evil. Civil society can help the private sector to understand that it is in its own interest to lobby government for greater openness. The mobilisation effort that will be required here is a strength of civil society one can count on.

Towards government, civil society will have to play the roles of critic, catalyst and advocate of those interests unrepresented or underrepresented. Where government fails--because it is too weak or because problems cannot be solved through central planning or from above--civil society comes in. It can mobilise the people and it is needed to reach the hearts and minds of ordinary citizens who may find it hard to believe that their governments are making a genuine effort to tackle corruption. And, above all, it is essential to raise public awareness, to awaken society to the disastrous effects of corruption and to get across the message that fighting it is possible.

Civil society also is a guarantor that the interests of those people governments claim to represent are not being neglected. It is the manifold groups making up civil society which can remind governments and ensure that corruption has to be fought in the interest of those that can least afford to defend themselves against its brutal attacks: the poor, the uneducated and illiterate, the unorganised and the weak. Finally, civil society is the watchdog, the whistleblower and the vanguard to warrant that government and--to a lesser extent--the private sector respect their borders.

No anti-corruption effort will succeed which infringes upon the most basic human rights, which, instead of reforming unaccountable and undemocratic systems, relies on mere repression and prosecution. This would mean curing the symptoms, not the disease. Civil society will be needed to remind governments from time to time that it will simply not work for a country to organise conferences or anti-corruption campaigns or to kick out corrupt judges. If judges are fired, the independence of the judiciary is jeopardised, as is the freedom of the press when it is literally expelled from the country. In fact, it is the freedom of the press that is one of the most basic preconditions for a meaningful involvement of civil society against corruption.

Certainly, it will not be exclusively the role of civil society to remind government or the private sector of the proper role they should play to prevent and combat corruption. Each sector will have to help the others to come to respect the limits of its reach. If there is mutual respect and a true understanding of each other's role, corruption can be attacked with some success.

It may be questioned whether this principle of co-operation applies to all cultures. How valid is it to call for collaboration between government, civil society and private sector throughout the world and on a global scale? Would this imply belittling cultural differences--differences in values or differences in social development that undoubtedly exist? Are there regions where civil society might play a less prominent role? Are there societies which are not yet "mature" enough to join in the common cause to fight corruption as equal partners?

In an attempt to answer these questions it may be helpful to look at the underlying problem of corruption first. There is global agreement about its disastrous effects--the sheer number and diversity of people attending this very conference is ample testimony to that. Corruption occurs in every single society. Even in those countries perceived to be least affected by that disease the abuse of public power for private benefit is a constant threat. And as no society remains at that stage in its development where differences between public and private are nonexistent, there also is no society which condones practices where this line is transgressed in an abusive manner--every country has laws against corruption and no culture exists where corruption is socially accepted behaviour.

However, causes of corruption differ from country to country. While a dysfunctional legal system may be the cause in one country, the transition from a hierarchical, traditional, rural society to today's global village may be the principal cause elsewhere. Also, what may be described as corruption, varies tremendously from country to country. This is particularly true for all questions connected with cultural peculiarities such as practices surrounding gifts, legitimate and illegitimate hospitality and the use of personal connections. The line between culturally and socially accepted behaviour on the one hand and nepotism and corruption on the other is difficult to draw and has to be defined differently in each society.

Civil society will indeed be needed everywhere; it is the key for access to that cultural diversity. Governments and the private sector will need the support and involvement of civil society everywhere to mobilise people, to link the reform measures and integrity systems with the interests and experience of local people. Also, just as it has proven to be impossible for government to take over the role of the private sector, it is difficult to imagine that any government could possibly take over the role of civil society and replace its inherent strengths and capabilities. More than everywhere else, this is particularly true for the fight against corruption.

To take you one step further along my line of argumentation, allow me to stress the consensus that I see emerging. Defining a consensus is one thing, however, while building on it is another. What we need then is not only agreement that the collaboration of government, the private sector and civil society is vital but also some agreement on how that collaboration can be organised and structured.

This question has challenged Transparency International from its very inception. As an international non-governmental organisation we tried from the beginning to overcome the confrontational attitude that often prevailed between government and civil society, but frequently also between the private sector and civil society. One of the principles we thus adopted was that of coalition-building. Having reflected on the need for government, the private sector and civil society to join hands in the fight against corruption, I will not need to further explain why that principle was and is so very important to our work.

Another guiding principle is that of a non-partisan approach to combating corruption. It is frequently very hard to avoid that different strategies to tackle corruption are chosen along party lines. Political parties also have their role to play in the political process--they are needed to structure public opinion, to allow for the pursuit of different alternatives and to include different interests in the decision-making process. But our non-partisan approach is intended to ensure the full participation of the private sector and civil society as well. In order to undertake those far-reaching reforms that are often necessary to counter corruption, a broad consensus throughout all layers of society is needed--often such a broad consensus would be difficult if not impossible to build if political parties played a dominant role in that process. Also, in many societies corruption is an issue of such importance that it would not be wise to leave it to often short-sighted interests of political parties.

Transparency International also does not investigate or make public individual cases of corruption. This principle does not flow from a lack of investigative resources or from a fear of getting bogged down in the nitty-gritty details of just one particular case. Rather, on a more general level, it mirrors the importance we give to the collaborative effort of government, the private sector and civil society. It would not be possible to convince the corporate community that we have a sincere interest to learn from their experience and to develop preventive mechanisms and incentives to refrain from corruption if at the same time we singled out individual companies and accused them for their misdeeds. Certainly, bribery is often conducted out of sheer greed. However, we know that on many occasions it is not just allegedly "immoral" or "evil" decisions that lead a company to fall prey to the trap of bribery--rather, it is real dilemmas many companies face when they attempt to do business in markets that are tainted by corruption. While the immoral perpetrator might be punished, this would make no sense with a company confronted with a serious dilemma. Co-operation rather than confrontation will lead the way here.

Our experience has also taught us that corruption has to be confronted where it arises. Sending outside "experts" to a country to give advice and prescribe off-the-shelf solutions will not have any lasting impact. Wherever our National Chapters are active, we thus try to encourage a national dialogue involving all sectors of society. As the problem of corruption has local roots everywhere it flourishes, it is locally, nationally where these roots have to be cut off. This is why Transparency International is working through its National Chapters because they are embedded in their national cultures. No outside expert will need to give its counsel to a national government; rather, governments should listen to their *own* citizens and their *own* business community. The answers on how to fight corruption will come from these groups.

While on a national level it is relatively easy to arrange an open dialogue between government, the private sector and civil society, this is a more complex task internationally. Yet, the linkages non-governmental organisations can provide may be even more valuable here. While governments are often bound in their communications by diplomatic cautiousness and hierarchical structures, NGOs can do this with much greater ease. Eventually, through direct lines of communications, they can also assist governments to overcome an impasse in communications and to find solutions that save everyone's face. As one observer pointed out, many international NGOs have a wider worldwide web of contacts than many governments, and many combine greater skills and expertise and higher levels of professionalism in their particular domain than many governments can afford to invest in any one area.

It is in this context that NGOs (civil society in general) provide the global audience, the global constituency, the global think tanks that many observers feel are still missing. They can represent global causes where governments are still limited in their thinking to the categories of national borders. It is a highly commendable development that, in relation to corruption, many international governmental organisations have already begun to open the door to the participation of NGOs. Among these one has to mention the European Union, or the Organisation of American States which, in its InterAmerican Anti-Corruption Convention, explicitly calls for civil society involvement in the efforts to curb corruption. Also, the Organisation for Economic Co-operation and Development has specifically asked Transparency International to officially accompany the process of drafting an anti-corruption convention. By also including the private sector--through the International Chamber of Commerce--the OECD is perhaps the best example for the path-finding that is needed to involve governments, the private sector and civil society.

Concrete steps that the civil society can take in the fight against corruption have to be identified. It should be borne in mind, however, that it will not be "civil society" as such which would act. Rather it will, at least initially, be small groups of civic-minded citizens who are hoping to make a difference. At first sight the tasks ahead of these groups seem intimidating. However, encouragement and inspiration can be drawn from the track record of Transparency International's National Chapters around the world. Their initiatives and programmes show very clearly that civil society, or rather its individual members, are not helpless and that there is no need to wait for governments to act.

While many of these programmes and activities will be the subject of lectures and workshops to come, I would like to mention a few cases where civil society has succeeded in facilitating a process in which it joined forces with government and the private sector. What these examples show is that civil society can have an impact in the area of raising public awareness as well as in lobbying for concrete change or in helping to initiate and carry out a process of reforming national integrity systems.

Particularly in the area of awareness-raising, National Chapters can draw on the strength they derive from belonging to an international movement of civic-minded people. It allows them to draw the attention of the public and politicians in their country, to emerging best practice in other parts of the world. It is indeed one of the potentially positive aspects of globalisation that each society can learn from experience elsewhere, and that the same mistakes need not be repeated over and over again. Transparency International has tried systematically to aid that process by publishing a source book which analyses the potential elements of a national integrity system and explains how all these elements function.

Civil society can also draw the public's attention to the problem of corruption by triggering the healing effects of competitive forces. Fostering competition for best practice in corruption prevention and prosecution by making comparisons and scoring results between different government agencies, between different federal states, provinces and cities, is just one example of the role civil society can play vis-à-vis government. Similar efforts can be made to trigger competition between different corporate branches.

An ambitious way of collaboration between the three pillars of any meaningful anti-corruption system can also be seen in the model of Islands of Integrity, which has been developed by Transparency International. This model tries to bring together government agencies and private sector bidders in public procurement, with civil society groups monitoring the agreement. It calls for transparency in all payments made in the procurement process and ties tough legal sanctions to any attempt to influence the bidding-process through corruptive measures.

These activities just briefly mentioned show that the involvement of civil society in the fight against corruption is more than mere talk. In them the term *civil society* has found a new meaning. These initiatives also demonstrate that where the reach of governments is limited--where governments fail to act or are reluctant to take on new challenges--civil society stands ready to act. The connection between the state *and* civil society in the fight against corruption has to be filled with a concrete meaning. In light of what I said about involving the private sector as well, it is to be hoped that adding one plus one makes more than two.

6 Political Will in Fighting Corruption

***Sahr J. Kpundeh*[1]**

Introduction

In recent years the issue of corruption and the search for strategies to combat its corrosive effects have grown in importance as a topic of public debate and a criterion by which civil society evaluates leadership. For many emerging democracies formerly characterised by their leaders' economic predation, the decentralisation of authority, privatisation of property and reform of administrative structures demonstrate the value of alternative approaches to governance and political culture. While these changes are invariably accompanied by uncertainty and sometimes by abusive opportunism, they present an expanding range of opportunities for political initiative in a law-based society. As citizens are exposed to these alternatives, they discover they can demand accountability from their leaders. Governments and parastatal agencies have been forced to respond to citizen aspirations with more efficient and responsive services. They have even begun to promote an administrative ethos that is intended to serve the citizenry rather than the self-interests of politicians and bureaucrats.

While the most encouraging changes of attitude toward corrupt practices have emerged spontaneously as part of the democratisation process in individual nations, the donor community has played a significant role in forcing both national and international attention to the issues. Cold war considerations provided a rationalisation for overlooking partisan self-enrichment. However, the international community no longer tolerates the diversion of donor resources to some political elites' private use. This change in the relationship is driven as much by principle-heightened insistence on transparency and accountability as by budgetary pressure on resources made available through donor agencies and institutions.

Several countries' new leaders are implementing strategies to improve public administration (customs, tax and security agency performance), reduce bribery and create systems of public information. With this knowledge, the citizenry is more aware of its rights, obligations and opportunities for obtaining justice against predation by corrupt agents of power. These leaders face the (often) monumental task of transforming not only institutions but also the political culture of opportunism.

Reform efforts are oftentimes unsuccessful due to the combined influence of inadequate strategies, political resistance, failure to sustain long-term reform efforts and the lack of knowledge about appropriate tools to establish systemic change (World Bank, 1994: 100, 103). Lessons learned from successful reform programmes suggest that the key factor is strong political will demonstrated by a commitment from the leadership at all levels of government.

"Political will", as the concept is discussed here, refers to the demonstrated credible intent of political actors (elected or appointed leaders, civil society watchdogs, stakeholder groups, etc.) to attack perceived causes or effects of corruption at a systemic level. It is a critical starting point for sustainable and effective anti-corruption strategies and programmes. Without it, governments' statements to reform civil service, strengthen transparency and accountability and reinvent the relationship between government and private industry remain mere rhetoric. Neither the presence nor the absence of political will can be presumed in any single initiative. It is manifest in the degree to which reform initiatives are participative and incorporate a range of political actors and civil society. Political will is affected by many variables that can be the subject of action. The rules of the political game, such as the prevalence of democratic institutions and context-specific incentives, some of which may be affected by international actors, affect political will. Unwavering determination to fight corruption is not only a problem for leaders and bureaucratic reformers. The private sector, too, may lack the will to overcome corrupt systems. In addition, citizens face the problems of mobilising collective action and turning their convictions into changes in public administration. They may feel individual acts are ineffective and risky, and collective action is inhibited by a lack of institutions.

The focus of this discussion is on the actors, their motives and the choices they make to promote and implement anti-corruption reforms. This discussion contends that political will depends not only on the political and economic resources available to the champions of reform but that a willingness to combat corruption is rooted in their perceived hold on power and their ability to muster sustained support from domestic and international constituencies. Furthermore, political will can have an existence separate from incentives and opportunities at any given time. This analysis is developed in four parts. In part one, it focuses on incentives and opportunities and shows under what circumstances political will can exist independent of those opportunities. Part two describes types of corruption and examines the evidence of political will among public and private sector actors as they develop reform strategies to address specific types. Various manifestations of political will are investigated in part three, and part four suggests guidelines for strengthening efforts to combat corruption in the public and private sectors as well as the international community.

Part One: Political Will and Incentives

Political actors or leaders, especially those in democratic societies, can rely on an arsenal of resources to develop and implement sustainable reform strategies. But democracy alone is neither a cure nor an impermeable barrier to the opportunistic behavior that we call corruption. Despite the long-term benefits derived from checks and balances, democratic political systems are vulnerable to many kinds of corruption. Numerous contemporary and historical examples can be found in democratic regimes that have incorporated abusive patronage and rule-skewing to insure their survival. In some systems abusive behavior coexists with democratic institutions. Although citizens are aware of these abuses, corrupt politicians may be shielded by parliamentary immunity, executive controls over the judicial apparatus and the complex rules and sanctions that curb criticism or remedial action from those outside government. Direct payoffs and "soft money" fuel political parties' activities and sculpts the form and conduct of elections and campaigns. In some countries, the blatant purchasing of votes by politicians, although illegal, occurs quite openly (Rose-Ackerman, 1997).

Like other systems of governance, democracy is simply a set of rules guiding the apportionment of power and conduct of transitions. The benefits can only be realised with conscientious leadership, an adequate system of checks and balances and a well-informed citizenry. Successful efforts to reform corrupt public administrations and to curb abuses of power depend on leadership that is attentive to the rule of law and able to counterbalance resistance to reform by mobilising supportive, democratically based constituencies.Political will can reside in many locations--all branches of government, the political opposition, civil society, international organisations and both public and private sector institutions. Examples abound of reform efforts that have been initiated at each of these nodes of power and citizen involvement: that will is an integral catalyst in the establishment of rule-based governance and a primordial component of efforts to initiate and sustain reform. But political will neither originates nor exists in a vacuum. Instead, it is the reflection of a set of complex circumstances that incorporate individual leaders' aspirations, the systemic benefits from hypothetical changes in rules and behavior and the belief in the ability to muster adequate support to overcome resistance from those stakeholders whose interests will be most damaged by reform.

The strength and energy of public and private sector actors in the effort to stop corruption is a direct reflection of commitment or, as it is defined here, political will. This analysis examines the manifestations of political will as exhibited by politicians, civil servants and members of the private sector and civil society. Each group has different motives and goals and consequently defines successful anti-corruption strategies differently. An investigation of these groups individually and as they relate to each other is quite useful to understand the role political will plays in reform efforts.

Opportunities for positive change exist and can be mobilised at several levels.

Those at the macro-level include revolutionary redeployment of powers within a political system, constitutional change or rewriting the rules by which the citizenry can exert its influence upon institutions and leaders (Johnston, 1993). Reformers can create regulations and incentives that encourage the emergence of groups and interests that seek to maintain an appropriate balance of power between institutions and civil society. Opportunities at the micro-level involve working practices and relationships within political institutions and agencies and between officials and private citizens. Reform is demonstrated through measures that insure restraint and the depersonalisation of official transactions between public agents and the citizenry. Systemic reform generally requires intervention at the macro- and micro-levels. However, historically, reformers have been most active in the fight against corruption when micro-level opportunities are greatest.

Periods of transition such as changes in government (e.g. regime changes, shifts of partisan legislative power, leaders attempting to broaden their base of support, etc.) are typical intervals when the chance to combat corruption is most prevalent. Reform strategists use these periods to galvanise supporters through moral exhortation or by attempting to redefine a new public morality or service ethic. Political will among government officials and politicians is strong during transitional periods but it is subject to erratic political positions and/or changes in leadership. Unfortunately, these transition periods also generate behavior which, oftentimes, leads to a repressive exercise of power. Opportunists prefer to use them to consolidate their hold on the political and economic infrastructure. Reformist fervor takes the form of mere rhetoric and the true partisans of anti-corruption are obliged to retreat. This syndrome is all too familiar to political scientists and cynical citizenry around the globe.

While these opportunities represent platforms for change, they often do not incorporate or represent comprehensive strategies for sustainable change. Inadequate approaches may include: (1)politically based, rather than ideologically based, reform measures--motivation, scope and objectives that mobilise the issue of corruption as a way to delegitimise the previous regime, purge the opposition, manipulate the political agenda or only temporarily garner supportive public opinion; (Riley, 1983; Gillespie and Okruhlik, 1991); (2) overtly reactive responses to internal or external stimuli. Internal stimuli include the personal values of the head of state, challenges from a counter-elite and popular discontent arising from socioeconomic conditions. External stimuli include adverse publicity or investigations that originate in other countries; (3) unrealistic goals and objectives that use political instruments to promote both institutional and cultural change throughout society; (4) the creation of disequilibrium, either over-fortifying the powers of the head of state or undermining his effectiveness (Gillespie and Okruhlik, 1991).

The basis of civil society is common interests, independent of the state, through which people can organise themselves and relate to one another on a professional, religious or nationalistic basis. A vibrant civil society can play a significant role in the fight against corruption, legitimising political leadership and counter-balancing recidivism. On the other hand, a weak civil society may also undermine reform, failing to provide leadership for the role it must play in strengthening the reformers' position. As an activist force for change, it is a crucial catalyst for building political will. It can address impropriety by drawing on the expertise of accountants, lawyers, academics, non-governmental organisations (NGOs), the private sector, religious leaders and, more important, ordinary citizens. In Venezuela for example, a local NGO, Agrupacion Pro Calidad de Vida, has organised country-wide workshops teaching Venezuelans how best to minimise corruption (Coronel, 1996).

Part Two: Types and Levels of Corruption: How the Stakes Involved Can Affect Political Will

The political leadership plays an important role in promoting change. To effectively shape that role, it is necessary to move beyond the subjective and qualitative analyses that describe corruption as a mere moral failing of politicians, bureaucrats and businessmen. It is more useful to consider it as a political and economic phenomenon.

Corruption is present to some degree in all societies. In recent years, however, political scientists have aggressively sought to understand why some nations and societies are clearly more vulnerable to abusive political and economic opportunism than others. In response, they have proposed a number of typologies that indicate linkages between the incidences of corruption and specific stages of political, economic and social development. According to Michael Johnston, an expert on the subject of corruption, the types and amounts of corruption vary in accordance with a number of factors affecting the relationship between government and civil society (Johnston, 1982).

It is irrelevant to center debate on the issue of whether corruption is inherently good or bad. It is more useful to determine which types of corruption have the most corrosive effects on social and economic stability. For example, where imbalances in power occur between state and society, corruption is more likely to flourish. Michael Johnston argues that specific kinds of imbalances produce distinct kinds of problems, each of which poses its own reform challenge (Johnston, 1997b). At a minimum, a vibrant and sustainable democracy requires a balance between state and society and between political and economic power. In the relationship of the former, officials are strong enough to act authoritatively, yet subject to all the rigors of accountability; in the latter, neither officials nor economic interests are so weak as to be exploited by the other (Johnston, 1997b). These linkages are helpful to understand various corruption scenarios and to formulate timely reform strategies. In addition, they provide insight into the impact of these scenarios on political will. The scale of the stakes involved (small, such as ordinary consumer goods, versus extraordinary, major manipulation of imports or hard currencies) and the number of suppliers (few or relatively many) are extremely significant to the relationship between state and society (Johnston, 1993). They are also significant to generate political will. Actors' responses to anti-corruption measures in both the public and private sector are usually in direct correlation to the scale of the political and economic stakes that are involved.

Newly democratising polities may find that widening access to influence and public goods encourages corruption but, at the same time, shifts the mix of corrupt activities toward less disruptive types. It is even possible that some of the less disintegrative forms offer short-term advantages. Illicit markets may satisfy some material needs and illegal activities may promote more efficient economic activity.

Extended patronage organisations or machine-like parties can strengthen the links between political leadership and society. More people have a stake in participating in the political process and with increased participation, political will increases. Politicians who want to retain power propose and enforce reform measures. A competing opposition attempts to garner support by showing it is more willing to attack the difficult issues in curbing malfeasance, and a stronger civil society seeks to increase its influence by promoting increased accountability and transparency in government. A balance between political and economic opportunities fosters vitality, openness and strength in both politics and the economy. It also implies that powerful people and groups may be less able to exploit their counterparts in other arenas. Despite the rewards of expanded participation, they are fleeting and transitional at best (Johnston, 1992). The four distinctive "scenarios" characterised below provide a tool to distinguish among different varieties of corruption and the opportunities for reform.

Type 1. Interest-Group Bidding: groups that use wealth to seek influence. Officials who are receptive to individual, non-systematic corruption are particularly vulnerable. According to Johnston, wrongdoing is controllable because the bidding process is open to competing interests including critics. (Johnston, 1996).

Type 2. "Merchant Princes": an entrenched political elite facing few challengers and no meaningful demands for accountability. Political figures, bureaucrats and entire agencies may go into business overtly or covertly. Political competition takes place among elite factions. If the intensity threatens the existing political order, the competition alone may produce extreme corruption. Businesses, particularly domestic commerce, are vulnerable to organised extortion.

Type 3. Fragmented Patronage/Extended Factionalism: officials capitalise on scarce material rewards to build personal followings. But their hold on power is tentative and their followers need to be bribed and rebribed continually (Johnston, 1997b). Corruption as a political issue is a tool of reprisal--a way to discredit the competition rather than pursue principled politics or governance.

Type 4. Patronage Machines: the combination of politics and corruption that takes the form of disciplined, organised and orchestrated groups. They manipulate elections and other democratic processes, while avoiding serious conflict. Entrenched elites dictate terms to businesses, particularly those that have little support and few political opportunities for recourse or appeal. Domestic and international concerns are subjected to extortion or bureaucratic harassment. The threat of uncontrollable corruption is minimal because these machines depend on the preservation of a profitable status quo.

The above typology classifies corruption into four categories that relate specific stakeholders and actors who benefit from malfeasance to their impact on politics and the economy. For the purpose of developing a model of political will, particularly for politicians and reform strategies, it is more useful to categorise the phenomenon into frameworks of corruption and political action. The three frameworks-incidental, systematic and systemic-are illustrated in Table 1. Incidental corruption coincides with Type 1 in the previous descriptions. It is characterised by petty bribery and involves opportunistic individuals or small groups. In such situations, corruption is the exception rather than the rule. Senior officials and high-level private sector actors seldom bother with such theft. In the aggregate it may be quite costly and is an irritant for the many that are affected. During changes in government, politicians' willpower to stop incidental corruption is strong.

Types 2 and 3 are systematic corruption. Systematic corruption is organised, not necessarily pervasive or institutionalised, but recurrent. They usually involve large gains, and are often the subject of popular scandals. While they are entrenched and function with large numbers of officials, intermediaries and entrepreneurs, corruption originates with high-level civil servants that recognise and exploit the illegal opportunities in government departments and agencies. This practice is a direct violation of the rule of law, but unlike systemic corruption, if the offenders are removed the corruption is removed. Most reform paradigms have not been systematic but merely a set of political maneuvers to quiet a dissatisfied public and international donor community. Reform efforts have little impact on curbing systematic malfeasance. Smuggling is an illustration of systematic abuse and is big business in many countries. Customs officials are many times among the principal beneficiaries of smuggling.

Table 1. A Simplified Typology Of Corruption

TypeMain actorsMode

Incidental	Petty officials, interested officials, opportunistic individuals.	Small-scale embezzlement and misappropriation; bribes, favoritism an discrimination.
Systematic	Public officials; politicians; representatives of donor and recipient countries; bureaucratic elites; businessmen and middlemen.	Bribery and kickbacks; collusion to de the public; large-scale embezzlement a misappropriation through public tende disposal of public property; economic privileges accorded to special interests; political donations and bribes.
Systemic	Bureaucratic elites; politicians; businessmen; white-collar workers	Large-scale embezzlement through "gh worker" on government payroll; embez government funds through false

		procurement—payment for non-existen goods; large-scale disbursement of pub property to special and privileged inter under the pretext of "national interest"; favoritism and discrimination exercised favor of ruling parties in exchange for political contributions.

Systemic corruption is pervasive, institutionalised (maybe accepted but not necessarily approved), built into the economic and political institutions. It occurs when malfeasance has become an integral part of the process. It flourishes in situations where public sector wages fall below a living wage. Unlike systematic corruption, it involves all levels of employment. Even junior-level managers and employees engage in wrongdoing. It is a downward spiral that begins with civil servants who seek additional income by marketing influence or co-operation for the most banal of their job responsibilities. Politicians may not be highly motivated to act against systemic corruption. Reform strategies are not immediately apparent and the political costs, measured by the effects of an uncooperative bureaucracy or hostile security forces, may appear prohibitive. Often, political actors define a successful anti-corruption programme in terms of political gains or the ability to consolidate and increase their bases of support. For example, in Sierra Leone in April of 1997, the finance ministry removed 4,000 so called "ghost workers" (fictitious workers who are deceased, retired or non-existent) from the government payroll. As a result, eight senior civil servants were suspended indefinitely and nearly seventy mid-level civil servants are facing court action. With carefully developed checks and tightly constructed rules and regulations, systemic malfeasance can be greatly reduced.

While this discussion illustrates the diversity of corruption and the weakness of viewing the phenomenon as a single unified entity, it is an opportunity to examine whether there are advantages to fighting one type as opposed to another. The degree of political determination to undertake reform is clearly dependent upon the magnitude of the stakes involved whether measured in political or economic terms. This suggests that the most effective political reformers must undertake relatively sophisticated analyses prior to formulating reform strategies.

This issue is addressed by investigating some of the major shortcomings faced by reformers. They generally sift through a mass of problems to determine which types are most disabling and susceptible to reform and launch major anti-corruption crusades or preventive mechanisms but without much success. Dele Olowu, an expert on public administration, has argued that in Africa, governmental corruption is pervasive because efforts have focused on remedies rather than a thorough analyses of the problem (Olowu, 1993). It is possible that policy makers' lack of understanding of the root causes has led to ineffective reforms. Michael Johnston supports this contention, when he maintains that reforms implemented in a complex political setting that is only partially understood may have undesirable results (Johnston, 1982).

Some governments are politically weak, relying on broad and unstable alliances and confronted by bureaucratic and military apparatuses that are suspicious of the pace and nature of political change. Troops in Mali, for example, reacted sharply when public appeals circulated demanding that all individuals suspected of extortion, despite their rank, be brought to trial (*Daily Report: sub-Saharan Africa*, March 2, 1990, pp. 13-14). Similarly, the inability of some leaders, in Africa and elsewhere, to reign in predatory troops suggests that the stakes involved in removing dishonest senior military officials are considerably different from the risks a weak government encounters when punishing a police officer guilty of petty bribery.

Independent enforcement agencies or groups within the government or civil society can offer a kind of institutionalised political will. In Sierra Leone, 60 percent of the respondents in an attitudinal study strongly agree that Parliament should pass laws judging unscrupulous public officials more harshly than private citizens. Similarly in Mexico, the administration of former President Miguel de la Madrid was perceived as ambivalent towards corruption because he failed to target high-level officials (Carey, Elaine T., 1986). Robert Klitgaard, an expert on anti-corruption strategies, advocates eradicating this so-called culture of corruption by "frying the big fish". However, any leader that undertakes this task must have an enormous amount of political will from the ruling party and/or certain government officials. Additionally, it oftentimes requires a concerted effort by domestic and international actors. In Zaire, for example, Mobutu remained an indomitable force for nearly 40 years. It was not until domestic pressure and the collapse of external support that he was driven from power. In such systems, checks and balances and the rule of law can constrain the arbitrary exercise of power by government.

Structures that are established to address legally and procedurally the issues of wrongdoing help to ensure that a change in leadership will not change the populace's will to combat it. Capacity, usually defined to include not only the means to act upon a corrupt environment but the power to obtain/absorb demands, information and other kinds of feedback from the public, may be embodied within the governmental structure. Those structures include anti-corruption bureaus, Inspectors General of Government, Auditor Generals, independent judiciaries, Parliament and so-called "watchdog" agencies.

These agencies represent "institutionalised political will", a term that refers to the creation of agencies and procedures that are designed to establish transparency and accountability in governance. The capacity of these structures depends heavily on their independence and readily available resources such as money, power and competent, qualified personnel. Once they are established and function independently, as they should in democratic societies, leadership is usually more inclined to commit to the fight against corruption. While it is the independence of these watchdog offices that insulates them from leaders' interference, their effectiveness depends on an orchestration of governmental measures that check their powers, ensure the competence of their personnel and continue to achieve their reformation goals. For example, an independent judiciary can be invaluable in checking official malfeasance. In India, the Supreme Court forced an investigation that the government wanted quashed (Rathin, 1996; Harris-White, 1996; UNDP, 1997c). Similarly, the Brazilian Supreme Court's insistence on the publication of the congressional vote on the president's impeachment for corruption helped keep the process honest (Geddes and Riberio Nato, 1992).

Hong Kong's Independent Commission Against Corruption (ICAC) was created for political reasons. The leadership wanted to persuade citizens that an agency independent of the police and civil service is more effective than the existing system. However, it has enjoyed widespread support and freedom from outside interference. Among its more attractive features is its apparent capacity to fit into a heterogeneous society with several strong cultural imperatives and, at the same time, work across both the public and private sectors (Doig, 1997). ICAC has an existence separate from any political incentives and opportunities. Changes in leadership as a result of a new government or election have resulted in not only changes to anti-corruption measures, but sometimes their elimination. Institutions, such as the ICAC, aid in reducing the influence of political actors. It also demonstrates that a tough, independent reform agency can be a potent tool as long as it represents a credible long-term commitment and includes checks and balances on its own ability to be misused (Rose-Ackerman, 1997). Whether ICAC can and will continue as an effective watchdog following Hong Kong's absorption by the People’s Republic of China remains to be seen.

Part Three. Identifying Political Will

The principal challenge in assessing political will is the need to distinguish between reform approaches that are intentionally superficial and designed only to bolster the image of political leaders and substantive efforts that are based on strategies to create change. It is, of course, difficult to objectively evaluate the intent of political reformers. Many well-intended regimes have engineered their own destruction through inept or ineffective efforts while exploitative rulers have successfully hidden their motives behind a facade of cosmetic measures. It is possible to identify several indicators that demonstrate genuine political will. However, because corruption, itself is a complex phenomenon, considerable overlap can be expected in any effort to posit markers of intent.

An initial indicator is the degree of analytical rigor that has been utilised to understand the context and causes of corruption. Has the regime sought to recognise the circumstantial complexities that give rise to aberrant behavior? Has it identified and developed strategies to deal with those institutions, mandates and behaviors that either impede or promote integrity in government? When policy reform strategies incorporate stakeholders' roles and likely reactions to change, has it been determined how best to employ those responses creatively? For instance, one can leverage support of pro-reform constituencies by recognising necessary compromises and phasing in strategies as a countervailing force to opposition.

A second indicator relates to process: Has the regime adopted a strategy that is participative, i.e. incorporating and mobilising the interests of many stakeholders? Effective strategic management of reform is invariably grounded in the assumption that stakeholders act on the basis of their own interests and that dialogue and participation will enhance opportunities for success. While leadership is crucial to the implementation phase, shared ownership is equally essential to ensuring sustainability. Effective implementation requires educated official agents who are responsible for enforcing or adopting reforms, and for those affected constituencies. For actors outside government, compliance with, and the ultimate success of reform can be linked directly to the degree that they perceive policy makers have considered their interests and how they will ultimately share in the beneficial outcomes.

A third indicator is derived from the distinction between "demonstrative" and "strategic" issues: Has the administration weighed the strategic dimensions of achieving specific outcomes? (Klitgaard, 1988) "Demonstrative" issues pertain to the selection of reforms that are desirable for their nominal outcomes (e.g. cost reductions resulting from successful implementation of reforms). "Strategic" issues might include the assessment of probable costs and benefits of enacting a particular reform as measured against the costs and foregone benefits of choosing not to intervene. For example, if the costs to implement an anti-corruption measure exceed the costs of doing nothing, there is "optimal" corruption, and the most cost-effective solution is inaction. While political or economic compromise is usually evident, the willingness to compromise need not impugn the sincerity of the reformers. More important is evidence that political leaders are undertaking thorough political and economic calculus in their efforts to ensure the likelihood of success. Choosing strategies that accomplish their stated goals and objectives on a sustainable basis is more definitive an indication of a leader's sincerity than the proclivity to compromise.

A fourth indicator is the prevalence of incentives and sanctions. The record of failure is exceedingly high for measures that use the blunt instrument of prosecution (or the fear of prosecution) as their principal tool for compliance. Malfeasance, like other crimes, is based upon motive, opportunity and means, and how these elements are built into the relationship between private citizens and government agents. Serious reformers recognise that effective strategies restructure the principal-agent relationship, provide positive incentives for compliance, publicise positive outcomes, and establish effective sanctions for rehabilitating compromised individuals and institutions. Another way of looking at the incentive-sanctions equilibrium would be to ask whether the political reformer has identified a strategy that mobilises functional relationships to instill normative institutional change.

A fifth indicator of political will is the creation of an objective process that monitors the impact of reform and incorporates those findings into a strategy that ensures policy goals and objectives. The willingness to publicly report the findings of policy evaluations, whether they are positive or negative, can enhance public support and strengthen reformers against their critics.

A sixth indicator is the level of structured political competition in both the economic and political spheres. Is the society a plural one that allows meaningful competition? If there is meaningful competition, institutionalised structures provide a check on the arbitrary abuse of power and punish those attempting to compromise their effectiveness.

The Role of the International Community

Reformers are likely to generate challenges to their regimes as a consequence of anti-corruption measures. How much support should outsiders give to these committed reformers? At the international level, financial institutions and bilateral donors have insisted governments demonstrate commitment or progress toward fighting corruption. Transparency International (TI), since its inception, has published an index of countries that promote, support or engage in unscrupulous business practices. International financial institutions and bilateral donors are now less tolerant of widespread graft and corruption, as evidenced by the International Monetary Fund's decision in 1997 to deny a loan to Kenya because it failed to curb widespread wrongdoing.

Increasingly, aid will be tied to measurable reform strategies and their success. Such action will be independent of any opportunities present within these countries. The growing interest of the international community is part of a general rethinking of the function of aid organisations in the post-cold war age. The balance of forces and stakes have changed. Western and European benefactors no longer feel the need to support corrupt regimes.

Susan Rose-Ackerman’s chapter suggests four broad arenas for international involvement: controlling corruption in project loans and grants, supporting reform programmes, limiting corruption in international business and controlling money laundering. While the core of much of Rose-Ackerman's counsel is joint efforts, one can also advocate that the international aid and business communities develop structures that work independently of their governments or recipient governments to inject accountability and transparency into international business and aid projects. This institutionalises political will on an international level.

Good Governance

Requiring fiscal responsibility in the management of donor aid programmes, preventing dishonest leaders from absconding with government money and demanding accountability and transparency in international business and transactions are all essential components of any international reform programme. However, the issue of good governance is directly related to developing political will. Good governance requires that a country have sound economic and social policies. These policies, which include not squandering available resources, are essential for sustainable development. A competent public administration facilitates the delivery of goods and services. International aid programmes, both socially and economically, are effective only if fiscally responsible leaders manage them. If international institutions and bilateral donors tie aid to evidence of improved governance and fiscal responsibility, recipient countries' leaders are more likely to comply and accountability and transparency are more likely to become integral elements in business and governmental practices. In 1994, the donor community set a precedent when they announced that aid had been suspended to Tanzania, and would resume only if the government took steps to collect evaded taxes, recover exempted taxes and initiate legal action against public officials involved in wrongdoing. It was estimated that tax exemptions and tax evasions cost Tanzania $122 million in 1994 (Kpundeh and Heilman, 1996d).

Part Four. Strengthening Political Will

Democratic Balance

A balance of power between state and society and between political and economic power is crucial in a vibrant and sustainable democracy. Understanding how these imbalances create a climate for wrongdoing and the impact of democratic reforms enables reformers to identify opportunities to fight corruption and thereby fortify political will. For example, if officials are ineffective in spite of their determination to reform, campaigns to mobilise mass support provide a powerful endorsement of their objectives and undermines their opposition. When economic opportunities are more plentiful than political ones, a strong civil society can provide a pool of qualified persons to encourage political competition; and if economic opportunities are scarce, legislatures can generate policies intended to spur growth (Johnston, 1997b). A lack of understanding and information have been major factors in the ineffectiveness of reforms. Understanding the nature of corruption assists leaders in designing strategies that target areas amenable to shot-term tangible successes. Recognising the imbalances within society and taking corrective action strengthens political will. Reform through democratic revisions requires a long-term commitment at all levels.

Public Constituency

An autonomous civic constituency that recognises the value of reform and dedicates itself to monitoring and defending the reform strategy, including its leaders, builds political will. If such a constituency maintains its willpower, despite changes in leadership, it will be an effective part of the reform paradigm. Its interests, not always aligned with the political leadership, if established independently, can be an important source of institutionalised political will. Consequently, this constituency may serve as an effective check on political actors' abuse of power, particularly as a challenge to the non-responsiveness of the status quo. It can go beyond mere public awareness, and develop an organised form of expression and response. In the 1980s, the citizens' Vetting Committees in Ghana and the People's Revolutionary Tribunals in Burkina Faso organised rank-and-file political activists and ordinary citizens to expose profiteering, smuggling and other exploitative practices by private merchants (Ephson, 1982). In Ethiopia after the overthrow of Mengistu Haile Mariam, joint worker-management committees were created in state enterprises to "expose criminals and looters" (*Daily Report: sub-Saharan Africa*, August 6, 1991).

Independent Press

The emergence of an independent and vocal press has highlighted the role the media can play in exposing corruption and mobilising public opinion. The direct result can be institutionalised political will, particularly if the media operate independently of government control and are guided by competent journalists. While opposition groups and integrity movements provide avenues to expose wrongdoing in government and its ruling party, the media can uncover patronage and profiteering in all sectors of society. In Tanzania and Uganda, for example, the World Bank's Economic Development Institute (EDI) has conducted media training as part of its programme of helping to build a "national integrity system". These workshops help augment the skills and confidence level of journalists and cultivate a sense of commitment to a principled society. Journalists at the Tanzanian workshop established the Media Development Trust Fund. The trust fund is designed to promote increased coverage of corruption issues by print and broadcast media, create a school of journalism to improve skills and act as a funding source to provide equipment and information about cutting-edge technology (EDI, 1996).

Better Definition of Checks and Balances

Determination can be strengthened by independent sources of power, inside and outside government, in a system characterised by checks and balances. For example, strong legislatures give citizens greater access to the policy process and input into procedures regulating all branches of government. The first step to reform usually begins with measures that improve the competencies of the executive, judiciary and legislature. Most areas require more than a change in personnel. The judiciary is ineffective if it is not autonomous. Poor working conditions and inadequate pay directly affect jurists' performances. Aggressive monitoring, inside and outside the system, can also improve jurists' track records. A check and balance schematic structured to include multiple chances for veto can prevent government from acting without the consent of institutions organised along different interests and representing various constituencies (Rose-Ackerman, 1997). These structures help to remove the control over reform from individual political actors and limit the ability of any one political group to dominate the apparatus of government for its own benefit.

Transparent Government Finances

The principle of transparency demands that public sector institutions perform openly. It also includes publicly recording its decisions and comportment. If public officials' performances are not scrutinised, they are more likely to act (a) in their own interests and (b) in the interests of small numbers of privileged elites, thereby abusing the public trust and contravening the rule of law. Their failure to observe openness presents opportunities for the dishonest to mystify their activities under a cloak of secrecy, while actually, involving themselves in extortion and favoritism. Published government budgets, accounting and auditing procedures, revenue collection, statutes and rules, and proceedings of legislative bodies help to increase transparency in government operations. This applies equally at the local and national levels. In Uganda, the government publishes school budgets to empower parents to demand accountability. Independent, publicised audits of government institutions insure transparency and confidence. Annual reports, prepared by independent officials, detailing financial activities can be debated in legislative bodies to guarantee that expenditures reflect policy goals and priorities. When a few senior officials have access to unaudited funds, the risks and perception of corruption may be magnified, even if the funds are used for legitimate purposes. Transparency may serve both as a legitimiser of political performance as well as a curb on abuses.

Giving Corruption a Human Face

Corruption is a sensitive subject and by its nature hard to observe. It is inherently a secret activity. The guilty rarely admit wrongdoing and at the same time flaunt their material gains. Public awareness helps remove the taboo and veil of secrecy that engulfs corrupt activities. Debates on malfeasance and its remedies that are broadcast via radio and television, conducted in classrooms and during community activities, as well as in formal workshops, strengthen political will. But more important, these campaigns begin to personalise corruption--explaining clearly and explicitly how individuals are affected. Agents of the state easily express public ire. However, that ire is easily piqued when the public is informed about abuses at a higher level, e.g. the diversion of public funds or flagrant disregard for the law. The citizenry is empowered if it understands its own stake in the abuse of public funds. The public quickly comes to realise that fewer schools, higher taxes and school fees, lower salaries, fewer jobs, etc. all result from bribery and malfeasance. Once people feel they personally have a stake in the elimination or control of corruption and they have the power to do something about it, they can demand action from the leadership. Their support then becomes crucial in galvanising political will and constituencies for reform. Infomercials can raise public awareness, enlist help from civil society and consequently intensify political will. If these infomercials are non-partisan, entertaining and independent of political campaigns, they are both instructive to a wider audience and effective in mobilising political will among the citizenry. When tailored to individual countries, with local activists, officials and experts presenting country-specific problems and discussing potential solutions, their effectiveness is greatly increased.

Increasing Political Security

Political will linked to political security strongly encourages politicians' determination. A secure ruler such as Singapore's Prime Minister Lee Kuan Yew is more likely to view corruption as a long-term fight. Leaders whose positions are tentative may be more inclined to concentrate on immediate or short-term solutions as a way of staying in power. For example, Prime Minister Yew was able to enact and implement policies in support of sustained economic growth despite human rights abuses and a less than perfect democracy. Reformers who are able to elicit the support of politicians by emphasising the payoffs in growth and developmental areas that result from reducing malfeasance, gain the support of those politicians' backers. There is danger, however, when political insecurity forces a political leader to adopt a short-term perspective that opens society to more abuses, eroding the strength and legitimacy of his regime. Increasing political security may also cause political leaders to feel immune to criticism and more willing to loot (as in the cases of Arap Moi in Kenya, Ferdinand Marcos in the Philippines and Mobutu in Zaire). A legitimate, organised opposition and term-limits for elected officials and/or politicians may provide a more reliable route to diminishing corruption.

The Private Sector

The private sector can be an important check on the government's arbitrary exercise of power. But its effectiveness is contingent upon the government's willingness to reveal information about its actions and people's willingness to organise (Rose-Ackerman, 1997). Private industry, much like civil society, can strengthen political will when it acts independently representing its special interests, sometimes in opposition to the ruling party and politicians. But it depends heavily on private sector actors' commitment to ethics and a corruption-free business environment. Professional organisations can include a mandatory anti-corruption clause in their membership and ethics codes, with expulsion as the sanction for non-observance (Langseth, et al, 1997). The idea of "Islands of Integrity" proposed by TI might be a useful monopoly-breaking approach. For example, bidders on government projects and procurement contracts can band together to decide no company will pay bribes--commitments backed by sizable bonds subject to forfeiture in the event of non-compliance. This approach is to be tried in selected countries, and it can send a definitive message that private industry is committed to fair play and is no longer willing to contribute to efforts to defraud the government and the public by abusing procurement practices.

Service Delivery Surveys

Surveys designed by local experts for use by public managers and policy makers can determine the effectiveness of government services and how well they are delivered. They also give consumers a "voice" and a means of conveying strong messages to service providers. The surveys focus on improving performance by defining it in terms of the public's experiences. In Tanzania, the survey's intent was to provide baseline data on the extent of corruption in the daily delivery of key services. It relied on indicators that could be measured later to assess improvements resulting from regulations instituted in response to complaints. Additionally, the Tanzania government wanted to stimulate a dialogue between different levels of providers and users on the problems of malfeasance and its solutions (CIET International, 1996). The survey strengthened political will by airing local views of senior officers along and their suggestions for remedial action. The results were used as a mandate to design specific strategies.

Conclusion

The previous discussion is instructive because it suggests reform is a long-term process, shifting the frame of reference from weeks and months to years. It is also a reminder that democratic changes are a long-term commitment. The fight against corruption cannot be a "one man show" or relegated uniquely to the political leadership. Anti-corruption strategies are most effective if they are inclusive, systematic and structured, integrating all institutions and policies--investigation, prosecution, research and prevention. Such institutionalisation develops a forum of mutually reinforcing "horizontal accountability" which prevents reforms from being perceived as partisan issues or "witch hunts". Administrations can establish public confidence through regular, extensively reported press conferences that reveal the progress toward reducing wrongdoing and increasing accountability and transparency, i.e., number of people arrested and prosecuted during the previous month and the value of goods seized. The disclosures contribute to the public's willingness to co-operate.

Independent entities institutionalise political will, which is paramount to the success of any reform strategy. In Uganda, Hong Kong and Singapore, the effectiveness and success of anti-corruption institutions is directly related to their degree of autonomy. Consequently, the best way to free such bodies from all extraneous and political pressures, is to require that they be answerable to Parliament rather than the Head of State.

Political will can not be sustained in isolation. Historical accounts document well-intentioned reformers who, unable to mobilise supportive constituencies, faltered because they could not neutralise the resistance. Corruption is not a problem that can be addressed as a haphazard or inert phenomenon. It occurs in all countries, regardless of the level of social and economic development. In general, it occurs where public and private sectors intersect. This includes public procurement and contracting, licensing, import or export permits, tax collection, custom duties, etc. However, malfeasance is simply one element in a pattern of developmental problems. It is neither a singular cause nor a singular symptom of what are, in almost every case, systemic deficiencies in governance and public life.

Politicians must have the willpower to pass legislation to put structures in place and arm them with the capacity to effectively accomplish their goals. But they require the support of a vocal constituency. Political institutions must be endowed with adequate autonomy, authority, financing and qualified personnel. They must operate in a system that has checks and balances to ensure no single institution, politician, businessmen or individual can thwart an investigation into wrongdoing and punishment for violating laws that are administered fairly. While institutional checks and balances are essential, so too is transparency in the administration of checks and balances.

Institutionalised political will is most effective when it is inclusive--incorporating the interests of a wide range of constituencies. It is, in the end, more powerful than the interests of any individual. The power of institutions and official government positions are not dependent upon personality and the good nature and intentions of a particular person. Society works to curb corruption when it supports a reform paradigm that removes control from individuals and popularises the mandate for accountability with effective citizen involvement. But more important, broadening political participation enhances the array of tools and strategies that can be utilised to deal with a wider range of needs, priorities and objectives in civil society and political systems.

Finally, the relationship of political will in the aggregate--civil society, media, the populace, etc.--to the actions of individual political leaders is an essential component in a reorganisation programme. Are there mechanisms in place to ensure that government is accountable to the public? Do political leaders generate support across the institutional divide? Several points come to mind to ensure some level of checks and balances in the system.

First, establishing structures that create independent sources of power and information outside the executive branches of government can check corruption. These structures can include the media, the legislature, transparent and fair procurement rules, etc.

Second, the private sector can be an important check on the arbitrary abuse of government muscle. However, their effectiveness is dependent upon government's transparency-information about its actions, and actors must be available to people who can organise into associations and nonprofit opposition groups. In countries with democratic electoral systems, citizens can vote against government officials believed to be corrupt, thus providing politicians with a powerful incentive to match their public pronouncements with concrete demonstrations of personal and political integrity (Rose-Ackerman, 1997). Elections are not the only method that citizens can utilise to express displeasure with dishonest officials and ineffective policies. While some may be able to keep their wrongdoing secret, they are usually unable to hide decisions made in response to those activities. Citizens who learn about expensive projects with few public benefits or wasteful government programmes can organise and act to eliminate such projects. A third aspect of checks and balances is the method government structures use to protect individuals from state abuses. Administrative law can provide some protection to individuals. The ombudsman represents one method to route and organise citizen complaints. Many governments have established ombudsmen in response to citizen complaints, even beyond those related to malfeasance. While these offices can help increase government agencies' accountability, they are seldom avenues for uncovering large-scale systemic corruption and rarely are endowed with the authority to initiate lawsuits (Pope, 1996). A system of checks and balances limits the power of any one political group or individual to make policy without consulting or obtaining the support of others. It also implies that once a law or regulation is enacted, individuals and groups both inside and outside government have the ability to monitor and alter its administration and set into motion a legal or political enforcement process. Consequently, reorganisation measures are more likely to succeed, bolstered by a participative process that goes beyond the interests of any single actor. However, there are also situations where zealous crusaders work toward a cause driven more by political motives than by the goal of decreasing the incidences of corruption.

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7 The Role of Civil Society and Patron-Client Networks in the Analysis of Corruption

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Introduction

The endemic nature of corruption in developing countries and the potential damage this can cause if it remains entrenched is not in question. In the search for policy responses attention has increasingly turned to the possible role of civil society in controlling corruption. The argument is that if civil society can be strengthened and its efforts at monitoring the state encouraged, this would contribute to the eventual elimination of corruption. However, to evaluate the role of civil society in developing countries in fighting corruption, we need to ask why corruption is so endemic in these countries in the first place.

The characteristic of developing countries which inevitably strikes observers is the degree of internal political contestation that they persistently seem to suffer from. This instability is actually not difficult to explain. Development entails not just the adoption of new technologies but also a host of rapid social changes. In particular, development entails the creation of new classes based on new property rights or new allocations of property rights. Even if the fruits of these changes were widely distributed (and they often are not), the rapid changes in power and wealth contribute to deep social disruptions and discontent as a normal feature of life in developing societies, making them qualitatively different from advanced capitalist countries. In the latter, the types of property rights and their distribution change relatively slowly and the vast majority of the population have come to accept the legitimacy of the economic order. This was, of course, not always so and even as late as the early twentieth century the advanced capitalist countries of today faced frequent social upheavals.

In developing countries the modern capitalist sectors, middle classes and so on have typically emerged within living memory and do not yet enjoy anything like a comparable degree of legitimacy. Even when the political regimes in these countries happen to enjoy a fair amount of legitimacy (and often they do not), this does not always translate into political stability. This is because the distribution of wealth, power and privilege in the wider society typically does not enjoy widespread acceptance; it is relatively easy for any excluded faction of elites to organise political dissent very rapidly against any particular regime. The emergence and persistence of corruption in developing countries has to be understood as a phenomenon which happens in these specific contexts. Political corruption is often part of a set of exchanges within patron-client networks through which incumbent elites construct political compromises with clients who would otherwise threaten the political stability of the system. While economists have looked at the economic incentives which state intervention creates for some types of corruption, they have typically not looked closely at the political conditions which also generate incentives for a related "political" corruption. We argue that political corruption is often an unavoidable part of maintaining political control in the unstable political environments in which most developing countries find themselves. Furthermore, political and economic corruption can get interlocked, since the resources to finance political corruption are often generated through the conventional forms of corruption which economists have identified.

An analysis of corruption which incorporates its political dimension is important in at least two respects. First, since the political problem can differ across developing countries in significant ways, this approach provides us with a richer analysis of different scenarios of corruption. This in turn can help to explain differences in the economic effects of corruption in these different scenarios (Khan, 1998a, 1998b). Second, this approach allows us to critically evaluate the role of civil society in strategies to fight corruption and it is this which particularly concerns us in this paper. If the pervasiveness of corruption is related to the types of contestation facing states, between and among capitalists and incumbent political elites, we need to examine the role of particular groups within civil society who generate this contestation in the first place and the possible effects of further attempts at strengthening "civil society". The results of such an examination suggests that we may have to be much more specific about what we mean by civil society and much more explicit about identifying the interests and groups within it which are permissive of development.

Section 1 examines the notion of civil society and contrasts it with the patron-client framework for looking at relationships between state and society in developing countries. Section 2 describes patron-client networks in a number of developing countries and points out how differences in the composition of powerful groups in society can lead to very different patterns of resource flows within these patron-client networks. As a result, there are significant differences in the types of corruption observed in these countries and in the economic consequences of these corrupt transactions. The argument is illustrated with reference to the countries of the Indian subcontinent, South Korea, Malaysia and Thailand. In all these countries corruption was (or still is) more or less widespread at the early stages of development. But differences in the patterns of patron-client flows have meant that the consequences of corruption have differed greatly between them.

Section 3 examines the consequence of such an analysis for an assessment of the role of civil society in anti-corruption strategies. In some countries the patterns of patron-client exchanges allowed rapid development which in turn allowed a consolidation of a capitalist economy. This in turn opened up the scope for an eventual reduction of corruption through a number of mechanisms including pressures from groups within civil society. In other countries the interlocking of political and economic corruption made the prospect of reducing corruption a much less tractable one. In these countries a large part of the pressures for political corruption came in the first place from non-capitalist middle class groups who were the most powerful sections of their "civil societies". Recent experience also suggests that it is possible for such groups to lead anti-corruption movements with the aim of demanding incorporation and a more favourable distribution from their point of view. Since the underlying structure of civil society is not changed, the victory of these movements has often only resulted in the replacement of particular groups with access to power without any significant change in the extent or consequences of corruption. It is therefore possible that there may well be conflicts between the further empowerment of the dominant groups within civil society and the transition to viable forms of capitalism which allow sustained reductions in corruption.

1. Civil Society in Developing Countries

The concept of civil society has an interesting history. The liberal conception of civil society is quite different from the origins of the concept in classical and Marxist theory. One of the key features of the classical approach to civil society was to identify the specific civil societies of particular countries. Thus the Italian Marxist Antonio Gramsci, who developed the first extensive analysis of civil society, was interested in the Italy of the 1920s. Gramsci's work was based on Hegel and the early Marx. We do not need to discuss the differences between Marx and Gramsci or the different definitions of civil society to be found in Gramsci's *Prison Notebooks* (for which see Gramsci, 1976: 206-275; McLellan, 1979: 188-193; Buci-Glucksmann, 1980: 69-115). The key point is that while mainstream Marxists of the time saw the state as the main defender of ruling class interests, Gramsci pointed out that the Italian capitalist system was in fact also buttressed by a powerful ideological apparatus which was responsible for creating social consent. This apparatus was operated by intellectuals and others who constituted "civil society". Civil society consisted of the private sector organisations which, though not strictly capitalist, created the ideological and ethical climate of support for the capitalist system. Gramsci argued that it was only in backward capitalist economies like pre-1917 Russia that the state was left to its own devices to defend capitalism. In the more advanced economies of Western Europe, such as Italy, the state was only "the outer ditch" protecting capitalism; the "fortresses and earthworks" were provided by civil society (Gramsci, 1976: 238).

Gramsci's target of attack were those Marxists who believed that a strategy of frontally attacking the state would work in Western Europe as it had in Russia. On the contrary, he argued, the most difficult part of the Marxist programme would be to counter the ideological hegemony in favour of capitalism created by the civil societies of these economies. Gramsci's analysis is clearly historically specific. He does not argue that civil society would operate in this way in all capitalist economies, and certainly he points out that it did not work in this way in the relatively backward capitalist economy of Tsarist Russia.

From these beginnings the concept of civil society became part of liberal-democratic political science by the 1960s. By the time the concept became part of mainstream political reasoning, the analysis of civil society was de-linked from the analysis of the nature of capitalism or the level of development of the relevant economy. Civil society still refers to the set of private organisations and institutions which Gramsci had begun to analyse such as churches, clubs and more recently NGOs. But in the modern approach there is a tendency to speak of civil society in the abstract, without reference to the specific classes, fractions and economic interests they represent in particular countries.

A second and equally important difference is that the motivation behind the interest in civil society has also changed. Where Gramsci had been interested in the role of civil society in *co-operating* with the political apparatus of the state to make capitalism politically viable, contemporary liberal-democratic analysis concentrates on the role of civil society in keeping the state *in check*. The change of emphasis reflects the change in the political conditions in advanced capitalist countries where these theories came from. In these countries the threat of revolution had faded and in the sphere of economic theory liberal market economics was gaining ground. In the eighties the state increasingly came to be viewed as a constraint whose activities were a source of both inefficiency and rent-seeking.

The recent suggestion that civil society can act as a pressure group demanding accountability and transparency from both government and business clearly derives from the liberal tradition of political analysis. Its weakness is that it assumes, without analysis, a civil society in developing countries that is very much like the civil society we find in advanced capitalist countries. In contrast to Gramsci's analysis of the actual classes and groups which constituted civil society in contemporary Italy, modern liberal democratic theories treat civil society as an abstract "good thing". It is implicitly an agglomeration of interest and pressure groups which have a collective stake in the capitalist system and can moreover monitor and keep in check the self-seeking state, which is also assumed. In fact, a detailed analysis of the composition and interests of the competing classes and groups which constitute civil society in today's developing economies is critical for understanding their potential role in sustaining or challenging the persistence of corruption.

The broadest features of such an analysis will have to be sufficient for this paper. The first distinctive feature of contemporary developing societies is that their middle and intermediate classes are relatively well developed given the degree of development of their economies, even though the degree to which these middle classes are developed varies in significant details (Khan, 1989). This was a product of colonialism in many of these countries that often created large middle classes to administer the colonies long before an equivalent capitalist sector emerged. Nevertheless, contemporary developing countries are also different from the advanced capitalist countries like Gramsci's Italy, where civil society provided the "fortresses and earthworks" protecting the capitalist economy. The capitalist sectors in contemporary developing economies are relatively less developed, and competition between competing factions of capitalists and middle class groups much more volatile and aggressive. As a result the civil societies of contemporary developing countries do not generally act in concert with the political apparatus of their states to defend capitalism in the way Gramsci observed in Italy.

One reason why this does not happen is that capitalism as a system in contemporary developing countries is not under serious threat from the working classes. Consequently the pressure on middle class leaders of civil society to collectively defend the system is much weaker. More importantly, the process of capitalist development is now much more rapid, the emergence of new capitalist classes more transparent and as a result the temptation to contest this process and put one's own claim in are much greater. Middle class constructors of ideology in contemporary developing countries are as likely to feel illegitimately excluded from these processes as to believe that it supports their long-run interests. They are as likely or more likely to be populist opponents of the transition to capitalism as they are to be its apologists. This is why, unlike Gramsci's Italy, many more middle class groups in modern developing countries are likely to be fiercely contesting the processes of capitalist accumulation.

This observation helps to explain why patron-client linkages between state and society are so pervasive in developing countries. The analysis of patron-client exchanges initially developed to record and explain the repeated exchanges between patrons and clients who were distinguished by status, power or other characteristics (Schmidt et. al., 1977). However, patron-client exchanges were not confined to pre-modern societies but in fact frequently took place in societies well on the way to becoming modern and which had many modern institutions. Apart from habit and inertia, one reason why patron-client exchanges survive in early capitalist societies is that personalised and specific payoffs from patrons to clients provide a very efficient mechanism of purchasing political support by allowing the accommodation and incorporation of key groups of clients. In a context where the emerging capitalist system does not enjoy political stability and general acceptance, where the state is not strong enough to enforce order by force and where civil society is failing to create the ideological support for the emergence of capitalism, patron-client networks which organise payoffs to the most vociferous opponents of the system are an effective if costly way of maintaining political stability (Khan, 1989, 1996a).

The consequences of such solutions depend on the structure of civil society in the developing country being considered and therefore the type and number of payoffs which have to be organised to "purchase" political quiescence. At the same time, these transactions are overlaid on conventional economic corruption, which is inevitably also taking place because of the weakness of policing institutions and the scope of the allocative decisions of the state, given underdeveloped market institutions. The problem is that the greater the political imperative for the state and incumbent political elites to raise funds for political payoffs, the greater the pressure to organise conventional economic corruption to generate these funds. State officials may of course be bribe-maximisers even without any political imperative. However, the constraints set by the magnitude and distribution of political demands has an effect not only on the magnitude of the resources which must be corruptly generated but obviously also on the structure of transactions through which the payoffs are eventually distributed. We argue that this interdependence of political and economic forms of corruption has important economic consequences.

2. Civil Society as a Determinant of Patron-Client Networks

While civil society in developing countries has some of the general features described in the last section, there are nevertheless significant differences between countries in the distribution of political power between competing groups of civil society. In this section we argue that these differences in the organisation and structure of civil society have consequences for the types of patron-client exchanges which we can expect to see as political stability is "purchased". The types of patron-client exchanges (which can include both corrupt transactions and perfectly legitimate ones) can in turn determine the economic performance of the society and the long-run viability of its process of transition to a more developed capitalist economy.

To illustrate our argument we look at patron-client exchanges and the evidence of corruption and performance in the three countries of the Indian subcontinent, together with South Korea, Malaysia and Thailand. The summary presented here is based on the more extended analyses of patron-client networks in these countries in Khan (1997 and 1998). The South Asian economies of the Indian subcontinent are the poorest performing of our group of countries and they also provide evidence of the most complex patron-client transfers and persistent interlocking of political and economic corruption. The corruption indices reported in Table 1 are based on subjective rankings by foreign business and have to be treated with caution. Nevertheless they show that the degree of corruption recorded in the South Asian countries in the eighties was not significantly different from South Korea and only slightly worse than Malaysia while fast-growing Thailand ranked much worse for corruption. It appears that by the nineties, relative corruption had begun to decline in fast-growing Thailand while it increased in sluggish South Asia. Corruption also seemed to be getting worse in Malaysia and South Korea, but not by enough to be significant given the subjective nature of these indices.

Without reading too much into these figures, we can make two points. First, if corruption is related to economic performance, it may be that we need to look at the types of corruption and not just indices recording the magnitude of corruption as perceived by business. This point is more extensively argued in Khan (1998). Secondly, there is at least weak support in these figures for the hypothesis that rapid growth may eventually allow corruption to be tackled while slow growth can make corruption more entrenched. This hypothesis is much more strongly supported when we look at the advanced countries, which generally have much less corruption than developing countries.

To see if significant differences exist in the types of corruption in these countries, we can begin by comparing the structure of their civil societies. Civil society in the Indian subcontinent has been characterised by a proliferation of groups and classes at the intermediate levels of society which have traditionally been exceptionally successful in dominating politics and getting selective payoffs for themselves. Despite important differences between India, Pakistan and Bangladesh there are important similarities in the types of exchanges which are negotiated within patron-client networks in these South Asian countries. A common feature is the often complex interlocking of exchanges between political elites, businessmen and intermediate or "middle class" organisers who organise and mediate social discontent. Economic and political calculations are closely intermeshed in such transactions. This interlocking was described by Wade in his studies of corruption in the irrigation bureaucracy in southern India (Wade, 1984, 1985, 1989).

A number of factors have contributed to the emergence of networks of interlinked exchanges in the Indian subcontinent. One of these has almost certainly been the exceptional political and social importance of intermediate classes in the Indian social structure. Important groups of clients in the Indian subcontinent have been drawn from these intermediate or "middle" classes. The importance of the professional members of the middle classes was recognised by Bardhan (1984), who described them as an equal member of the dominant class coalition in India along with capitalists and landlords. However, for our purposes it is useful to distinguish between the capitalist members of the dominant coalition and the much larger non-capitalist section which consists of a range of social groups who can very broadly be described as middle class. These are groups who have some education, a little capital and in all cases have organisational abilities which distinguish them from the broad masses of the poor. The middle class therefore includes, apart from the professionals, the broader educated and salaried sections of the population. The importance of these non-capitalist intermediate classes in the subcontinental political space far outweighs their numbers, which in any case would run into many tens of millions.

The Indian subcontinent also inherited the effects of a deep-rooted anti-colonial political mobilisation which empowered their emerging "middle classes". Even before the anti-colonial movement had developed, a tradition of political activity had emerged in which competing groups from within the middle classes organised on the basis of a wide variety of emotive symbols including language, caste and religion to demand preferential subsidies, access to jobs and so on which would make the successful political players much better off. Politics based on these symbols has not enriched the vast majority of the populations of these countries but *has* enabled successive layers of emerging middle class groups to get access to public resources on the basis of their ability to organise much more numerous groups below them. At the same time, those amongst the intermediate classes who happened to be in power found it necessary to organise transfers to the most vociferous of the excluded groups in ongoing processes of accommodation and incorporation (Khan, 1989).

In exchange for these transfers, patrons were "purchasing", however temporarily, political support or at least quiescence from the potentially most damaging groups of organisers. These transfers in turn had to be financed and patrons had to find the resources for such transfers either in general taxation or through exchanges with other groups of clients. The inadequacy of general fiscal resources is an important part of the reason why we observe a complex intermeshing of political and economic exchanges in patron-client networks in the Indian subcontinent. Political elites have often found these resources in their economic exchanges with other groups of clients, in particular the slowly emerging class of industrial capitalists. Thus dense networks of interlinked economic and political exchanges began to rapidly emerge in these countries.

Capitalists as rational political actors began to ensure that they too were funding powerful constituencies so that their interest in leading the easy life could not be challenged. As a result, the politicians and bureaucrats who organised their political survival through such localised arrangements were often unable to change the structure or allocation of subsidies or other rights to capitalists even when this would raise growth. The difficulty of *changing* the structure of rights because of such interlinked patron-client exchanges served to block necessary structural change which in the long run slowed down investment and productivity growth.

Figure 1. Exchanges Between Patrons and Clients in South Asia

The complexity of the stylised flows in Figure 1 captures the density of the typical flows within patron-client networks in the Indian subcontinent and provides a useful comparison with our other countries. Bureaucrats and politicians in the diagram constitute two parallel hierarchies and at each level bureaucrats or politicians may be patrons for lower-level colleagues or for groups elsewhere in society. For simplicity

Figure 1 only distinguishes between two social groups, the capitalist and non-capitalist clients of the state, the latter being the middle or intermediate classes discussed earlier. The most successful non-capitalist clients often become political leaders or even capitalists over time. The most distinctive feature of these patron-client exchanges are the transfers going from politicians at different levels to different groups of non-capitalist clients. Some of these payoffs, such as subsidies, may be perfectly legal. The more important ones are often illegal since they are secret payoffs to powerful organisers of groups and factions. The quid pro quo from these clients to the state is not shown because it is typically not an economic payoff but rather a political "payoff" in the form of quiescence or support.

A large part of the resources for the payoffs to key "non-capitalist clients" comes from the rest of society in the form of taxes or transfers from other groups of clients. The "capitalist" clients of the state provide a part of these transfers not only in the form of taxes but also as bribes to their patrons in the bureaucracy and in the political structure. Emerging capitalists are willing to make these transfers because they too are often receiving subsidies or other allocations of valuable property rights. The kickbacks from industrialists are in turn an important source of finance for the political survival strategies of subcontinental politicians.

We have argued elsewhere (Khan, 1996a, 1998) that this pattern of patron-client exchanges in the Indian subcontinent can contribute to an explanation of the relatively sluggish economic performance of these countries. The interlocking of economic with political calculations very rapidly prevented states from making rational economic allocations of subsidies, rights and resources even when in principle re-allocations would increase growth and notionally allow state officials or political elites to extract bigger bribes. This argument is similar to that proposed by Shleifer and Vishny (1993) except that it relies on the political fragmentation of the middle classes and not on the institutional fragmentation of the state (see also Khan, 1996a, 1997). What is important for our argument here is that the structure of civil society is deeply implicated in the structure of payoffs which maintain political stability, some or much of which may involve direct corruption or resources generated elsewhere through corruption.

If we compare this pattern of corruption with South Korea, we see the effects of the very different impact of Japanese colonialism which left a civil society where intermediate classes were exceptionally weak. Japanese colonialism destroyed the potential of a new middle class emerging from the countryside by destroying the rentier landlord class. It also ran its colonies with far fewer concessions to the political demands of local power blocs (Kohli, 1994). The relative weakness of competing factions within the middle classes allowed patron-client exchanges in South Korea to be restricted to a far greater extent to rent-sharing between capitalists and their patrons in the state (Khan, 1996a, 1996b). This type of "economic" corruption appears to be far less damaging in its economic consequences than the South Asian variety.

The revelations of corruption in South Korea which have begun to emerge in the nineties suggest that corruption there had probably been as extensive in terms of the relative magnitudes of the transfers as in South Asia. On the other hand, the flows within patron-client networks appear to have been both different and simpler. This seems to have been particularly the case in the early days of industrial policy in the sixties (Kim, 1994: 59-70; Kong, 1996). There is evidence, however, that political power has become more dispersed over the eighties resulting in more complex patterns of transfers (Ravenhill, 1997). Nevertheless, compared to South Asia, South Korea's civil society allowed a much higher degree of concentration of political power which in turn allowed the central political executive to extract rents from beneficiaries of subsidies and new rights without having to make political side-payments to non-capitalist clients to anything like the same extent.

Figure 2. Exchanges Between Patrons and Clients in South Korea

Figure 2 shows the resource flows within patron-client networks in South Korea in a stylised way. The relative weakness of non-capitalist clients is captured by simply excluding them from the picture. The main features of the state-society transfers taking place were first the transfer of large subsidies from the state to emerging capitalists. These are shown by the arrows from different sets of patrons in the bureaucratic apparatus to clients in the industrial sector. This outline is consistent with Amsden's (1989) account of the flows associated with industrial policy in South Korea and is in its main features corroborated by a number of subsequent observers (Kim & Ma, 1997). There were in exchange substantial kickbacks from these favoured industrial groups to the political leadership, as rents from the growing industrial sector were re-distributed to the political leadership and through this route to bureaucrats as well (Kong, 1996). A part of these rents were also distributed in a relatively orderly fashion down the higher levels of the political and bureaucratic hierarchies. We have argued elsewhere (Khan, 1996a, 1997, 1998) that the ability of the state in South Korea to ignore political considerations in its allocation of resources and rights created strong incentives for the top political elites to maximise growth. Growth maximised their potential bribes in the long run and ensured the stability and viability of the country (Woo-Cumings, 1997).

The South-East Asian countries provide interesting intermediate cases where a much stronger and more fragmented civil society existed but where this did not lead to the structural sclerosis observed in the Indian subcontinent. Although less powerful and entrenched than in the Indian sub-continent, emergent middle classes in South East Asia possessed a greater ability to organise political opposition and thereby demand political payoffs compared to their North Asian counterparts. The political and institutional responses in these South East Asian countries also show a wide range of variation in terms of the patterns of political side-payments which were organised to maintain political viability. Malaysia and Thailand provide two interesting contrasts. In both these countries political payoffs and corruption were important but did not prevent rapid accumulation and growth.

In terms of inherited political problems, Malaysia inherited an ethnic problem which could potentially have spelt disaster. In the sixties it possessed an enterprising capitalist sector based on small-scale trade and production, but this sector was dominated by ethnic Chinese capitalists. On the other hand, an emerging Malay middle class was increasingly willing to use its political muscle to organise the Malay majority to get a larger share of the pie for itself. Fortunately, the co-incidence of ethnic identities with class ones helped the organisation of political payoffs in a centralised way. The orderly solution to the legitimation problem emerged as an unintended consequence of the 1969 riots and the adoption of the New Economic Policy, allowed the demands of the emerging Malay middle classes to be met in a centralised manner through an ethnically aligned political system. Political transfers were centrally organised without decentralised and interlocked exchanges at all levels of the state between competing groups of political factions, middle class groups, capitalists and state officials along the Indian pattern. This allowed a greater degree of rationality in the allocation of subsidies and the protection of capitalist property rights than was possible in the Indian subcontinent (Khan, 1997; Jomo & Gomez, 1997).

Figure 3. Exchanges Between Patrons and Clients in Malaysia

Figure 3 presents, again in a stylised way, the characteristic features of the economic flows between patrons and clients in post-1969 Malaysia. The most important transfers were from the (largely) Chinese capitalists to the political leadership of the Malay party UMNO which dominated the political system. These transfers included both taxes and illegal extractions. The rents extracted were then centrally distributed through the political apparatus to the non-capitalist clients of UMNO shown by the arrows cascading down the political apparatus to non-capitalist clients. In return domestic capitalists received some protection and, increasingly, assistance for moving into high technology industries through the provision of good infrastructure and the negotiation by the state of backward linkages between domestic producers and the multinationals operating in Malaysia. Compared to the South Asian system, rent extraction from capitalists was centralised and, initially at least, direct links between particular capitalists and political factions in the Indian manner were less developed. This has changed to some extent over time as the Malaysian economy has grown and with it the political power of competing Malay factions within UMNO. But the picture sketched above is reasonably accurate for the early seventies when Malaysia began its economic takeoff.

We should be careful not to attribute Malaysia's centralised rent redistribution system entirely to its overlapping ethnic and class politics. Unlike the Indian subcontinent Malaysia is extremely rich in natural resources, and rents from these resources eased to a very large extent the exactions which capitalists would otherwise have had to suffer to pay for political stability. Nevertheless, the specific structure of civil society in Malaysia is an important component of a full explanation. The language of ethnic deprivation allowed a high proportion of these demands to be legitimised and therefore organised through centralised and legal party and state structures without secret deals and personalised bargains. This is consistent with the observation that Malaysia is the least corrupt of the group of countries shown in Table 1 according to subjective corruption indices. A non-ethnic and purely welfarist argument for transfers would not have been equivalent because it would have required that the bulk of the transfers went to the poorest groups and not necessarily to the leading factions of the intermediate classes who had the greatest political power. It is difficult to imagine an equivalent ideology in India which could have served to justify a similar centralised transfer from capitalists to the leaders of India’s contesting and diverse intermediate groups.

Once again, the structure of patron-client exchanges has economic implications. First, the avoidance of dense localised networks of exchanges between patrons and clients along the Indian pattern allowed the allocation of rights and subsidies by the state to be determined and altered more rationally than in the Indian subcontinent. This flexibility has undoubtedly decreased somewhat over time as factions of intermediate groups within UMNO have become more powerful over time and have established decentralised alliances with large Chinese capitalist groups (Jomo & Gomez, 1997). Secondly, by credibly satisfying the demands of its middle classes through rent transfers from indigenous capitalists and natural resource rents, the Malaysian state could offer multinationals a high level of security for property rights and profits which was untypical by developing country standards. This too proved to be of great importance in encouraging relatively high-technology firms to locate in Malaysia in the seventies and late eighties and engage in backward linkages with Malaysian firms.

Finally, we look at Thailand which presents yet another pattern. In contrast to Malaysia, the Chinese capitalists of Thailand were much more ethnically integrated with the Thai middle class. Ethnic politics could not therefore emerge to legitimise the transfers to emerging middle classes. Thailand was also different from all the countries discussed so far in not having experienced direct colonial rule. The absence of anti-colonial mobilisations explains why the political leadership of its emerging intermediate classes appears to have been weaker compared to the Indian subcontinent or even Malaysia. On the other hand, its intermediate classes were not as atomised as they were in South Korea which had been subjected to Japanese colonial strategies. In contrast to South Korea, Thailand had powerful networks of rural politicians who had to be accommodated at a much earlier stage of development. Thus despite its differences with India, it is quite possible that decentralised networks of patronage may have developed in Thailand to meet the political demands of powerful and largely rural clients. Instead, over the last twenty years Thailand seems to have witnessed a gradual taking over of localized political networks by local capitalists.

Figure 4 shows the transfers from capitalists to political factions which allowed Thai capitalists to take over and run their *own* political factions. As a result, Thailand has the highest number of businessmen in parliament in the region (Sidel, 1996). This fairly unique pattern of political corruption emerged because of the relative strength of a widely dispersed class of capitalists in this country who nevertheless still had to deal with the management of political demands from civil society. The direct purchase of political support by capitalists in this manner has prevented the interlocking of different groups of capitalists with rival groups of the middle class as in India, but it has also led to a high degree of corruption as capitalists have used their political clout to re-direct resources and rights in ways favourable to themselves (Doner & Ramsay, 1997).

Figure 4. Exchanges Between Patrons and Clients in Thailand

While this has had substantial economic costs, the Thai pattern of patron-client exchanges has nevertheless allowed growth. Competition between rival Thai capitalists with access to political power has meant that the Thai state could not centrally control resource allocation to the extent of South Korea. As a result Thai capitalism has been based on the acquisition of relatively small scale technologies, with property rights being protected in a decentralised way by this type of political corruption.

The number of capitalists going into the political fray in Thailand has also been large, a result of a long history of accumulation by small-scale immigrant Chinese traders many of whom became extremely wealthy over a long period of time. This has ensured vigorous political competition between capitalists for the spoils of power, which has prevented the political system from being monopolised by any particular capitalist faction. Instead there has been vigorous competition for entry into markets through political competition between competing factions in the parliament and the bureaucracy. Thus despite rampant corruption and political instability, the long-run economic performance of Thailand has been relatively better than that of its South Asian neighbours. If political stability does not collapse entirely, long-run economic growth may eventually make it possible to attenuate the worst effects of Thai political corruption through constitutional and political reforms.

3. The Role of Civil Society in Anti-Corruption Strategies

The analysis of the last two sections suggests that there may be dangers in conceptualising civil society as a uniform collection of individuals who have a collective interest in making their society work. We have argued that the modern understanding of "civil society" has lost some of the insights which Gramsci had provided. The latter was concerned with a concrete analysis of the classes, factions and groups who actually constituted civil society in the countries he looked at. In contemporary developing countries, the politically dominant groups within civil society are clearly not representatives of "society" conceived of in its totality. The typical civil society organisations may represent groups less privileged than capitalists or landlords but they are by and large led by and ultimately serve the interests of the ubiquitous middle classes.

These generalisations are subject to many qualifications. In particular, we have argued that differences across countries in the composition of the politically dominant classes have important implications. Moreover, the general picture does not in any way have to deny the existence of many committed trade unions, NGOs and other civil society bodies which make determined attempts to represent the interests of the average citizen. Rather the danger is to generalise from the relatively small number of the latter type of organisations to derive policy conclusions about the role of civil society in development in general and anti-corruption strategies in particular.

The aim of introducing the analysis of patron-client networks has not been to deny the role of civil society in the fight against corruption. Rather it has been to stress the importance of a more concrete and country-specific analysis before social policy is pushed both internally and through the support of external agencies. From the late eighties onwards, developing countries have witnessed an upsurge of anti-corruption movements led by a wide variety of social forces. The social bases of these movements have so far not been properly analysed. Instead there has been a tendency to generalise by describing these movements in terms of a belated self-assertion by "civil society" to improve the governance of their economies. The implicit expectation has been (1) that these movements will gradually eliminate or greatly reduce corruption and (2) that the lowering of corruption will in turn accelerate development. The second claim is not considered in this paper. Nevertheless, it follows from what we have said that corruption may be associated with very different sets of economic performance ranging from the South Korean to the South Asian variants (for a more extensive discussion see Khan, 1998). Here we are concerned with the first link in the chain of reasoning: the claim that the greater mobilisation of civil society around anti-corruption slogans will actually contribute to the lowering of corruption in these countries.

We have suggested earlier that an important impetus for political corruption in developing countries has come from the financial difficulties of dealing with demands from competing factions within civil society. The only viable strategy for maintaining political stability has often been to successively and selectively placate well-placed leaders and organisers. Empowering civil society in such contexts will only suppress these competing political demands if in some sense the whole of society is mobilised, thereby weakening the privileged position of middle class groups. This outcome is improbable given the material conditions of the poor in most developing countries. If on the other hand empowering civil society only results in a small number of additional groups led by (sometimes well-meaning) middle class individuals to the already crowded political domain, the aim of transparency and accountability may not automatically be achieved.

Both Thailand and South Korea demonstrate the importance of the level of development in changing the prospects of anti-corruption strategies. In Thailand rapid development has led to the growth of a modern middle class based on the professions and service sectors. By the nineties, these groups found the patron-client nature of Thai politics increasingly intolerable and were willing to lead broad social movements demanding constitutional changes to reduce the role of "money politics". The growth in the Thai capitalist sector and the growth and sophistication of the Thai middle class means that in the medium-term, the current pattern of politics is likely to change. Thailand will be forced to evolve social democratic fiscal policies which redistribute income along welfarist principles. The growing wealth of the country means that in the medium term such policies will also be fiscally viable. Through a different route, and at a higher level of development, South Korea has been approaching a similar position from the late eighties onwards. Development has empowered a large professional middle class which is no longer willing to allow the cozy arrangements between government and business to go unquestioned. The medium-term prospects for these countries to evolve towards forms of social democracy must be judged to be good despite the current problems they face.

More difficult challenges face countries like those of the Indian subcontinent which are much more typical developing countries. Here economic development still has not proceeded to the point where broadly defined welfarist policies are fiscally viable. The tax base in these countries is unable to provide basic infrastructure let alone achieve political stability through transparent and accountable redistributions. At the same time the fractiousness and divisions within elite groups is increasing as frustration with slow economic growth provides enhanced opportunities for political organisation and mobilisation. The basic structure of patron-client exchanges in these countries is not evolving towards modern transparent social democracy but towards a more fractious and decentralised management of political stability by regional and local governments. As a result the patron-client exchanges necessary for maintaining political stability are no longer restricted to payoffs to a relatively small number of organisationally powerful clients at the centre but increasingly involve many more, if smaller, payoffs to competing political groups managed by regional and even local levels of government, or involve payoffs directly organised by local business in the fashion of payoffs to mafia bosses who provide localized security and protection.

What are the likely consequences of promoting "civil society" anti-corruption organisations in these contexts? At best the consequences must be highly uncertain. The optimistic expectation is that pressure from new civil society organisations will force the myriad social groups engaged in social contestation to moderate their demands. It could be argued that civil society pressure will make it more difficult for powerful sectional interests to demand resources and make it more difficult to satisfy them without public scrutiny. But are these credible expectations?

The problem is that most people in developing countries do not want to recognise the connection between the clamour of competing factions for resources and the persistence of political corruption. Yet this connection is of fundamental significance as the gap between the resources available and the demands made on them results in key organisers, leaders and groups having to be periodically, and usually corruptly, accommodated. Many middle-class leaders who support anti-corruption drives do not recognise that the activities of competing middle class groups in the aggregate contributes to the persistence of political corruption. Nor should we expect them to want a social mobilisation which proceeds to the extent that the factional interests of the middle class are seriously curtailed. Gramsci would have pointed out that there is no automatic identity of interests between the middle class leaders of civil society and the vast majority of poor people in developing countries. The leaders of civil society in Gramsci's Italy supported capitalism not because they would not have preferred some redistribution to themselves but because they were more concerned about the demands of workers and peasants who were much better organised in Italy than in contemporary developing countries. It is unlikely that the competing middle class factions in developing countries who occasionally adopt anti-corruption slogans will inadvertently mobilise workers and peasants to the extent that the collective redistributive activities of middle class factions has to be curtailed.