

# **Sectoral Perspectives on Corruption**

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## **Cross-Sector Analysis of Corruption: Summary Report**

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## Introduction

During the last quarter of 2002, Management Systems International engaged nine specialists in major development sectors to prepare papers on the impact of corruption and viable remedies to the corruption problem in their sectors. The sectors included agriculture, education, energy, environment, health, justice, political parties, the private sector, and public finance. The authors examined their sector's vulnerabilities to corruption, special characteristics of corruption in their sector, illustrative case studies of anti-corruption approaches, and recommendations on how best to control, prevent, and eradicate the problem.

The basic premise of this study is the belief that governments, civil society, the business community and donor organizations can address the problem of corruption more effectively if initiatives are targeted at the root causes, vulnerabilities, and opportunities characteristic of particular development sectors. Corruption manifests itself in different ways depending on the sectoral context. Similarly, remedies must be sensitive to the distinctive nature of corruption sector-by-sector. Some anti-corruption strategies may be universally applicable across sectors, but each sector also may require customized approaches. If this premise holds true, it would suggest a new approach to USAID programming in the anti-corruption field, one that fortuitously draws on the Agency's sectoral strengths.

The conclusions of this summary paper suggest that while there are many commonalities across sectors in terms of how corruption is manifested, points of vulnerability, enabling environments and stakeholders, there are many differences as well. As a result, while the toolkit of potential interventions is essentially the same across sectors, it makes sense to consider tailoring programmatic options to the institutional and legal context of each sector.

This summary paper provides a synthesis and commentary on the findings and recommendations of all nine authors. In Part One, the characteristics of corruption are reviewed from a sectoral perspective to compare and contrast the findings of individual sectoral analyses. Part Two provides an integrated compilation of the recommended anti-corruption remedies, both within and across sectors. Part Three reflects upon how the sectoral analyses fit within USAID's existing anti-corruption framework. In Part Four, several gaps in the sector analyses are discussed. Part Five offers some conclusions.

The sector authors include:

- 1) Agriculture ~ Rodney Fink, Ph.D.
- 2) Education ~ David Chapman, Ph.D.
- 3) Energy ~ Matthias Ruth, Ph.D.
- 4) Environment ~ Svetlana Winbourne, Ph.D.
- 5) Health Sector ~ Taryn Vian, Ph.D.
- 6) Justice Sector ~ Mary Noel Pepys, J.D.
- 7) Political Parties ~ Verena Blechinger, Ph.D.
- 8) Private Sector ~ Russell Webster
- 9) Public Finance ~ Michael Schaeffer.

These sector reports are available from the Office of Democracy and Governance.

# 1. Sectoral Characteristics of Corruption

## How Corruption is Manifested

The presence and character of public sector corruption varies significantly from sector to sector. On one hand, much of the corruption encountered in the developing and transitional world is petty in nature and scale, and causes little public outcry. In the education, health, and justice sectors, it is common to find school teachers, health care providers, and police charging extras for services, seeking small favors, or using public facilities and materials for their own marginal personal gain. Such activities are often accepted by the public as a needed corrective to systems that fail to provide a living wage. The impact may be less benign, however, as these activities set examples that make it more difficult to draw clear boundaries between right and wrong.

In sharp contrast, public sector corruption in other sectors is often large in scale, hidden from view, and controlled by the few most powerful. In energy, environment, the private sector, and in some situations in the justice and political parties sectors, deals are made that result in enormous distortions to the economy to the benefit of the few, at the cost of the many. These often are based on major infrastructure projects seeking special market advantage, or securing access to powerful positions.

In the middle ground between hidden but large scale corruption and common but petty corruption, a wide variety of forms of corruption exist that often start small but grow into enormous drains on the economy. In the energy sector, massive misuse of meter payment systems resulting in the dramatic loss of sales from energy production (e.g. in Bangladesh one half of the electricity supplied by the Power Development Board ends up as system losses through mismanagement and falsified meter readings) is echoed in the political party system, as vote buying undermines the democratic process. All sectors have examples in this middle ground.

The elites pursue their interests in this middle ground of corruption, where they benefit from advantageous treatment and favored access to scarce resources. For example in agriculture, only the well connected are able to offer inducements to government officials to get access to the best land, to irrigation infrastructure, and to preferential credit terms. The elites arrange special arrangements to shelter themselves from taxes, to avoid legal sanctions, and to obtain desirable positions within government institutions.

Corrupt government officials also find ample opportunities in the middle ground, where corruption is far from petty but where their “arrangements” are far less discreet. These officials in all public sectors use their positions to extract a wide range of payments from the public, from inducements to grading crop quality at a higher level, claiming salaries for “ghost teachers,” charging business people “fees” for permits and business licenses, receiving payments to influence the decisions of judges and magistrates, charging “handling fees” at customs offices, and a multitude of other examples in all public sector activities where public officials come into regular and unsupervised contact with the general public.

Corruption can be manifested in the pervasive evidence of severe waste, damage or deterioration – all with no accountable party identified. Massive environmental pollution and habitat destruction from energy extraction is all too common, as is the wasteful loss of human potential and time through the intentional imposition of bureaucratic impediments and red tape.

Perhaps the greatest manifestation of corruption is underdevelopment itself, and the inhibition of states to embrace transparency in their operations – across all sectors -- or to

decentralize decision-making to local governments. Economies do not flourish, nor does democracy grow strong, in situations where corruption is embedded and pervasive, and where decision-making is controlled tightly at the top and the use of public resources hidden from public oversight. In such conditions, government legitimacy remains weak, quality of life erodes, formal sector employment opportunities decline, and underdevelopment becomes persistent.

## **Corruption Vulnerabilities**

While the terminology may vary, most analyses of corruption draw attention to the combination of monopoly power, unfettered discretion, and minimal or no accountability<sup>1</sup> as the optimal conditions of vulnerability to corruption. This perspective was common to the nine-sector analysis too, but other conditions of vulnerability -- some sector-specific -- were also noted.

The role of the state, and specifically the central government, often was cited as giving rise to conditions of tight control by a self-interested few, with little or no transparency. For example, in the agricultural sector in many developing countries, the central government enjoys a preeminent position of power and decision-making in nearly every aspect of commercial agriculture throughout the commodities chain, from actual production to grading, pricing, storage to distribution.

Those in powerful positions within the central government also often face great incentives to corrupt behavior in the handling of major public infrastructure projects, where large sums of money become the subject of non-transparent deal making, vulnerable to arrangements favoring illicit kickbacks and influence buying. Major infrastructure projects are common within the energy sector (and, though not a sector of this analyses, the transportation sector), and significant public infrastructure investments also occur in the health, education, agriculture, and private sectors. The public finance sector is vulnerable in a related manner, in that this sector provides the institutional mechanisms for monetary transactions associated with public infrastructure.

A different but related vulnerability occurs when the central government fails to monitor the integrity of lower, decentralized echelons on government, or fails to establish transparent linkages between the tiers of government. While decentralization generally does shorten the accountability linkages between government and public user, it can also favor the interests of powerful local elites who find new opportunities to seek illicit gain through pressuring local government officials with less fear of powerful central government oversight. Public finance is vulnerable to distortions in the character of the financial flows between central and local government, for example.

There are also other similar vulnerabilities. Corruption can easily flourish when public services cover the majority of the population, such as in education and health, or where the massive scale of services and the large number of individual transactions make central government monitoring ineffectual. Vulnerabilities to corruption arise any time that multiple sources of government control exist at different levels of government, disbursing a very large quantity of resources in numerous small transactions. Political patronage schemes often find inviting vulnerabilities within these large decentralized systems.

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<sup>1</sup> Robert Klitgaard, *Controlling Corruption*, (Berkeley: University of California Press, 1991), 75

The difficulty of government to monitor the integrity of public officials also owes much to a low level of public awareness of the nature and real costs of corruption, and to a high level of tolerance (or resigned acceptance) of corruption. The environmental sector perhaps best exemplifies this vulnerability, but the problem of public tolerance also invites generally low level but embedded corruption within the health, education, and justice sectors, with political parties, and with public sector interactions with the private sector. The justice sector has a distinctive vulnerability, in that it is highly susceptible to external (and often inappropriate) government pressure from a variety of powerful sources.

One step removed from direct or official government control, both political parties and the private sector generally shelter behind few requirements for public transparency and accountability, making them particularly vulnerable to corruption. The activities of political parties are difficult to monitor (unless it is in their interests to monitor each other), and vulnerabilities occur with biased or manipulated selection of candidates, buying of votes, political party fundraising and financing of candidates and issues, political party manipulation of decisions by elected officials, or party co-optation by special interests.

## **The Enabling Environment for Corruption**

Corruption in the public sector finds root and can easily become embedded in many less developed and transitional countries where political leaders fail to display concern for the public interest or fail to set examples of integrity, where social and political institutions are relatively weak, and where civil servants – often underpaid and held in low public esteem – have self-interested incentives to engage in corrupt alternatives to formal rules and procedures. Adherence to the formal rules of society's institutions may lack motivational weight if those empowered with authority perceive these rules to be weak, unfair, inappropriate, or punitive, or where the distinctions between public and private are blurred. This superficiality of personal investment in such rules is further stretched by a sense of impunity – either the lack of meaningful sanctions, or the high probability of not being punished for engaging in corruption even if severe sanctions exist. For those who may be unwilling participants on the receiving end of corrupt transactions, as may be common in the justice, education, health, public finance (particularly tax and customs), energy, and environmental sectors, there may be few or no alternatives to accomplish a necessary task or avoid an unpleasant consequence but to comply, or it may be perceived as expected or convenient to do so.

In the justice sector, and to a lesser extent in the environment, energy, and private sectors, weak judicial and regulatory systems also make it difficult for injured parties to seek redress in the courts for contract violations. Complexity of laws, government regulations, and procedures provide fertile ground for arbitrary discretion by self-interested officials. Institutional complexity also exacerbates corruption vulnerabilities, where overlapping or unclear management responsibilities allow for poor levels of oversight and inadequate accountability – a common situation in public finance, education, health, and public finance sectors.

The lack of political competition, the dominance of monopoly interests, political parties that are either too strong or too weak, and the weakness or absence of watchdog institutions also contributes to a situation prone to the growth of corruption.

In the environment and energy sectors, the problems of poor governance and diffuse public ownership (i.e. no one “owns” energy, so its misuse is not well monitored) create conditions favorable to corruption. Globalization plays an important role in these two sectors, since one of its goals is to seek the lowest cost for resources without regard to how or where they

are obtained. The character of global capitalism is often to focus on short term profits over long term sustainability, which also can lead to corruption influencing decisions that lead to consequences counter to the public interest.

It is in the interest of many to resist change. Those individuals best placed to affect the necessary reforms in public policy, public attitudes, and public behavior, as well as their counterparts in the private and civil society sectors, are often also the ones who stand to lose the most from significant curtailment of a corrupt status quo.

## **Stakeholders and Actors in Corruption**

Corruption takes two. Consumers are often willing to pay bribes for the sake of “convenience” (avoiding burdensome and lengthy bureaucratic steps, for instance) – a willingness that stimulates a supply-side pressure to perpetuate associated forms of corruption. In some cases, both parties to the corrupt act appear to gain, at the expense of the general public (and specifically the poor). In other cases, there is a vulnerable victim and someone who exploits that victim – a loser and a winner. The multiple permutations of corruption reflect the complexity of human and institutional interactions, making the analysis of distinct stakeholders and roleplayers a challenging undertaking. In some cases the stakeholder group may not even yet exist – for example, in the environment and energy sectors future generations cannot argue their claims for the judicious use of non-renewable resources.

Those who have power to exercise and who enjoy minimal accountability – such as senior public officials, judges, police, political party bosses, trade union leaders – are the commonly cited perpetrators of corruption, preying upon those in need who generally are powerless to resist such approaches. In some extreme cases of deeply embedded corruption, entire institutions become the perpetrator – such as corrupt central government ministries, or government controlled marketing boards and parastatal organizations. Private sector actors – both domestic and international – can corrupt public officials. For example, international consumers of natural resources may provide a strong stimulus to corruption by choosing to accept local corruption as a cost of doing business.

In every sectoral analysis in this study, the important role of the public – and the attitude of the public – was noted. Corruption flourishes when the public is poorly informed, apathetic, cynical, tolerant, or so weak as to be unable to protest. The most vulnerable individuals in society are the poor, and they often encounter petty corruption on a daily or regular basis – for example, poor patients who must pay fees for “free” government health services. The poor also bear the heaviest burden from the larger economic and societal impacts of corruption – the slowing of development, the dissipation and wastage of public resources, the erosion of formal sector employment, the decline in investment, and the loss of government legitimacy through poor governance.

Several of the authors of the sectoral analyses called attention to two particular roleplayers in the problem of – and solutions to – corruption that are largely overlooked: civil society and the donor community. Civil society has played a positive role in limiting corruption by means of its activities in education, oversight, and facilitating access to public services, yet not all NGOs perform satisfactorily in this regard. Some NGOs are motivated more “in the money than in development.”

Donors and development assistance organizations have often chosen to ignore corruption when formulating and implementing their programs and projects, so that other strategic aims can be focused on. Examples include members of the donor community who may be aware of

corruption in education systems, for example, but who pursue an agenda that stresses strategic donor self-interests, ignoring this set of corruption problems. This form of selective vision warrants re-evaluation, as it provides a potent example of an intentional and strategic tolerance for corruption that almost certainly has significant negative impacts in the longer term.

## **Interventions to Prevent and Combat Corruption**

Preventing corruption, or curbing corruption when already present, can be approached from both the general and the particular. Each of the nine sectors called for interventions that are directly aimed at attacking the enabling environment for corruption. Chief among these are improving the example of leadership that models integrity, raising public awareness of the cost and character of corruption, and seeking an economic and social solution to underpaid civil servants who additionally suffer from low public esteem.

Other systemic recommendations include: improved public access to information on decision-making and resource allocation and public participation in these processes; a more active, free, and professional press; strengthening the rule of law; minimizing unsupervised contact between private individuals (or businesses) and tax or customs officials, and more aggressive enforcement of laws against corrupt practices. In education, for example, it is argued that training the community and enlisting community support in the fight against corruption offered real prospects for effectiveness, making parents effective agents of change in their local schools.

Technical approaches also have their place. In the education, energy, agriculture, and health sectors, and in public finance, it is argued that the better use of information technology to monitor accounts, and the use of outside independent auditors to provide oversight of the conduct of government agencies and institutions would reduce opportunities for corrupt transactions.

Certain anti-corruption interventions have particular relevance to specific sectors. In the energy sector, for example, the use of an autonomous, transparent regulatory body is an effective means to oversee energy transformation and distribution. Similarly, decentralization and privatization of some government functions can constrain corruption – for example, a move towards decentralized, competitive electricity markets. In the environmental sector, improvements might result from generating better environmental data and from the regular monitoring both of environmental resources and environmental quality standards. In the health sector, downsizing public health care system and/or charging cost-sharing user fees to achieve better pay and improved status for health sector workers are possibilities, but such interventions are often very difficult to implement, and may adversely affect the poorest. Decentralizing government health care services and privatizing some services may be more realistic intervention options. In the justice sector, the analyst argues for increasing autonomy while raising transparency, and allowing the justice sector to have control over its own budget and administration. With respect to political parties, they might be restructured so that internal institutional processes are transparent and accountable, and that effective campaign finance legislation be enacted and enforced.

Throughout public service institutions, a strong case is argued for appointments and promotions to be transparently made on basis of merit, combined with periodic disclosure of assets by senior public sector officials.



## 2. Sectoral Interventions

This cross-sectoral analysis found several common threads among the author's recommendations for action:

- There are a wide range of anti-corruption approaches that are common across sectors.
- While many development sectors share basic anti-corruption approaches, these remedies need to be implemented in a customized way, within the particular context of each sector, to be effective.

Many of the authors observe that sector-specific anti-corruption strategies are of limited efficacy if not carried out in conjunction with broader, integrated anti-corruption initiatives systemically applied across many sectors. While fully accepting the need for such a broad approach, the scope of this current analysis does not lend itself to the identification of a comprehensive set of integrated, systemic recommendations; clearly there is a need for further research in this context. In all cases, it is recommended that a donor should carry out a diagnostic appraisal of the source and opportunities for corruption, so that any subsequent interventions will be formulated with reference to a specific country and sector context.

### Shared Anti-Corruption Remedies

#### *Addressing Governing Competence and Capacity*

Lack of competence and capacity including insufficient educated and skilled staff; understaffing; lack of adequate equipment, research materials and data; and poor working conditions all combine to create the enabling environment for corruption. The prevailing conclusion to date has been that a significant reallocation of public revenues in a developing country to fund a higher standard of government service is prohibitively expensive, politically sensitive, and therefore unrealistic as a policy option. Institutional weakness however surfaces again and again as a fundamental contributor to embedded corruption and a resulting low level of legitimacy for the government. Without strong government legitimacy, all development aspirations are hindered, and the resources allocated to development assistance are of questionable efficacy.

The clear conclusion of this summary analysis is that this situation of pervasive institutional weakness, high incentives for corruption, and poor levels of government service to the public needs to be confronted. A strategic assessment of the opportunity costs and actual wastage in loss of productivity, increasing levels of corruption, declining economic growth, and misuse of government resources due to an under-financed civil service are likely to far exceed the actual costs of providing adequate salaries and working conditions. This should be established empirically through a comprehensive analysis in a given country, and – assuming the results support this expectation – the data should be used by appropriately placed stakeholders to advocate for a dramatic change in policy to improve the performance standards, integrity, prestige, and benefits for civil service employees.

Dramatic, sweeping changes to civil service institutions may not always be possible or warranted. In such cases, targeted interventions to improve selected aspects of government performance and to limit the spread and damage of corruption may be chosen. These are described below; it is noteworthy that the more comprehensive restructuring to achieve a better

paid, more professional (and almost certainly smaller) civil service would incorporate all of these recommendations.

Specific recommendations include:

- Professionalism should be encouraged and fostered through training and continuing education for all public officials who must exercise sophisticated skills, discerning judgment, and comprehensive subject-matter expertise (e.g. judges).
- The budget process should be improved so that it is accurate and comprehensive, including all revenue and expenditure.
- Attract and retain competent staff within the public sector by improving salaries, working conditions, and prestige.
- Set standards for competent and professional performance, and enforce these standards through formal monitoring, regular personnel evaluations (and, in some cases, examinations), through incentives for meeting and exceeding standards (rewards, merit-based promotions, public honors) and through disincentives for failing to meet standards (warnings, sanctions, demotions, dismissals, prosecution).
- Privatize those government functions that demand levels of competence that the private sector can more readily generate and sustain.

### *Addressing Tolerance of Corruption*

There can be little incentive for government to arrest the spread and limit the damage of corruption when citizens simply do not care about this scourge. In many societies, the public assigns a low priority to preventing and combating corruption. This complacent attitude springs from a sense that corruption is inevitable and that nothing can be done to address it. In such societies, the public may consider it a futile exercise to express outrage when their political (and private and/or civil society sector) leaders behave unethically and ignore the broader public interest in favor of narrower group or self-interest. Despite this apparent complacency, significant majorities in all countries find corruption to be shameful and undesirable<sup>2</sup>, and this pervasive dislike speaks of a strong set of moral values that can be the catalyst for positive change.

Among the most common of all recommendations within the sectoral papers is that concrete steps should be taken to raise public awareness about the negative impacts and costs of corruption, to foster the qualities of integrity in leadership, to give voice to public outrage when the public interest is forsaken, and to punish those in authority who flout the laws for their own ends.

Specific recommendations include:

- Government – as well as both the private sector and civil society – should take steps to actively encourage, publicize and reward integrity in leadership. Changing public attitudes and expectations to become less tolerant of corruption and more demanding of a corruption-free society depend on the sustained example of integrity by senior public sector, private sector, and civil society sector leaders.
- Government, the private sector, and civil society should collaborate on the provision of training in ethical discernment and ethics-based judgment. While codes of conduct can provide valuable guidance to stakeholders in many sectors as to how to recognize, prevent, report, and limit the damage caused by corruption, such codes must have

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<sup>2</sup> John T. Noonan, Jr., *Bribes* (New York: Macmillan, 1984), 702-3

comprehensive buy-in from those who most stand in need of their guidance. Codes of conduct do not directly translate into the ability of people to perceive ethical dilemmas and modify behavior to become consistently ethical; codes of ethics must be internalized and supported through training, deliberative dialogue, and enforcement if they are to be effective.

- Employ “integrity pacts” as appropriate to help governments, businesses and civil society to establish mutual contractual obligations and rights, among which are mutual agreements to refrain from bribery from bidding through to implementation and operation of the business or public service.

### *Addressing Independent and Autonomous Bodies*

Government is the exercise of power, and in many successful and mature democracies it is clear that power must be balanced by consistently and rigorously enforced checks and controls, so that the public interest may best be served. In some cases, such as in the appointment of judges, there should be an institutional solution that optimizes independence from subjective political influences and encourages objective, merit-based decision-making.

Specific recommendations include:

- Establish a suitable legal framework and autonomous and transparent regulatory bodies with “teeth” to enforce compliance for those sectors where public goods are exploited or distributed (water, energy, environment) or where critical democratic activities are undertaken (political party operations and elections) – provided that these regulatory bodies do not become yet another fulcrum to leverage illegal returns.
- Depending on the specific country context, the appointment and promotion of highly qualified and competent judges and magistrates would be strengthened if such appointments and promotions were made – or at least closely monitored – by an apolitical and independent institution.
- Depending on the specific country context, the justice sector should control its own budget and the administration of the courts.
- The justice sector – the integrity and competence of which are fundamental to the effective and just rule of law – should not be subject to direct control and manipulation by other government institutions or officials in certain key aspects (determined with specific reference to local context).
- In most cases, it is advantageous to encourage a system of life term appointments for judges, selected from candidates with demonstrated competence and integrity. In so doing, judges have improved job security and are able to make their judicial decisions without fear of loss of their jobs by disgruntled senior government officials.

### *Addressing the Donors’ Role*

As the embodied voice of the international community, donors and international financial institutions bear a special responsibility for moral leadership by example. Ignoring corruption so as to attend to other “strategic development objectives” telegraphs a powerful message that corruption is tolerated. In the past, international development assistance sent a similar message or complacency about environmental degradation and gender inequality, but no longer does this apply. Corruption should be added to the list of situations regarding which the international community will no longer “look the other way.”

Specific recommendations include:

- Incorporate specific corruption-prevention measures in all development interventions.
- Donors should record and make public the degree to which they are aware of corruption existing in recipient countries, and the extent to which their bilateral (or multilateral) programs take due cognizance of this problem in their design and in the establishment of priorities and procedures.

### *Addressing Political and Institutional Reforms*

The practices, procedures, traditions and values that combine to characterize any given public institution, and the legal context in which it exists, directly influence the behavior of that institution, and its vulnerability to corruption. The frequency and manner in which the officials of that institution interact with the public, the level of discretion exercised by officials, the degree of oversight and management throughout all levels of that institution, and the accountability of individual officials to the public and to the laws of the land all are significant factors in diagnosing contributory factors for corrupt behavior. So too are the prestige enjoyed by government officials within any given society, the value of their remuneration relative to the attainment of a reasonably secure and comfortable standard of living, their job security and work environment, and their institution's commitment to their own professional development important. Ultimately, the broader professionalism and ethical standards of the entire institution, and that institution's awareness of and compliance with the law, together shape that institution's effectiveness, responsiveness to the ideals of public service, and integrity.

Specific recommendations include:

- Limit the authority of monopoly political parties and support – through increased civil liberties – the toleration of opposition parties, thereby encouraging a competitive liberal democratic regime.
- Prepare and implement monitoring and evaluation methods to improve effectiveness, detect and reduce corruption, and promote results-based attribution of cause and effect for various reforms to institutions.
- In situations where political parties are weak, support legislation that defines the scope of activities for and authority of political parties, allows for transparent public funding of party activities, provides reasonable controls and limits for campaign spending, and generally fosters a “level playing field” for political competition.

### *Addressing Administrative Streamlining and Eliminating Administrative Barriers*

Complexity may often be unavoidable as government functions become more diverse and sophisticated, but in a great many instances the plethora of bureaucratic procedures is unnecessary and counter-productive to the objectives of providing public services of a high standard of quality and efficiency. In many instances, complexity is artificially imposed to create a demand for corruption, so that corrupt officials can offer “short-cuts” for a fee.

Specific recommendations include:

- Simplify and expedite the land registry and title process, and remove legal and procedural constraints to private ownership. Private ownership and the formalization of private capital drive economic growth, and should be a high priority of government.
- Review all bureaucratic procedures at the interface between public and government officials, to evaluate the potential for streamlining and to reduce opportunities for illicit short-cuts.

- Reform tax laws so that private ownership of land and capital is not unfairly or inappropriately taxed.

### *Addressing Transparency and Accountability*

Corruption does not flourish in an environment open to public scrutiny, and in which the law and administrative procedures clearly define the obligations of public officials to be accountable for their stewardship of public resources.

Specific recommendations include:

- Evaluate and diagnose corruption in appropriate sectors by following commodity chains – starting at the market and working backwards towards production (warehousing, transportation, licensing, etc.) to identify corrupt links in the chain.
- Reform systems and institutions that allow for evidence of corruption to be easily hidden, for example by requiring periodic disclosure of assets by senior government officials (and their families).
- Make appropriate judgments of the courts public.
- Implement effective and professional accounting and audit practices to prevent and constrain corruption.
- Make public budgets accessible, completely accounted for (no off-book accounts), and transparent. Government has an obligation to regularly publish accurate, accessible, and complete information on the allocation and distribution of public revenue.
- Provide for independent monitoring of expenditures by political parties.
- Require political parties to formulate and implement transparent procedures for candidate selection and nomination.
- Exploit the ability of privatization to improve accountability. To the extent that privatization of government assets and operations exposes suppliers and producers to the discipline of the market and to market-based incentives, it can serve as a useful counterbalance to corruption among company managers, who become directly accountable to private owners who have a direct interest in protecting and increasing the value of their assets.
- Institutions should restructure their operations to provide better quality and more thorough oversight of staff by management, the minimization of private (unsupervised) contact between staff and the public, and the periodic rotation of staff so that illicit personal arrangements can be constrained.
- Public funds should be spent only as authorized by law.

### *Addressing Information Technology*

New IT applications offer significant potential to not only make government function more efficiently and openly, but also to remove many government operations from inappropriate manipulation by self-interested officials.

Specific recommendations include:

- Make appropriate use of IT solutions – coupled with demonstrated high level political support – to support institutional reform and facilitate sustainable corruption prevention (e.g. the World Bank’s education management information system – “EMIS” – successfully applied in the Gambia, the use of computerized applications in tax and customs administration, and the computerization of court records).

## Sector-Specific Anti-Corruption Remedies

To date, the traditional emphasis of USAID and most other donors and aid organizations has been to concentrate anti-corruption interventions in such sectors as public administration, public finance, judiciary and legal reform, political parties, and governance generally. The analyses of these sectoral papers make a strong argument for broadening the range of donor interventions so that anti-corruption measures are integral to interventions in such sectors as agriculture, education, energy, environment, health, the private sector (including micro-enterprise and entrepreneurship initiatives) and civil society. The major recommendations in both the traditional sectors of anti-corruption intervention, and these less traditional sectors are summarized below.

Most of these remedies are not unique to the sector; they include such generic anti-corruption approaches as raising public awareness, increasing government transparency, and improving control mechanisms. However, these remedies are framed in the sectoral context – to be implemented within particular institutions and processes, with particular stakeholders, and using appropriate legal structures and standards. A conclusion that can be drawn is that these sector-specific remedies are best implemented taking into account the sensitivities and peculiarities of the sector. As indicated earlier, they are considered to be most effective when initiated as part of an overall anti-corruption program that includes general, non-sectoral activities as well.

### *Agriculture*

- Raise public awareness of corruption in agriculture, and educate people on their right of access to critical information on how decisions are made and financial resources utilized in pursuit of the public interest in this sector. Provide more consistent and aggressive enforcement of laws against corrupt practices in agricultural production, distribution, and marketing.
- Design development programs and projects so that beneficiaries are able to participate more effectively in targeted corruption-prevention decision-making in all aspects of agricultural production, marketing, transportation of products, access to extension agents, setting of fair prices, and determination of product quality (and hence price). Publicize examples of successful interventions.

### *Education*

- Ensure that teachers earn a living wage, linked with clearly articulated standards of professional performance, so that incentives for corrupt activities are dramatically lessened and the sense of corruption being “justified” is no longer supportable.
- Following a broad-based public awareness campaign to bring to public attention the high costs and damaging impacts of corruption, and to reinforce a sense that corruption can be tackled effectively, enlist local community engagement in the fight against corruption. Begin with community training, so that parents become effective agents of change as demanding and discerning consumers of the public service provided by public schools. Teach parents how to assess the effectiveness of their local schools, what their legal rights are as parents to access information about school expenditures and operations, and what sanctions communities can bring to bear on under-performing schools.

## *Energy*

- Increase the transparency of energy transactions and budgets, and increase the accountability of institutions and decision makers who control and regulate energy.
- In cases that involve international companies, formulate codes of conduct, monitor foreign partners and their collaborators, train employees and establish organizational structures to monitor and enforce these codes of conduct.
- Establish internal audit departments or other codes of conduct that represent corporate values in a consistent manner.
- Establish a legal framework and an autonomous, transparent regulatory body with sufficient authority to oversee energy transformation and distribution.
- Ensure that clear guidelines exist for accounting practices, that budgets are transparent and accessible; and that auditing systems are developed to ensure that existing guidelines and rules are followed.
- Where appropriate, unbundle power system into separate energy transformation, transmission and distribution entities.
- Establish decentralized, competitive electricity markets and decentralize payments between distribution and generation companies.
- Formulate and apply “integrity pacts” (IPs) to help government, businesses and civil society establish mutual contractual rights and obligations. Whenever possible, IPs should cover all the activities related to the contract from the pre-selection of bidders, the bidding and contracting proper, through the implementation, to the completion and operation of the business.

## *Environment*

- Support a public awareness campaign to heighten awareness of environmental concerns and to disseminate information about the costs to the public (now and in the future) of mismanagement and corrupt management of environmental resources.
- Advocate for greater transparency in decisions on resource use and distribution.
- To better identify corruption in the environmental context, actively encourage civil society to adopt a proactive role in monitoring development projects and government policies generally, and encourage civil society to advocate for stronger political action against corruption in environmental management and decision-making.
- Carry out baseline environmental analyses so that critical data can be collected to enable the subsequent creation and implementation of effective and well publicized environmental monitoring systems, coupled with effective laws, policies, and conventions. Widely publicize the findings of periodic monitoring and evaluation of environmental impacts.

## *Health*

- Establish and encourage the use of an essential drug lists (EDL) in public hospitals and clinics, to limit choices in procurement to the most appropriate drugs relative to the most pressing needs of the specific country
- Encourage and support the formation of multidisciplinary groups within public hospitals to make recommendations on policies for the selection and use of drugs.

- Establish and encourage the use of standard treatment guidelines in public health care facilities, the use of codes of ethics in drug marketing, and the monitoring of purchasing patterns (drugs and medical equipment) to detect unusual deviations that might signal corruption.
- Establish and encourage the use of a government-recognized “white list” of drug and medical equipment suppliers of proven and consistent integrity.
- Widely disseminate and regularly update a government-approved list of drug prices.
- Decentralize government health services, with some degree of privatization of such services, where efficiency and improved service can be achieved.
- Allow for limited use of user fees by patients to improve the levels of remuneration by health care providers, provided safeguards are in place to prevent discrimination against patients unable to pay user fees.
- Increase and improve access to health insurance, where the capacity exists to support a viable health insurance industry.
- Restructure and rationalize secondary and tertiary levels of health care, so that an appropriate level of care is made accessible, and reliance on overcrowded, centralized medical facilities is discouraged.

### *Justice*

- An essential attribute of successful anti-corruption efforts is an objective and independent authority, able to diagnose the character and extent of corruption and empowered to act institutionally to address it in a systemic and comprehensive manner.
- Without public-spirited, ethical, and committed leaders who are respected for their integrity and competence, their vision and leadership skills, reforms cannot happen.
- Increase the independence of the judicial branch of government, including a judicial sector with control over its own budget and administration.
- In nearly all cases, the funding of the judicial sector must be increased to allow for effective and efficient administration of justice, including increasing salaries and improving working conditions.
- Appointments and promotions must be made on a merit basis and in a transparent manner, so that nepotism and political patronage become hard to hide.
- Require key justice sector officials periodically to disclose their assets (and assets of family members).
- Systematically improve the training and professionalism of justice sector officials.
- Institutionalize and stringently enforce codes of ethics.
- Improve the timely access to information on laws and legal precedent.
- Implement random assignments of cases to judges and magistrates.
- Encourage the open publication of judicial decisions.
- Make more extensive use of alternative (but legal) dispute resolution techniques.
- Promote uniformity and transparency in court procedures in the processing of cases, so that opportunities for extortion and bribery are curtailed.
- Computerize court operations (e.g. maintenance of court files) wherever appropriate.
- Hold bar associations to a high standard of integrity in exposing and preventing corrupt practices.
- Improve legal education be improved within law schools.



- Encourage civil society organizations to become active in educating the public on their rights and assisting them in accessing legal services, and carry out oversight on the performance of the justice sector.
- Improve the quality of media coverage of the judicial system, with greater access to those court files and records that ought to be publicly accessible.

### *Political Parties*

- Restructure political parties so that their internal structures are governed by transparency and accountability.
- Foster competitive liberal democratic regimes so active opposition parties can contribute to anti-corruption oversight.
- Expand legislation governing political parties so that party laws are not limited to the role of party behavior at elections, but extend to embrace parties as central components of good democratic governance. This would include limiting the extent to which political parties can be in the pocket of special interests, possibly through some level of public funding of their activities, coupled with appropriate accountability for the use of such funding. Campaign finance legislation, if effectively drafted and enforced, would also positively influence the behavior of political parties across their whole spectrum of activities.
- Strengthen democratic practices within political parties. Rules and procedures affecting membership, election and accountability of party leadership, the selection of candidates, transparency of operations and finances, and ethical behavior all are needed if parties are to model the democratic principles they purport to represent.
- Improve the accountability of political parties. An independent anti-corruption watchdog organization (e.g. electoral commissions, ethics committees) should be instituted at the same time that anti-corruption legislation is improved (or introduced), and this watchdog body should be granted both independence and the unquestioned power to prosecute corrupt activities and, where necessary, to impose sanctions.
- Realign the incentives and disincentives that influence corruption in political party behavior. To be effective in controlling corruption, the risk of being punished for corrupt behavior must be credible. This punishment may come at the ballot box, but it may also take the form of penalties, fines, jail sentences, or loss of a seat in parliament.
- Transform public attitudes and reduce public tolerance regarding corruption, and mobilize the necessary political will and integrity to affect positive changes in the fight against corruption.

### *Private Sector*

- Provide clear standards to differentiate between private and public sector activities, obligations, and authorities, so that confusion and undesirable overlap can be prevented.
- The government, in collaboration with organizations that represent the interests of the private sector, should establish and/or encourage training programs to inculcate the values of ethically responsive business practices as a central component of corporate governance.
- The government should establish a scheme to recognize, honor, and publicize those private sector suppliers of goods and services of proven and consistent integrity.

- In cases where private sector perpetrators of corruption have been successfully prosecuted, establish a “name and shame” set of sanctions to disqualify such private sector providers of goods and services from contracting with any agency of government for a set period of time. Widely publicize this list, with regular updates.

### *Public Finance*

- Minimize unsupervised contact between private individuals (and businesses) and tax or customs officials.
- Institute staff rotations within tax, customs, and other appropriate departments, and improve oversight by senior managers.
- Encourage the progressive computerization of tax and customs administrations.
- Improve public sector accountability through the use of public sector audits by independent public sector auditors.
- Simplify those tax laws that are too complex and too open to various interpretations by those holding positions in which they can exercise powers of official discretion, often with little or no accountability.
- Ensure that high-incentive arrangements for corruption are avoided, e.g. so that the same official is not both tax inspector and tax collector.

### 3. Sectors and USAID's Anti-Corruption Framework

USAID's Handbook on Fighting Corruption employs a framework for curbing corruption that relies on three main initiatives: (1) limiting authority by reducing the role of government in economic activities; (2) improving accountability by strengthening transparency, oversight, and sanctions; and (3) improving incentives by redesigning terms of employment in public service.<sup>3</sup> The nine sector studies generally support this framework. Sectoral remedies to fighting corruption basically apply these same three approaches.

On the issue of privatization of some of the government's responsibilities, it was noted that there are many instances in which there is a strong case to be made for privatizing certain government functions. Privatization imposes market disciplines, and generates a body of owners who demand accurate information on the changing value of their assets. Privatization is not a panacea, however, and expanding the analysis lens beyond just the public sector demonstrates this. Employees of private firms can find positions in which to demand bribes or to exert corrupt influences, particularly when internal financial controls remain weak. Public officials involved in the privatization process can also influence this process in their favor, through having a direct or indirect financial stake in the newly created private venture.

In terms of improving accountability by strengthening transparency, oversight, and sanctions, the important role of a free press and related mass media was a common theme to nearly all of the sectoral reviews. Public awareness of the nature of corruption, public access to information, and a public acceptance that corruption is a problem that can be effectively addressed all are essential to transforming existing social tolerance or apathy into a strong public demand for integrity in governance.

Accountability and transparency can also be improved through the application of information technology. The application of computer technologies to standard operations of government (e.g. taxation and customs operations, budgeting, court records, drugs procurement) has been demonstrated to be an effective tool in constraining and preventing corruption. Arbitrary discretion and lack of transparency are greatly reduced through the use of such technologies, although this is not a totally reliable cure – there are sophisticated methods available by which to subvert software programs to hide illicit activities.

The periodic use of public sector audits (to establish institutionalized checks, clear lines of accountability, and improve access to information) by independent (disinterested) auditors was also noted as an affective tool in the pursuit of non-corrupt governance.

USAID's third component of its framework – improving incentives by redesigning terms of employment in public service – was almost accepted as a default position by the authors. There was a sense in many of the papers, however, that this is the most important yet least probable strategy to curb public sector corruption. Currently there are very few effective anticorruption incentives for civil servants who do not earn a living wage – an economic situation that is more the rule than the exception in most developing countries. Until civil servants receive benefits and security of employment that allows them to achieve and sustain a reasonable standard of quality of life, and a status that commands the respect of their peers, they will continue to resort to corruption in order to meet their urgent needs. Strategies to remedy this predicament are mired in complexity, since not only must civil servants earn more, they must

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<sup>3</sup> USAID Handbook on Fighting Corruption, Washington: Center for Democracy and Governance, February 1999.

also perform more efficiently and demonstrate a profound change of attitude towards serving the public good. To some extent, this challenge is captured in the concept of professionalism, which appeared in many of the papers.

Government institutions in some countries demonstrate a culture of pride in professionalism, ensuring that their officials adhere to a consistently high standard of performance and commitment to public service. The inculcation of a professional ethic rewards competence, and does not tolerate shoddy performance. In such institutions, however, there also is considerable social status and economic security attached to permanent employment with the government, and competitive pressures to perform well or risk loss of career advancement or even job termination. There is also a reasonably good package of employment benefits. Given such an environment of professionalism, and the articulation and internalization of appropriate ethical standards and codes of conduct, it becomes very difficult for corruption to become embedded, and there is a high correlation between public expenditures and the provision of high quality public goods and services.

In less developed and transitional countries, it is often difficult or even deemed impossible to make the level of economic investment necessary to create and sustain such conditions. Further research is needed to explore the potential returns to an elevated level of investment in the civil service, particularly if the hidden costs of inefficiency, poor service to the public (and consequent loss of productivity by the public), crime, and corruption are factored in to establishing the cost of current arrangements. It arguably may be worth the investment in improved benefits and standards even in conditions of relative scarcity.

## 4. Gaps in the Sectoral Analyses

The nine sector analysis of corruption summarized by this paper presents a broad, but by no means exhaustive review of the ways in which corruption affects development. There are gaps in this analysis: key development sectors are missing from the analysis, private sector corruption has not been addressed, and there is a need to focus on development ethics.

First, there are other major public sector analyses that should be pursued, including a review of the government's role in physical infrastructure, transportation, communications, tourism, defense, and social services. The role of local governments in this era of expanding decentralization warrants close scrutiny, as well, as does the central government's role in regulating and participating in the financial sector.

Second, corruption is not limited to the public sector, although linkages between the public sector and the private and civil society sectors are often conduits for corrupt activities. Corruption occurs in all sectors – public, private, and civil society – yet most donor strategies and interventions in the developing world focus on the public sector. Isolating the public sector in this way can be misleading, since nearly all persons interact in public and private spheres that often overlap, and which certainly influence each other. Identifying corruption as just a public sector problem or giving preponderant weight to the public sector context can confuse the origins and vectors through which corruption finds expression.

The focus in this study on just the public sector both simplifies and complicates the overall conclusions, and renders any conclusions incomplete.<sup>4</sup> The relationships between public sector, private sector, and the civil society sector are intricate and growing in their interdependence, particularly as the divisions become intentionally (and, occasionally, unintentionally) blurred among these three sectors with respect to which sector performs certain public services and provides certain public goods. As the private sector and NGOs begin to perform more of what was once always deemed public sector services, lines of accountability become very tenuous – an obvious concern when considering the prevention of corruption. Government cannot selectively abdicate its governance functions through subcontracting, nor can it avoid an obligation to ensure that corruption and inefficiency do not come to characterize any functions and services that have been subcontracted or otherwise come to be performed by others. This level of oversight is partially addressed by better and more transparent procurement by the public sector of goods and services by the private and civil society sectors, but the analysis needs to go deeper in considering how the government should best maintain a quality and integrity assurance role appropriate to its ultimate accountability to the public.

Third, as Robert Klitgaard says, “Corruption is at its heart an ethical problem.”<sup>5</sup> Analysis has to go beyond this sectoral approach to get to the core of the corruption problem and what to do about it. Klitgaard follows his observation with a quick disclaimer that his purpose is not to provide a moral analysis of corruption, and that any such analysis probably would run adrift on the rocks of moral relativism. Other noted analysts have made passing comments on the ethical dimensions of corruption; Ackerman speaks of the need for “personal honesty and a devotion to democratic ideals,”<sup>6</sup> while Cragg stresses a universalist argument when he says that “Bribery is

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<sup>4</sup> While there was a “private sector” analysis conducted within this study, it focused on public sector corruption related to government-business transactions. It did not highlight the problem of business-to-business corruption.

<sup>5</sup> Robert Klitgaard, *Controlling Corruption*, (Berkeley: University of California Press, 1991), 11

<sup>6</sup> Susan Rose Ackerman, *Corruption: A Study in Political Economy*, (New York: Academic Press, 1978), 95

*prima facie* unethical virtually everywhere judged by the standards of prevailing conventional morality.<sup>7</sup>”

If one accepts that corruption is fundamentally a problem of ethics, the lack of emphasis in the literature on the ethical dimension is puzzling. Problems of moral relativism are hardly insurmountable, as evident in widely accepted human rights principles. Despite this, there is little in the literature on corruption to suggest that a moral framework is appropriate to analysis – yet this may be due to the nature of ethics itself. Ethics approaches moral dilemmas from several angles, which means that there probably never will be a definitive framework for the moral analysis of corruption. Several leading moral theories (for example the human rights approach, the capabilities approach<sup>8</sup>, virtue ethics, various feminist moral theories, social contract theory, Kantianism, utilitarianism) all separately offer carefully reasoned contemporary ethical frameworks that would – were they applied to this pursuit – illuminate various ways in which corruption constrains essential human freedoms, limits human opportunities and choice and thereby prevents human flourishing, fails to support the universal quest for “the life lived well,” erodes compassion and concern for the plight of those less fortunate, undercuts justice and equitable treatment for all persons under the rule of law, ignores or diminishes respect for fundamental human dignity, and fails to generate maximum pleasure or utility for the greatest number of people. The application of ethics to the problems of development generally, and corruption specifically, now finds expression in the relatively new field of *development ethics*. To date, however, leading multilateral and bilateral aid institutions such as the World Bank or USAID seldom frame their discussions on corruption or development from a development ethics perspective<sup>9</sup>.

The prominent exception to this institutional disregard for development ethics now may be emerging with the recent emphasis on leadership and its role in curbing corruption. In a recent study by Daniel Kaufman of the World Bank, over 80 percent of government officials from 62 countries in the sample identified the need to improve the quality of leadership as the single most important factor in the fight against corruption.<sup>10</sup>

Effective leadership entails more than competence, leadership skills, and a strong disposition towards developing a leadership role -- high moral standards of integrity, honesty, and commitment to the common good are also needed. It is important to appreciate both the practical and the ethical qualities of leadership and the public expectations of adherence to a public trust – what some call civic virtue. A leader’s effectiveness does depend in large measure on charisma, intellect, and assertiveness, but moral attributes underpin and influence the leader’s actions within the political process, and are arguably fundamental to successfully mitigating and preventing corruption – regardless of development sector. Corruption appears to flourish and become socially embedded in an environment devoid of integrity at the highest levels of

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<sup>7</sup> A.W. Cragg, “Bribery, Globalization and the Problem of Dirty Hands.” Paper presented at Corruption: Ethical Challenges to Globalization, November 5, 1999, Georgetown University.

<sup>8</sup> An example of a capabilities approach framework for the analysis of corruption may be found in “The Moral Critique: Corruption in Developing Countries,” by Stephen Schwenke, published in the *Journal of Public and International Affairs*, Volume 11, Spring 2000.

<sup>9</sup> Interesting exceptions do occur. Both the United Nations Development Programme (UNDP) and the British Department for International Development (DFID) speak openly and prominently about ethical concerns associated with human rights claims and protections in the UNDP *Human Development Report 2000: Human Rights and Human Development* and the UK Government’s 1997 *White Paper on International Development* respectively.

<sup>10</sup> Daniel Kaufmann, “Corruption: The Facts,” *Foreign Policy* 107, Summer 1997.

leadership. Top leadership exerts a powerful influence on societal tolerance to and participation in corruption, for good or ill depending on the moral attributes – or virtues – being modeled.

## 5. Conclusion

The analyses undertaken by the nine authors emphasized the importance of transparency, accountability, access to information, and strong disincentives for engaging in corrupt behavior. Corruption must be prevented in a variety of ways, some sequenced, some simultaneous, some sectorally-based, some regardless of sector. Significant advances can be made in the fight against public sector corruption provided there is the requisite political will, competent and well-trained public sector staff, and effective and civic-minded leadership.

Three additional observations warrant special mention:

- First, working for the public sector must be made economically viable so that talented, competent, and publicly minded individuals can be attracted and retained. It is simply not reasonable to expect absolute integrity and the provision of efficient, high-quality services responsive to the public interest from civil servants who typically are underpaid, undervalued, inadequately trained, and – not surprisingly – poorly motivated. The cost implications of such an investment appear to be prohibitive, but serious research should be undertaken to compare the hidden costs of corrupt public sector performance and the many lost opportunities that result from embedded corruption with the actual costs and potential returns from investing a greater proportion of available resources into the public sector, in turn demanding corruption-free standards and efficient stewardship of public resources.
- Second, the role of leadership in modeling and motivating ethical and corruption-free behavior is pivotal to any success in curbing corruption. Leaders who demonstrate integrity and demand the same from others inspire public service, and such leadership deserves more direct support and recognition.
- Finally, the public must demand integrity, effectiveness, and responsiveness from the public sector. The public should be made aware of the profoundly negative impacts of complacency in the face of growing and worsening corruption, and a public dialogue should begin on the values and qualities that ought to characterize the public sector, and how this can be made to happen. Involving the public as full participants in the fight against corruption is the most powerful and potentially effective approach available because it starts at the place where corruption hurts the most – by respecting the essential dignity and worth of every human being.



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