



**A PRACTICAL APPROACH TO DEALING
WITH MUNICIPAL MALFEASANCE**

Robert Klitgaard

Ronald MacLean-Abaroa

H. Lindsey Parris

UNDP/UNCHS/World Bank-UMP

Nairobi, Kenya

?? WORKSHOP

**Mediterranean Development Forum
September 3 - 6, 1998**

Marrakech, Morocco

Working Paper No. 7
1996
UNDP/UNCHS/WORLD BANK-UMP
P.O. Box 30030
Nairobi
Kenya

All Rights Reserved
Manufactured in Kenya
First Printing, May 1996

This document has been prepared under the auspices of the UNDP/UNCHS/World Bank-sponsored Urban Management Programme. The findings, interpretations, and conclusions expressed here are those of the authors and do not necessarily represent the views of the United Nations Development Programme, UNCHS, the World Bank, or any of their affiliated organisations.

**Emiel Wegelin
Coordinator
Urban Management Programme
Technical Cooperation Division
UNCHS (Habitat)**

**Sonia Hammam
Team Leader
Urban Management Programme
TWURD
The World Bank**

FOREWORD

This working paper has been prepared by the Urban Management Programme (UMP) - a ten-year global technical cooperation programme designed to strengthen the contribution that cities and towns in developing countries make toward human development, including economic growth, social development, and the reduction of poverty.

The programme is a partnership of the international community: UNCHS (Habitat) is the executing agency; The World Bank is the associated agency and UNDP provides the core funding and overall monitoring. Bilateral donors, multilateral agencies such as the World Health Organization and Non-Governmental Organisations (NGOs) provide various types of support.

The ultimate beneficiaries of the Programme are the citizens who live in and use cities and towns, particularly the urban poor, who will receive better-managed services and more accountable, participatory, and transparent management as a result of the programme.

The Urban Management Programme

Through its regional offices in Africa, the Arab States, Asia and the Pacific and Latin America and the Caribbean, the UMP seeks to strengthen urban management by harnessing the skills and strategies of networks of regional experts, communities and organisations in the public and private sectors. The goal of the programme is to strengthen this local and regional expertise.

- **City and Country Consultations.** The UMP brings together national and local authorities, the private sector, community representatives, and other actors within a country to discuss specific problems within the UMP's subject areas and to propose reasoned solutions. Consultations are held solely at the request of a developing country and often provide a forum for discussion of a cross-section of issues generally resulting in a concrete action plan for policy programme change.
- **Technical Cooperation.** The UMP uses its regional networks of expertise to sustain follow-up to the consultations by providing technical advice and cooperation to facilitate the implementation of action plans and to mobilise the resources needed for their implementation.

Through its Core Teams in Nairobi and Washington, D.C. the UMP supports the regional programmes and networks by synthesising lessons learned; conducting state-of-the-art research; identifying best practices; and disseminating programme-related materials.

The UMP Dissemination

The UMP produces a number of publications which present the findings of specific research activities, summarize the results of case studies, research, and the insights and broad recommendations developed under the work of the UMP to date, and illustrate instruments,

techniques, or procedures, the UMP has found useful in addressing the issues surrounding the five components.

The UMP's Working Paper Series

The working paper series has several objectives. The **content** of the series seeks to highlight examples of good and best practice in the various components of urban management or give an overview of main issues and options in a particular field of urban management. This will range from case studies and training materials on one or more aspects of urban management in a particular city to regional and even global syntheses of experiences. Much of the latter will increasingly be drawn from the UMP's regional programmes. The **timeliness** of the information in the series is an important objective. Hence, the review and production processes for issuing the series have been streamlined to allow for rapid publication and dissemination. The **sources** of material that will be published in the series are intended to be diverse. Authors will be drawn from the UMP's regional coordinators, Programme consultants, members of the UMP's regional networks, UMP core team members, and others.

The **audience** for the working papers will also be diverse, varying according to publication. The series should be of use to urban managers, urban policy makers at different levels of government, External Support Agencies (ESAs) that provide support for urban development, community and non governmental organisations, academics, and the media.

In parallel, the UMP also issues a formal publications series that consists of discussion papers, policy framework papers, and management tools. A list of titles that have been prepared in the formal series and working paper series is attached at the end of this paper.

Many of the formal series publications are available in English, Spanish, and French. The working paper series is available only in English though translations could be available at a later date.

ACKNOWLEDGEMENTS

This paper has been prepared under a consultancy for the UNDP/ UNCHS/World Bank Urban Management Programme. Many changes have been made to earlier drafts of this study in response to suggestions by Kyung-Hwan Kim and Emiel Wegelin of UNCHS and Sonia Hammam of the World Bank. The authors also acknowledge the support of the Economic Research Unit of the University of Natal is also acknowledged.

INTRODUCTION

Malfeasance or wrong doing by public officials operates as a critical impediment to developing accountable and transparent urban management systems which is essential for the efficient and equitable use and distribution of resources at local level. Preventing corruption helps to raise city revenues, improve service delivery, increase public confidence and participation, and win elections. Municipal malfeasance is becoming a more critical issue as many countries in the developing world are moving towards more decentralized systems of public finance and administration.

Against this background, the paper has been prepared to help city officials diagnose, investigate, and prevent various kinds of corrupt and illicit behaviour. It focuses on systematic corruption rather than the free-lance activity of a few law-breakers, and emphasises preventive measures rather than purely punitive or moralistic campaigns. The paper approaches the problem from an economic perspective rather than from an ethical viewpoint. It stresses practical steps and considers, albeit schematically, political and administrative tactics. Most of its suggestions involve *approaches* to preventing corruption and not detailed prescriptions.

The document also emphasises that tackling corruption can be a means toward broader aims of municipal leaders such as providing services, empowering citizens, working with the private sector in order to make cities even more vibrant economic centres. It does not recommend an approach to corruption that emphasises more controls, more laws, and more bureaucracy. Instead, especially in cases of systematic corruption, it suggests a restructuring of city services and institutional reforms through improved information linked to more powerful incentives and disincentives. A major theme of this document is that *fighting corruption can become a lever to achieve much broader ends, including not only financial survival but remaking the relationship between citizen and local government*. There is no magic wand here, but the study's message is optimistic. Corruption can in fact be prevented, even if never, in this imperfect world, eliminated.

EXECUTIVE SUMMARY

Corruption can be reduced, and doing so can be the key to a larger effort to transform city governments. But it is important to tackle corruption as a problem of policy and management and not as one of ethics or even better laws. This paper attempts to provide practical guidance for aspiring municipal reformers, under three broad headings: diagnosis, strategy, and implementation.

Diagnosis: Corruption comes in many varieties, and the extent of each variety varies too. The beginning of wisdom about corruption is to unbundle it. Surprisingly perhaps, both citizens and government officials themselves (even if "corrupt") can help diagnose the extent of and damage caused by various kinds of corruption. The paper recommends:

- (i) Participatory diagnosis: workshops for those involved in corrupt systems
- (ii) Systematic anonymous surveys of employees and clients
- (iii) Special studies, including "vulnerability assessments" Strategy.

After assessing the kinds, extent, costs, and possible benefits of corruption, the next task is to design a strategy focusing on systems. It is useful to begin with economic metaphors, such as the principal-agent-client model. A stylized equation stimulates reflection:

$$\text{Corruption} = \text{Monopoly} + \text{Discretion} - \text{Accountability}.$$

Whether in Paris, Puno, or Port of Spain, whether in the public sector or the private, corruption tends to flourish when someone enjoys a monopoly over a good or service, has the discretion to decide who receives how much of it, and is not accountable for what is decided.

The paper provides a framework for policy analysis (Box 4 on policy analysis applied to deterring collusion in procurement) which has proved useful in many countries in stimulating local leaders to think through possible options, their possible impacts, and their likely direct and indirect costs. The broad headings of the policy measures are:

- (i) Selecting agents
- (ii) Setting rewards and penalties
- (iii) Obtaining information about results and linking rewards and penalties to them
- (iv) Restructuring the principal-agent client relationship: reduce monopoly, clarify and limit discretion, and enhance accountability
- (v) Raise the "moral costs" of corruption.

Implementation: The paper provides practical tips and some examples of positive practice under the following headings:

- (i) Organizing the government's efforts: there should be a focal point within the government for the anti-corruption initiative, but at the same time the focal point's main task is to coordinate the many parts of municipal government that must be involved in preventing corruption.

- (ii) "Pick low-hanging fruit". One should begin with a relatively easy-to-fix problem first, where success can be demonstrated within six months.
- (iii) Align the anti-corruption effort with favourable forces (national, international, private sector, NGO). A city need not go it alone in the fight against corruption.
- (iv) Break the culture of impunity by "frying big fish". People may no longer believe promises or heed new rules and regulations. For a change in attitude to occur, it must be seen that a few big practitioners of corruption are apprehended and punished--givers as well as receivers.
- (v) Raise the profile of the anti-corruption effort through publicity.
- (vi) Do something good for government officials before seeming to attack them. A good first step is to improve the measurement of service delivery, with the cooperation of city officials as well as citizens groups. Show civil servants that what they do in a positive vein matters (and can be at least partially measured).
- (vii) Strengthen institutional capacity not only through "supply-side measures" (more training, more experts, more computers) but especially through changing systems of information and incentives. Better information and incentives are at the heart of institutional reform.
- (viii) Consider how an anti-corruption campaign can galvanize broader and deeper changes in municipal government (such as client consultation, pay-for-performance, privatization with high quality regulation). It is important that "fighting corruption" be seen as a point of leverage for a broad-scale reform of city management.

These measures are not mutually exclusive and are to be selected and implemented in an opportunistic manner to produce a concrete result towards containing corruption.

CONTENTS

page

FOREWORD	iii
ACKNOWLEDGEMENTS	v
INTRODUCTION	vi
EXECUTIVE SUMMARY	vii
CONTENTS	ix
1 The Importance of Corruption	1
1.1 What is “Corruption” and Why is it Harmful?	1
<i>Definition</i>	1
<i>An Example</i>	2
1.2 Why Is Corruption Such a Salient Issue Today?	3
1.3 Why Do Many Efforts to Combat Corruption Fail?	4
2 Formulating a Strategy	6
2.1 Example of a Preventive Strategy	6
2.2 How to Formulate a Strategy	9
3 Corruption as a System	12
3.1 An Economic Approach to Corruption	12
3.2 Corruption as a Crime of Calculation	12
3.3 A Framework for Policy Analysis	13
3.4 The Example of Procurement	15
4 Assessing Corruption	17
4.1 Participatory Diagnosis	17
<i>What Participatory Diagnosis Is</i>	17
<i>How Participatory Diagnosis Might Be Carried Out</i>	17
4.2 Technical Studies and Experiments	19
4.3 Involving the Private Sector and Citizens	22
5 Implementing Reform	24
5.1 Organise the Fight against Corruption	24
5.2 Pick Low-Hanging Fruit	27
5.3 Align with Favourable Forces	28
5.4 Break the Culture of Impunity	28
<i>Fry Big Fish</i>	28
<i>Make a Splash</i>	29
5.5 Change Systems	30

5.6	Some Bureaucratic Tactics	33
	<i>Begin with Something Positive</i>	33
	<i>Emphasise Information and Incentives</i>	34
5.7	The La Paz Reforms	36
	<i>Diagnosis</i>	36
	<i>Strategy</i>	36
	<i>Implementation</i>	37
REFERENCES		38
ABOUT THE AUTHORS		40
Boxes		
Box 1:	Seven Invalid Excuses for Not Fighting Corruption.....	5
Box 2:	Key Features of the Hong Kong Strategy	9
Box 3:	Preventing Corruption: A Framework for Policy Analysis	14
Box 4:	The Framework for Policy Analysis Applied to Deterring Collusion in Procurement	16
Box 5:	Participatory Diagnosis in La Paz, 1985.....	19
Box 6:	Some Advantages of Outside Consultants.....	20
Box 7:	Model Memorandum for Employees, as the Basis for Incentive Experiments	21
Box 8:	Examples of Technical Studies to Help Prepare Incentive Reforms	21
Box 9:	Outline for a "Vulnerability Assessment"	22
Box 10:	Bangalore's Report Card on Municipal Services.....	23
Box 11:	An Independent Office to Fight Corruption in New York City's School Construction	25
Box 12:	Some New Laws That Would Help Reduce Corruption.....	32
Box 13:	A Citizens' Manual Helps Prevent Corruption	33
Box 14:	Some Practical Advice for Incentive Reforms.....	35

1 THE IMPORTANCE OF CORRUPTION

1.1 What is “Corruption” and Why is it Harmful?

Definition:

Corruption is a universal problem, but around the world local governments seem particularly susceptible. For example, in Japan, according to one estimate, provincial governments have three times more officials than the national government but produce fifteen times the reported number of corruption cases and four times the number of arrested officials (OECD 1995, Session 3, p. 2). In New York City, the cost of past corruption in the school construction area alone is measured in the hundreds of millions of dollars (Thacher 1995). Municipalities are often accused not only of mismanagement but of pouring public funds into private pockets. The charges are as varied as the activities of municipal authorities.

- Bribes are said to lead to the misallocation of subsidised housing.
- Kickbacks to procurement officers mean that city contracts often go to unworthy firms.
- City police departments sometimes look the other way at criminal offences, some small but some large, in exchange for a bribe.
- Public property is used by city officials for private ends.
- Permits and licences are facilitated by speed money, and sometimes purchased for a bribe.
- Bribery enables people to break safety, health, or other rules, whose transgression creates grave social risks.
- City services may be unavailable without an illegal side payment.
- Tax collectors may extort citizens, or even more often collude with taxpayers to abet evasion in exchange for a bribe.
- Zoning decisions are influenced by corruption.

And so on: this list is not a complete typology of the corruption found in local governments around the world.

There are many definitions of corruption. Most broadly, corruption means the misuse of office for personal gain. The office is a position of trust, where one receives authority in order to act on behalf of an institution, be it a private, public, or non-profit. Corruption means charging an illicit price for a service or using the power of office to further illicit aims. Corruption can entail acts of omission or commission. It can involve legal activities or illegal ones. It can be internal to the organisation (for example, embezzlement) or external to it (for example, extortion). The effects of various kinds of corruption vary widely. Although corrupt acts sometimes may result in a net social benefit, corruption usually leads to inefficiency, injustice, and inequity.³

³ Some literature on corruption in the 1960s tended to excuse corruption as something like a market price when markets weren't allowed or something like an expression of interest when more democratic means were closed. Since then, both empirical and theoretical studies have persuaded most people that most types of corrupt

Corrupt acts differ in extent as well as type. Some corruption is “free lance,” as individual officials or small groups of them try to take advantage of their monopoly powers to generate bribes.

Sometimes, alas, corruption becomes systematic. Two authors have recently distinguished one sort of corruption that is analogous to a foul in sports, and another sort which is the breakdown of the rules defining and enforcing fouls. In the latter case, the sports contest virtually collapses. Luis Moreno Ocampo calls it “hypercorruption.” Herbert Werlin’s label is “secondary corruption,” and he compares it to alcoholism.⁴

Systematic corruption generates economic costs by distorting incentives, political costs by undermining institutions, and social costs by redistributing wealth and power toward the undeserving. Corruption creates inefficiencies, such as discouraging investment in the local economy and in infrastructure. When corruption undermines property rights, the rule of law, and incentives to invest, economic and political development is crippled. Corruption exists in all countries. But corruption tends to be more damaging to poor countries, where it can undermine property rights, the rule of law, and incentives to invest.

An Example:

Most observers will agree that the situation in La Paz in 1985 was grave. The city had just experienced the first democratic election in 40 years, with Ronald MacLean-Abaroa as the new mayor. Bolivia’s hyperinflation had been staunch by a remarkable austerity programme. But these welcome changes coincided with a city in crisis. As Mayor MacLean-Abaroa took office, the city’s payroll was 120 percent of its revenues. This despite miserable wages eroded by the inflation: a city engineer might earn only \$30 per month, and the mayor’s salary was a meagre \$100 per month. Previous mayors had added more and more employees for political reasons. In 1985 the city employed about 5700 people, 4000 of whom were labourers.

The municipal government was a cornucopia of corruption. Public works, carried out for the most part by the city, featured everything from theft of parts and fuel to fraudulent fulfilment of quality standards, in addition to great inefficiency. Tax collection was rife with fixes (a lower assessment on your house in exchange for a bribe) to speed money (the city collected taxes itself, and paying sometimes involved standing in long queues). Applications for permits and licences were often delayed unless speed money was paid, and finally obtaining the permit or licence often entailed another bribe. Procurement involved many arcane steps and little transparency, resulting in bribes and extortion for obtaining a contract and then, after performing the work, bribes in order to get paid. Personnel systems often worked on the basis of friendship or political influence; there was little tradition of professionalism. Auditing and investigations were lax and themselves subject to

behavior are economically and politically costly, even if they sometimes benefit the group in power. For a review see Klitgaard 1988, especially pp. 30-48.

⁴ See Moreno Ocampo 1993 and Werlin 1994. Another description of generalized corruption is Bayart 1989.

corruption. Finally, some senior executives and some city council members used their positions to move favoured applications and vendors through the system, in exchange for monetary and other illicit considerations.

Needless to say, under these circumstances the city was failing in all its missions. Faced with such systematic corruption, many people would simply give up. Or they would call for institutional strengthening of what we call a “supply-side strategy.” In other words, more training, more foreign experts, more computers, more regulations. And of course for codes of ethics and a recasting of attitudes. These strategies are seldom sufficient, as we shall see. Later in this study, we will see how Mayor MacLean-Abaroa acted decisively to reduce corruption, and we will hope by then to understand the principles he used in diagnosing the problems and dealing with them.

1.2 Why Is Corruption Such a Salient Issue Today?

Few urban leaders today can ignore municipal malfeasance. Around the world local and national elections often feature corruption as a key issue. Gone are the days, it seems, when one could say what a mayor in Brazil bragged during his reelection campaign: “Robo mas faço obras” (loosely translated: “Yes, I rob, but works get done”).

Why is fighting corruption surfacing now as a priority around the globe? One idea is that corruption has grown worse. But why might this be so? One line of argument cites the rapid rise of international trade and international communications, so that people are exposed to economic temptations as never before. Dipak Gyawali (1994) believes that advertising has created new demands, and inflation-eroded salaries new perceived necessities, for corrupt behaviour. Another argument points to the democratic and economic reforms that have swept the world. In the long run most people expect that political competition and economic liberalisation will reduce corruption, if only by limiting monopoly power. But in the short run, these changes may have created new opportunities for corruption by rapidly changing the accustomed rules of the game, leading to a kind of free-for-all with little enforcement. And, in many cases, corruption occurs because healthy policy changes are implemented through sick institutions.

Or are we simply becoming less tolerant of corruption? One idea is that we more acutely perceive corruption’s costs now that the Cold War has abated and economic policies and multiparty politics are roughly “got right.” Another possibility is that people blame corruption for the fact that neither freer markets nor democratic reforms have yet lived up to expectations, in order to avoid admitting that those reforms may not be right everywhere. Or perhaps because political liberalisation has granted new freedoms to document and complain about corruption, we are made more aware of it. It is difficult to know whether corruption is increasing or decreasing. Information about corruption is scarce and misleading. As John T. Noonan’s history of bribery emphasises, one country may have more prosecuted cases of corruption than another, yet actually have a much lower incidence of corruption, simply because the first country’s will and its capabilities to fight corruption are stronger (Noonan 1985).

Regarding municipal malfeasance, it has been argued that the substance and style of city management is changing in ways that promise better governance but also offer new temptations for corruption. A recent report from the Audit Commission of United Kingdom summarises these changes in Figure 1. “Many of the recent changes in local government,” the Audit Commission asserts, “have been away from centralised controls and tight financial regimes and have increased the risks of fraud and corruption occurring.” (Audit Commission 1993: 3).

Administrative decentralisation and municipal democratisation are powerful trends. Over the past fifteen years, municipal governments have been asked to increase their responsibilities. At the same time, especially in developing countries, many municipalities have suffered an erosion in the real wages of officials. For all these reasons, concern with municipal corruption has grown. The Chilean policy analyst Claudio Orrego points out that “all the objectives that have been established for the reform of the municipal sector (increasing their legitimacy and democratisation, increasing the efficiency and effectiveness of their services, and increasing citizen participation), can be summarised as part of this broader goal: *strengthening accountability*.” (Orrego 1995: 5).

1.3 Why Do Many Efforts to Combat Corruption Fail?

Unfortunately, the history of anti-corruption campaigns around the world is not propitious. At the national and local levels, in ministries and in agencies such as the police, even highly publicised efforts to reduce corruption have tended to lurch, lapse and, ultimately, disappoint.

A typical pattern looks something like this. A scandal occurs. For example, a municipal councillor may be found guilty of bribe-taking. Or the police may be found to be systematically involved in collusion with criminals. Public works programmes may be found to contain inflated costs as the result of fraud and kickbacks. Bidders on municipal projects may be discovered to have formed a collusive ring to restrict competition and inflate prices.

As the scandal erupts, the public is outraged. The press fulminates. Politicians express dismay and call for decisive action. An inquiry commission is formed. Six months later, the commission’s recommendations emerge. They tend to include more layers of oversight, bigger budgets for investigation and enforcement, a code of conduct. But in the six months that have passed, the public’s outrage has subsided, and so the press and politicians pay little attention to the recommendations. In fairness, this is partly because the recommendations tend to be expensive and to promise little real prevention.

It may be the case that, in the short run, heightened concern leads to reduced corruption in the agency concerned. But concern proves difficult to sustain and institutionalise. As a result, there are cycles of reform. After the crisis, there may be improvement. But in a while the corruption reemerges.⁵

⁵ On such cycles in police corruption in the United States, see Sherman 1979 and Mollen *et al.* 1994. A theoretical model for the persistence of corruption is presented in Tirole 1992.

In most countries, as sociologist Amitai Etzioni (1982) once pointed out, there is no lobby to combat corruption. Unlike (say) sugar or soy beans or shoes, where a particular interest group is affected specifically by a change in policy, the costs of corruption are usually spread over a large number of people, usually taxpayers. Because the benefits of preventing corruption are also widespread, the logic of collective action predicts that an effective interest group will be hard to mobilise and sustain.

Box 1: Seven Invalid Excuses for Not Fighting Corruption

Excuse 1. “Corruption is everywhere. Japan has it, Holland has it, the United States has it. There’s nothing you can do about something endemic.” But consider health. Illness is everywhere, too. And yet no one concludes that efforts to prevent and treat illness should therefore be curtailed. Like illness, the levels and types of corruption vary greatly, and preventive and curative measures make a difference.

Excuse 2. “Corruption has always existed. Like sin, it’s part of human nature. You can’t do anything about it.” Again, the observation is correct, the conclusion invalid. Because sin exists does not mean it exists in each of us to the same degree, and the same holds for corruption. We can constrain opportunities for corruption, even if the tendency is perennial.

Excuse 3. “The concept of corruption is vague and culturally determined. In some cultures the behaviour that bothers you is not considered corrupt. Fighting corruption smacks of cultural imperialism.” In fact, as John T. Noonan’s monumental history shows, no culture condones bribery. Anthropological studies indicate that local people are perfectly capable of distinguishing a gift and a bribe, and they condemn bribery. The forms of corruption that this document considers are against the law in every city in the world.

Excuse 4. “Cleansing our society of corruption would require a wholesale change of attitudes and values. This can only take place after...[the polemicist’s choice: a hundred years of education, a true revolution of the proletariat, a Christian or Muslim or other religious revival or state, and so forth]. Anything less will be futile.” The record of moralisation campaigns is not encouraging. More germane to city managers are two other points. First, engineering such massive social changes exceeds their scope of work. Second, in the meantime there are ways to close loopholes, create incentives and deterrents, augment accountability and competition, and improve the rules of the game.

Excuse 5. “In many countries corruption is not harmful at all. It is the grease for the wheels of the economy, and the glue of the political system.” True, corrupt equilibria do exist. But both theoretical models and empirical studies show that they are inferior to equilibria with less corruption. Arguing that corrupt payments have a function in a given system does not at all argue for their aggregate desirability.

Excuse 6. “There’s nothing that can be done if the man or woman on top is corrupt, or if corruption is systematic.” It is more propitious for anti-corruption efforts if leaders are clean and if corruption is episodic rather than routine. But success stories show that improved systems lead to fewer opportunities for everyone, even the political powers, to reap corrupt rents. Systematic corruption can be reduced.

Excuse 7. “Worrying about corruption is superfluous. With free markets and multiparty democracies, corruption will gradually disappear.” Democracy and markets enhance competition and accountability, thereby reducing corruption. But during transitions, corruption may increase. And in stable democracies, corruption is a chronic threat to the provision of many public goods and services, which are inherently the monopoly of the state (such as justice).

The recent formation of Transparency International is an encouraging sign that this prediction may not hold forever (Galtung ed. 1994). TI was founded in Berlin in 1993 and now has chapters in 40 countries. It hopes to do for corruption what Amnesty International did for human rights. As we

shall see, a key strategic concern for anti-corruption campaigns is how to mobilise and sustain popular participation in the fight against corruption.

Many anti-corruption efforts fail because they take an exclusively legalistic approach or worse, rely on appeals to morality. Sometimes anti-corruption efforts are pursued only half-heartedly, because of the “seven excuses” of Box 1. Sometimes anti-corruption efforts themselves become corrupt efforts to vilify or imprison the opposition.

Fortunately, there are successful anti-corruption initiatives from which we can learn. They teach us that a key to success is to have a *strategy* for preventing corruption.

2 FORMULATING A STRATEGY

2.1 Example of a Preventive Strategy

Hong Kong's anti-corruption effort illustrates a major argument of this manual: fighting corruption should not be considered an end in itself but an orienting principle for reforming urban administration.

In Hong Kong, a remarkable initiative to root out corruption, particularly in the police department, became a vehicle for the modernisation of service delivery and the empowerment of citizens in local government.

The case also illustrates two other points. First, a sustainable strategy should address corrupt systems. Second, what might be called a culture of cynicism and impunity can be broken.

In the early 1970s the Hong Kong police was deeply involved with drug traffickers, gambling dens, and prostitution rings, which paid the police to look the other way. The police evolved its own syndicates to process corrupt receipts. For example, in the western district of Kowloon one syndicate collected money from drug dens and vendors through middlemen and then on to middle-level officers. Higher-ranking officers would receive regular payments for keeping their eyes closed, and the syndicate worked out an elaborate scheme to distribute and manage its corrupt receipts, including accountants, payments to six banks, and in some cases the foreign remission of funds. Lower-ranking officers also participated in "fixing" traffic violations for immediate bribes. Police officers also extorted money from tea shops and street vendors. Corruption plagued the internal merit systems, and the police force's internal Anti-Corruption Office was itself corrupted.

The new governor commissioned a major review, which uncovered shocking evidence of such institutional sickness. The commission's description is worth quoting at length, because it exemplifies a phenomenon of broader relevance that is often overlooked: systematic corruption.

The worst forms are what are described ...as "syndicated" corruption, that is to say a whole group of officers involved in the collection and distribution of money ... Frequently the "collection" is far more than corruption in the true sense. It is plain extortion accompanied by the veiled threats of violence at the hands of triad gangsters...

Many police officers, so it is said, have simply lost heart in their endeavour to deal with a number of "social" offences and have joined the ranks of those who "squeeze" the operators rather than take them to court ...

It is said that Police corruption is, for the most part, "syndicated" and that corruption on an individual basis is frowned upon by the organisers of these "syndicates"—indeed anyone operating on his own is liable to be "fixed." The organisers are good psychologists. New arrivals in the Force are tested to see how strong is their sense of duty. The testing may take various forms—sums of money placed on their desks, etc. If an officer fails to report the first overture of this sort he is really

“hooked” for the rest of his service, and is afraid to report any corrupt activities which may thereafter come to his notice ...

There is a saying in Hong Kong:

- “Get on the bus,” i.e., if you wish to accept corruption, join us;
- “Run alongside the bus,” i.e., if you do not wish to accept corruption, it matters not, but do not interfere;
- “Never stand in front of the bus,” i.e., if you try to report corruption, the “bus” will knock you down and you will be injured or even killed or your business will be ruined. We will get you somehow.

The reaction of honest young police officers hearing this kind of talk may well be imagined. They either join the “bus” or mind their own business.⁶

Police corruption was creating a climate of distrust in the entire government, at a time when Hong Kong was experiencing pressures from a “new class” of young professionals for a more democratic and participatory government. Moreover, a corrupted police facilitated the spread of corruption in other government agencies. Hong Kong’s international reputation was suffering. One study showed that 70 percent of news stories about Hong Kong in the British press had to do with corrupt practices (Klitgaard 1988: 100). Investment and trade might turn elsewhere.

Previous attempts to deal with police corruption had emphasised what might be called “the usual solutions”—stronger laws, more resources and power to the Anti-Corruption Office within the police, and an emphasis on investigation. For example, over time authorities were permitted to examine the bank accounts of government employees, first when a specific corrupt act was investigated, later when an official’s “standard of living” and “control of pecuniary resources” were deemed excessive. Next such officials could be dismissed on the basis of “unexplained enrichment.” Finally, for such cases the burden of proof shifted: they would have to demonstrate their innocence. The police’s Anti-Corruption Office gained new powers of long-term intelligence gathering, investigations of acts of corruption, and investigations of the lifestyles of officials.

Despite it all, corruption continued. When corruption is systematic, often the usual solutions won’t work.

The new governor, Murray MacLehose, took bold action. He set up a new Independent Commission Against Corruption (ICAC), reporting directly to the governor, and abolished the police Anti-Corruption Office. It had powerful investigatory capabilities. But from the beginning it emphasised *prevention*.

⁶ Excerpts from *Second Report of the Commission of Enquiry Under Sir Alistair Blair-Kerr* (Hong Kong, 1973).

The ICAC had three components:

- Operations Department, in charge of investigation.
- Corruption Prevention Department, which evaluated where various agencies were vulnerable to corruption and helped the agencies take remedial measures.
- Community Relations Department, with the aim of involving the people in the fight against corruption.

The ICAC's strategy recognised the need to rupture the culture of corruption. As other success stories also teach, an important step is to "fry big fish," that is, to prosecute and punish high-level perpetrators. Hong Kong successfully extradited the former police chief, who had escaped to England and was enjoying there his ill-gotten millions. The extradition signalled that the rules of the game had changed, and that all the good words about preventing corruption would be backed by action.

The Corruption Prevention Department (CPD) recruited 65 specialists including management experts, systems analysts, computer experts, accountants, lawyers, engineers, and architects. In the words of one CPD official, it was responsible for taking a good, hard look at practices and procedures within the Government and public utilities. We do this through careful examination and analysis of systems, methods, work approach, and policies. The object is to eliminate, and simplify wherever possible or desirable, unenforceable laws, cumbersome procedures, vague and ineffectual practices conducive to corruption.

The CPD established two divisions. A "people" division dealt with services and personnel functions, and a "property" division worked with contracts, buildings, and land. The ICAC worked with a low profile and established a "you-take-the-credit" relationship with the various government agencies. If needed changes were not made, the implicit threat was, of course, the governor's wrath. But together, the CPD and government agencies identified areas of excessive or unregulated discretion, poor control systems, and unenforceable rules and regulations.

The ICAC's 1975 annual report called the CPD "an entirely new concept in public administration," and a measure of pride is understandable. The results went beyond the control of corruption. The government now had a new tool to **reform the delivery of public services**. The ICAC was also a strategic device to **mobilise citizen participation** and support. This was accomplished in two ways.

First, five citizen advisory committees were set up to guide and monitor the ICAC. They included government critics, and their scope ranged from overall policy through the functions of the ICAC to a "complaints committee." The precedent has wide relevance for insuring the transparency of government agencies, especially those with powers as great as the ICAC's.

Second, the Community Relations Department (CRD) was another strategic innovation. It set up local offices to gather information about corruption from civil society as well as to engage in

grassroots educational activities about corruption's evils. The CRD also created school programmes, publicity campaigns, film strips, TV dramas, a radio call-in show, special pamphlets, and exhibitions.

The results were remarkable. Systematic corruption in the police force was broken. Corruption throughout Hong Kong was reduced. The ICAC investigated and worked with the management of many government departments. It prosecuted officials from the Departments of Fire, Housing, Immigration, Labour, Marine, Medical and Health, New Territories Administration, Post Office, Prisons, Public Works, Transport, and Urban Services. The ICAC also investigated and prosecuted corruption within the private sector. Within seven years, the Corruption Prevention Department had carried out almost 500 studies on various policies and practices in government agencies. It followed up many of these with full-scale monitoring reports on how well the recommendations were being implemented. Its seminars on corruption prevention had been attended by more than 10,000 officials.

Perhaps the ICAC's most important benefits underscore a theme of this manual: preventing corruption can be the point of leverage for reinventing city government. In Hong Kong, thanks to initiatives spearheaded by the ICAC, city services became more efficient, and the people of Hong Kong had new ways to participate in and influence their government.

Box 2 summarises the key features of Hong Kong's successful strategy against corruption.

Box 2: Key Features of the Hong Kong Strategy

1. When confronted with systematic corruption, understand that the usual law enforcement approaches are insufficient. Even Draconian powers of investigation fail when the investigatory mechanism is corrupted.
2. Create a new, independent anti-corruption agency with carefully selected, talented staff with intrepid leadership and powerful internal controls. Create five citizen oversight boards to guide and monitor the agency.
3. Break the culture of cynicism and compliance by "frying big fish."
4. Then emphasise prevention. Systematically analyse government functions. Move to reduce monopoly power, clarify and streamline discretion, and promote accountability. Work with government agencies, not against them. At the same time as this fights corruption, it enables radical changes in the delivery of public services.
5. Mobilise citizens in the fight against corruption by creating many new avenues to receive information from them about corruption and to educate them about its harms. At the same time as this fights corruption, it enables radical changes in citizens' participation and support.
6. In sum, understand that systematic corruption requires a systematic approach and radical changes. And that fighting corruption can be a lever for a generalised reform of local government.

2.2 How to Formulate a Strategy

The need for a *strategy* may sound obvious, but anti-corruption campaigns often lack just that. Corruption should not be conceived as a mere irregularity or the act of a scoundrel. The secret of successful reform is to change policies and systems, rather than perennially hunt for isolated culprits or call for a moral renovation. Where there is the combination of monopoly plus official discretion minus accountability, we will tend to find corruption. When public officials are paid meagre salaries without rewarding performance, and when penalties against the corrupt are rare and mild, we can expect corruption to flourish. Successful reforms address these systemic problems.

To some people, however, there is no need even to talk about a campaign against corruption or a new strategy. The only thing needed is for the government to do what it should be doing. A vice-president of a major international agency recently wrote the senior author to this effect. The problem with African governments, he said, wasn't figuring out what to do, it was doing what they already promised to be doing but weren't.

This reaction contains an element of truth. And this element has parallels in many areas of life. A company would be more profitable if only everyone in the company more fully lived up to her or his responsibilities. We would all be better people if only we reminded ourselves of our deepest precepts and did a better job of living up to them.

But in another sense the vice-president's reaction begs the interesting questions. Why *don't* we live up to our best? Are there practical strategies of self-control that might help us do better? Shelves of self-help books try to provide tips. Regarding companies, a vast literature deals with how business leaders can induce employees to live up to their responsibilities. The fact that so many books exist implies that the answers are also not obvious.

And so it is for a campaign against corruption. If one could simply say "don't bribe and don't take bribes" and be heeded, that would be the end of bribery. But it's not that simple. It is costly to monitor and costly to punish, so that finding out whether one is heeded and punishing those who don't heed isn't free and easy. One must create a climate, an information structure, and a set of incentives so that corruption can be controlled. This in turn requires understanding what induces various kinds of corruption and how they cause social harm (and occasionally some social benefits), and then it requires a strategy for moving from where we are to where we hope to be taking account of the costs of doing so.

What, then, is a *strategy* against corruption? A short answer is that a strategy focuses on corrupt systems, not (just) corrupt individuals. In other words, instead of thinking about corruption in terms of an immoral individual breaking the law and violating a trust (which are true), one thinks about systems that are more and less susceptible to various illicit activities.

Much can be said about the kinds of governments, and more generally the kinds of institutions be they public, private, or non-profit, that are susceptible to corruption. Corruption tends to be reduced by the separation of powers, checks and balances, transparency, a good system of justice,

and clearly defined roles, responsibilities, rules, and limits. Corruption tends not to thrive where there is a democratic culture, competition, and good systems of control, and where people (employees, clients, overseers) have rights to information and rights of redress.

Notice that most of these ideas apply to businesses as well as governments. So does a formula we find useful:

$$C = M + D - A$$

Corruption (C) equals monopoly power (M) plus discretion by officials (D) minus accountability (A). If someone has monopoly power over a good or service, has the discretion to decide whether who gets that good or service or how much they get, and there is no accountability whereby others can see what that person is deciding, then we will tend to find corruption, whether we are in the public sector or the private, whether we are in a poor country or a rich one, whether we are in Beira or Berlin or Beirut.

A strategy against corruption, therefore, should not begin or end with fulmination about ethics or the need for a new set of attitudes. Instead, it should cold-bloodedly look for ways to reduce monopoly power, limit and clarify discretion, and increase transparency, all the while taking account of the costs, both direct and indirect, of these ways.

Corruption is a crime of calculation, not of passion. People will tend to engage in corruption when the risks are low, the penalties mild, and the rewards great. This insight overlaps the formula just mentioned, because the rewards will be the greater as monopoly power increases. But it adds the idea that incentives at the margin are what determine the calculations of corrupt and potentially corrupt officials and citizens. Change the incentives, change corruption.

Having a strategy also means recognizing that we should usually not attack all forms of corruption at once. We must distinguish various types of corruption and recognise that they are not all equally harmful, even if we do not say so in public. For example, systematic corruption in the police is usually more pernicious than corruption in the Drivers Licence Department. In general, inspectors of all varieties must be cleaner than service-providers must be. Having a strategy means developing a clear idea of ends and means in the short, medium, and long terms. To be credible, an anti-corruption campaign needs an early success. But it also requires a kind of five-year plan with phased, realistic goals.

We can usefully separate what might be called *economic* from the *implementation* issues in preventing corruption. As we will see below, economic models provide useful ways to begin to address such questions as:

- What are the costs (and the possible benefits) of various forms of illicit behaviour?
- For each kind or area of corruption, what kinds of preventive measures might reduce corruption?
- What are the benefits in terms of reduced corruption and perhaps enhanced efficiency of the preventive measures? What are the costs of these measures?

- What are the interactions among various anti-corruption measures, both positive and negative?
- Given the answers to the above, what sequence of measures should be adopted at what levels?

What might be called the implementation issues go further. For example, how can allies be mobilised, potential enemies neutralised or co-opted? How will the choice of measures in this domain help or hinder the policy maker's (or government's) ability to move in other important domains? How can the officials implementing the policies gain ownership over what is done? How can the officials' incentives be altered to improve the chances that what is designed gets implemented?

Of course, economic issues and implementation overlap. Fighting corruption should not be viewed as an end in itself, for two reasons. At some point the economic costs of reducing corruption may outweigh the benefits of further reductions. But a strategic point for municipal reformers cuts in the opposite direction. Preventing corruption can be the lever for financial recovery, the reform of service delivery, and the involvement of citizens. Beyond the reduction in malfeasance lies the prospect of reinventing local government.

3 CORRUPTION AS A SYSTEM

3.1 An Economic Approach to Corruption

How might one develop a strategy for preventing corruption in a specific setting? In this document we stress several steps:

- understanding corrupt systems, which requires analytical tools (this Chapter)
- assessing how specific corrupt systems now work, in a particular context (Chapter 4)
- overcoming political and bureaucratic resistance, and garnering support (Chapters 4 and 5)
- crafting a sequenced plan of action to heal corrupted systems, rupture a culture of cynicism, build political momentum, and transform city government (Chapter 5)

The present section emphasises an economic approach to corruption. Corruption is an economic crime of calculation. If the probability of being caught is small and the penalty is mild and the pay-off is large relative to the positive incentives facing the government official, then we will tend to find corruption. Fortunately, economic analysis suggests that it is possible to locate areas within an organisation where corruption is most likely. As mentioned above, a heuristic formula holds: corruption equals monopoly plus discretion of officials minus accountability.

When we think of prevention, we should think of changes in the incentives facing officials, including increasing penalties, raising the probability of being caught, and linking pay to performance. We should seek to reduce monopoly, clarify discretion, enhance accountability,

3.2 Corruption as a Crime of Calculation

Although it is true that different individuals react differently to the temptations of corruption, and many public and private officials refrain from corruption even when the temptations are great, it is crucial for fighting corruption to recognise that as temptations rise so do levels of corruption.

What induces temptation? The Nicaraguan accountant Francisco Ramírez Torres discusses at length such factors as family, school, attitudes toward work, the business or ministry, the nation, and the international situation. At the level of the individual, he cites as causes of corruption excessive consumption of alcohol, extramarital activities, speculative losses, gambling, “causes related to vanity,” administrative disorganisation, “the thirst for illicit enrichment,” and eight others (Ramírez Torres 1990, pp. 22-26, 40-50). Let us oversimplify the complex reality Ramírez Torres cites.

As a first approximation, officials will be tempted to engage in corruption when the size of their corrupt gain is greater than the penalty if caught times the probability of being caught. The penalty includes the wage and other incentives they must sacrifice if they lose their jobs, as well as the severity of the punishment.

When will the size of the corrupt gain be large? Officials will have the opportunity to garner corrupt benefits as a function of their degree of monopoly over a service or activity, their discretion in deciding who should get how much, and the degree to which their activities are accountable.

How, then, should we try to control corruption? A first approximation is to reduce monopoly, clarify and circumscribe discretion, and enhance accountability.

Of course reducing corruption is not all that we care about. We might spend so much money attacking corruption, or generate so much red tape and bureaucracy, that the costs and losses in efficiency would outweigh the benefits of lower corruption.

It may be worthwhile at this point to use an economic metaphor. Suppose you are the principal and I am your agent. The principal may be the mayor of a city, the head of a department, or the manager of a benefits programme. Let us suppose that you are not corrupt and that your objectives coincide with the public's interest. But as your agent, I am tempted by corruption. You wish to induce me to undertake productive activities and to deter my corrupt activities. Therefore, you consider reducing my (or our agency's) monopoly powers, clarifying and circumscribing my discretion over who receives how much service for what price, and enhancing accountability. You want to intensify my incentives to undertake productive activities and raise the effective penalties for corruption.

But each of these possible initiatives may be costly, in several dimensions. They may cost money. They may carry opportunity costs. They may create externalities. Your economic problem is therefore much more complicated than "fighting corruption." Ideally, you would balance the benefits of your efforts (in terms of improved productivity and reduced costs of corruption, which you would need to estimate) and their costs.

3.3 A Framework for Policy Analysis

From these considerations one can derive a "framework for policy analysis." It is not a recipe book but a device for kindling the creative and analytical abilities of those interested in controlling corruption. The principal may select agents, alter their incentives, collect information in order to raise the probabilities of corruption being detected and punished, change the relationship between agents and clients, and raise the moral costs of corruption.

Box 3 summarises a framework that has been useful in a variety of contexts.

A few notes on several of the framework's most important categories for the consideration of municipal leaders:

- **Improve the positive incentives** facing municipal officials. In many cities pay levels have fallen so low that officials literally cannot feed their families without moonlighting or accepting side payments. Even more important is to strengthen the linkages between pay and performance, and promotion and performance, which in many cities have badly eroded.

Box 3: Preventing Corruption: A Framework for Policy Analysis

A. Select agents

1. Screen out the dishonest (using past records, tests, predictors of honesty).
2. Beef up recruitment by merit and circumvent nepotism.
3. Exploit outside “guarantees” of honesty (use networks for finding dependable agents and making sure they stay that way).

B. Set agents’ rewards and penalties

1. Change rewards.
 - a. Raise salaries to reduce the need for corrupt income.
 - b. Reward specific actions and agents that reduce corruption.
 - c. Improve career paths so that promotions depend on performance.
 - d. Use contingent contracts to reward agents on the basis of eventual success (e.g., forfeitable nonvested pensions, performance bonds).
 - e. Link nonmonetary rewards to performance (training, transfers, perks, travel, publicity, praise).
2. Penalise corrupt behaviour.
 - a. Raise the severity of formal penalties.
 - b. Increase the principal’s authority to punish.
 - c. Calibrate penalties in terms of deterrent effects and breaking the culture of corruption.
 - d. Use a range of penalties (training; transfers; publicity; blackballing; loss of professional standing, perks, and travel privileges).

C. Obtain information about efforts and results.

1. Improve auditing and management information systems.
 - a. Gather evidence about possible corruption (using red flags, statistical analysis, random samples of work, inspections).
 - b. Carry out “vulnerability assessments”.
2. Strengthen information agents.
 - a. Beef up specialised staff (auditors, computer specialists, investigators, supervisors, internal security).
 - b. Create a climate in which agents (e.g., whistle-blowers) will report improper activities.
- c. Create new units (ombudsmen, special investigatory committees, anti-corruption agencies, inquiry commissions).
3. Collect information from third parties (media, banks).
4. Collect information from clients and the public (including professional associations).
5. Change the burden of proof, so that the potentially corrupt (e.g., public servants with great wealth) have to demonstrate their innocence.

D. Restructure the principal-agent-client relationship to leaven monopoly power, circumscribe discretion, and enhance accountability.

1. Induce competition in the provision of the good or service (through privatization, public-private competition, competition among public agents).
2. Limit agents’ discretion.
 - a. Define objectives, rules, and procedures more clearly and publicise them.
 - b. Have agents work in teams and subject them to hierarchical review.
 - c. Divide large decisions into separable tasks.
 - d. Clarify and circumscribe agents’ influence over key decisions (change decision rules, change decision makers, alter incentives).
3. Rotate agents functionally and geographically.
4. Change the organisation’s mission, product, or technology to render them less susceptible to corruption.
5. Organise client groups to render them less susceptible to some forms of corruption, to promote information flows, and to create an anti-corruption lobby.

E. Raise the “moral costs” of corruption.

1. Use training, educational programmes, and personal example.
2. Promulgate a code of ethics (for civil service, profession, agency).
3. Change the corporate culture.

- **Increase the effective penalties for corruption.** Because of weak or corrupt investigatory, prosecutory, and judicial systems, accusations of corruption seldom stick. If they do, the penalties are often minimal in practice (for example, the official is fired). As a result, the expected penalty for corruption (the chance of being caught and convicted times penalty if convicted) does not deter. A key step is to strengthen the capacity and improve the incentives of the police, prosecutors, and judges. But of course these agencies usually are not under the control of city governments. Nonetheless, municipal leaders can be creative in devising disincentives, such as firing or suspending employees, using the press to create publicity, inviting the denunciation of corrupt officials by professional groups, personnel transfers to less desirable jobs, and so forth.
- **Limit monopoly.** Promote competition in the public and private sectors. Avoid monopoly-granting regulations when possible.
- **Clarify official discretion.** Simplify rules and regulations. Create “bright lines” that circumscribe duties and discretion. Help citizens learn how public systems are supposed to work (through brochures and manuals, help desks, laws and rules in ordinary language, publicity campaigns, the use of citizen-service-providers, etc.). Improve citizens’ oversight of what the city government is doing.
- **Enhance accountability and transparency.** Clear standards of conduct and rules of the game make accountability easier. So does openness in bidding, grant-giving, and aid projects. Accountability depends on internal auditors, accounting, ombudsmen, inspectorates, specialised elements of the police, and specialised prosecutors. But it also should involve citizens, unions, NGOs, the media, and business in a variety of ways, including citizen oversight boards, hot lines, external audits, inquiry commissions, and so forth. City governments can help external actors by generating and disseminating more information about public service effectiveness. Finally, cities should encourage the private sector to police its own participation in corrupt schemes of procurement, contracting, regulating, and so forth.

3.4 The Example of Procurement

Procurement provides another example of the usefulness of Box 3. This is probably the area of municipal government where the greatest amount of corruption occurs, in terms of money values. Procurement corruption comes in a wide variety of forms. Among the principal types are:

- collusion among bidders, leading to higher prices for the city which may or may not be shared with corrupt officials;
- kickbacks by firms to city officials in order to “fix” procurement competition;
- bribes to city officials who regulate the winning contractor’s behaviour. The existence of this sort of corruption may encourage abnormally low bids, which being below estimated costs

win the contract but then are “rectified” in the corrupt contractor’s calculation by the subsequent cost overruns and lucrative changes in contract specifications that the bribe-taking regulator permits.

Box 4 shows how the framework for policy analysis leads to useful suggestions for each of these three problems.

Box 4: The Framework for Policy Analysis Applied to Deterring Collusion in Procurement	
<p>A. Select Bidders</p> <ol style="list-style-type: none"> 1. Screen for honesty (surveillance showing no collusion; background checks on contractors; performance on past contracts) 2. Exploit outside guarantees of honest bids and faithful performance 3. Allow only one firm to bid and negotiate ruthlessly <p>B. Change the Rewards and Penalties Facing Bidders</p> <ol style="list-style-type: none"> 1. Shift rewards to favour honest bids (later payment depending on costs and quality; incentive contracts) 2. Change penalties to make collusion less attractive (disbar colluding firms; employ criminal sanctions; use publicity to damage company name) <p>C. Use Informational Strategies to Raise the Likelihood that Collusion is Detected and Punished</p> <ol style="list-style-type: none"> 1. Use systems for detecting collusion 2. Strengthen agents for gathering information (undercover work, surveillance, market prices, cost estimation) 	
	<ol style="list-style-type: none"> 3. Involve third parties to obtain credible information (industry newsletters and consultants, independent cost estimates, auditors)
<ol style="list-style-type: none"> 4. Use bidders as sources of information (disaffected employees, losing bidders, those who choose not to bid) <p>D. Restructure the Procurer-Bidder Relationship</p> <ol style="list-style-type: none"> 1. Foment competition among bidders (invite new firms, wider publicity, lower barrier to entry, risk-sharing contracts, requirements to share contract information) 2. Reduce the discretion of own agents (rules about change orders, follow-ons, “emergencies,” sealed bids, decision rules for deciding among bidders, hierarchical review of decisions) 3. Rotate own agents 4. Redefine the organisation’s “product” (more standardized goods with market prices; choosing inputs, outputs, and modes of payment with an eye to corruptibility; vertical integration—make it rather than buy it) <p>E. Change Attitudes about Collusion</p> <ol style="list-style-type: none"> 1. Disassociate collusion from acceptable practices (such as export cartels) and goals (such as maximising foreign exchange earnings) 2. Educate contractors about how competitive bidding works elsewhere 3. Promote the bidders’ identification with the social or public purpose of the contract 	

4 ASSESSING CORRUPTION

The frameworks for policy analysis are helpful in diagnosing where corruption might tend to occur and how the tendency might be attenuated. In a particular setting, how might such frameworks be utilised?

4.1 Participatory Diagnosis

It may seem surprising that people who work in systematically corrupt institutions will help to analyse where and how that corruption occurs. But in our experience it is true. Many officials have complicated, mixed feelings about corruption. They may sincerely loathe it and wish to eradicate it, while at the same time participating in it or allowing it to occur. Psychologists and police apparently encounter similar phenomena. In our experience, after some time people turn out to be remarkably forthcoming about the corruption that exists, how it works, and how it might be prevented even when their analyses belie an intimate knowledge that can only be incriminating.

What Participatory Diagnosis Is:

It is worthwhile to describe these workshops on corruption in some detail. The organising principle is a *therapeutic approach* to a sick institution. Since corruption is a concept so freighted with emotion and shame and defensiveness, the first task is to demystify corruption. This is done by having participants analyse a *case study* of a successful anti-corruption campaign in another country. They see that the problems can be analysed coolly and dealt with effectively; even though the other country's setting may be quite different from their own, the mere fact that both successful analysis and successful action occurred stills premature scepticism.

Then *analytical frameworks* are supplied that help participants realise that corruption is not (just or primarily) a problem of evil people but of corrupt systems. The corruption formula—corruption equals monopoly plus discretion minus accountability—is presented. To members of corrupt organisations this insight often proves therapeutic.

As in good therapy, the participants then move to *self-diagnosis and self-prescription*. The facilitator assists in several ways: by asking questions, helping combine seemingly different phenomena or separate seemingly similar ones, by pushing when the group avoids work or escapes into relativism or cynicism. Out of such sessions emerge a deeper understanding of general phenomena and specific manifestations, and a plan of action.

How Participatory Diagnosis Might Be Carried Out:

Such workshops can and perhaps should occur at many levels of a municipality, but it is important that the first one involve the highest levels. Ideally, the mayor or president of the city council convenes the workshop, and directors, managers, councillors, police chiefs, heads of labour unions, heads of business groups, and even heads of religious organisations will participate. The ideal

number of participants is 20 to 25. The ideal format is 1½ to 2 days, in the mode of a retreat. Another possibility is two hours a day for five days.

The first session analyses a case from another country, presenting the problem via slides and asking the group to divide into subgroups of about 8 people. Each subgroup is asked to describe the types of corruption in the case, say which is most serious and which least, list alternatives and their pros and cons, and make a recommendation. After 45 minutes, the subgroups “report” to a plenary session. After discussion, slides then show what the country in question actually did, and the results. Success stories are used.

Then after a break there is a lecture on the economics of corruption, focusing on motive and opportunity, and on the equation $C = M + D - A$. Questions and discussion are encouraged.

Then the group analyses a second case study. It asks not only for what might be called an economic analysis of corruption and how to fight it, but for a political and bureaucratic strategy. Three lessons emerge from the case. First, in order to break the culture of corruption and cynicism, “big fish” must be fried—major violators, including violators from the ruling party. Second, after big fish are fried, anti-corruption efforts should focus on prevention. This includes the selection of agents, changing incentives, enhancing accountability, structural changes to mitigate monopoly and clarify discretion, and efforts to increase the “moral costs” of corruption. Third, involve the people. They know where corruption resides. Give them a chance to tell. Under this rubric come hot lines, citizen oversight boards, citizens groups and NGOs, using village and barrio organisations to monitor public works, involving accounting and lawyers groups in oversight operations, and so forth.

After finishing the second case, the participants turn to their own situation. The outside facilitator here asks them to go through the same headings as before: what kinds of corruption exist, which are more serious and which less, what are the alternatives and their pros and cons, and what do they recommend. The subgroups go off and analyse, then present their results to the full group. A vivid discussion ensues, and the result is a tentative diagnostic of the types of corruption, their extent, their costs, and their possible remedies.

After a break, the facilitator poses a final challenge. “This has been a fascinating exercise. But we don’t want it to be just another seminar. What has to happen in the next six months, what concrete steps by this group, to move things forward?”

In our experience, the results have been remarkable. A fascinating and practical agenda usually emerges. What is sometimes lacking are the resources, the expertise, and the leverage to make that agenda come true. Here municipal leaders, perhaps exploiting external assistance, may propose a special project to follow such an event—or several such events at different levels of the public and private sectors. The project should use some of the workshop’s recommendations, co-opt key participants as activists and monitors, and via carrots and sticks improve the chances that the anti-corruption effort succeeds.

Box 5 summarises what might be called a “first cut” analysis of various kinds of corruption in La Paz in 1985. It is the result of several workshops of officials and politicians. This process helped generate frank analyses of sensitive policy issues, and led to a number of suggestions for remedial measures that no outsider could have concocted.

Box 5: Participatory Diagnosis in La Paz, 1985

Result of Diagnostic Meetings in Late 1985 With Officials of the Municipal Government of La Paz, Bolivia

Type	Value	Who Is Helped	Who Is Hurt	Causes	Cures
Tax Evasion (all kinds)	\$20-\$30m	Evaders	Recipients of city services; non-evaders; future Paceños	Hard to pay; taxes too high; low penalties; no reviews of cases	Make easier to pay; lower rates; raise penalties and enforce them; review cases
Tax "arrangements" (all kinds)	\$5-\$10m	Corrupt taxpayers and officials	Recipients of city services; non-evaders; future Paceños	Lack of computerisation; low effective penalties; no reviews; pay through municipality; low pay	Computerise; raise penalties; review cases; pay through banks; raise pay; raise incentives to collect
Extortion	\$0.5-1m	Corrupt officials	Direct victims	Difficult rules, rates, and procedures; hard-to-report extortion; low penalties; no reviews; low pay	Simplify rules, rates, and procedures; hotline for public reports; raise penalties; review cases; pay through banks; raise pay
Speed money	\$0.5-1m	Some taxpayers; corrupt city officials; substitutes for higher pay	Most taxpayers via slowdowns; reputation of city government	Difficult procedures; lack of computerisation; pay through municipality; low penalties; no surveillance; low pay	Simplify procedures; computerise; pay through banks; raise penalties; surveillance and "whistle-blowing"; raise pay
Theft (city property, parts, "boot" fees by police)	\$0.5-1m	Thieves; some who don't pay vehicle taxes	Recipients of city services; trust in police	Lack of inventories; poor decentralisation; low penalties; no reviews or surveillance	Computerise inventories; decentralize responsibility; spot checks and surveillance
Procurement	\$0.5-3m	Corrupt officials and winning suppliers	Recipients of city services	Lack of information on prices; no reviews; low penalties; low pay	Verify prices; review cases; raise effective penalties; raise pay of decision-making officials
"Fantasmas," late reporting to work	\$0.1-0.2m	Malingers	Morale and reputation of city government	No surveillance; low penalties	Surveillance; raise penalties and enforce them

4.2 Technical Studies and Experiments

Participatory diagnoses should involve participatory workshops at several levels (including clients and “stakeholders”), but there is also room for more orthodox forms of research. Of particular interest are studies of systems of information and evaluation (extent, quality, how used and misused), analyses of actual and experimental incentive systems, and studies of relatively uncorrupted institutions or departments within the city, or perhaps elsewhere in the country in question.

Consultants can be useful in several ways (see Box 6). Nonetheless, studies involving expensive experts are often overdone. Typically, studies of municipal administration seem to proceed with three assumptions. First, any reform should involve massive changes across the entire civil service. Second, such reforms require comprehensive studies and blueprints. Third, because such studies are technically complicated, they must be undertaken by expensive experts, including foreign technical assistants.

Box 6: Some Advantages of Outside Consultants

The benefits of using consultants include: signalling management’s dissatisfaction with “business as usual”; freeing management to perform other tasks; infusing new ideas; serving as a “lightning rod”; and giving the manager an outside confidant.

Three other advantages of consultants are germane for the municipal leader interested in preventing corruption.

Expertise. The consultant can offer expertise that may not exist in the city government. Examples include computer systems to detect and prevent fraud, specialised investigatory techniques, management systems, and procurement processes.

Facilitation. Participatory diagnosis is crucial. Its sensitivity usually means that an inside facilitator is inappropriate. Apart from expertise in facilitation, the consultant is insulated from the appearance of empire-building.

Cooperation. In fighting corruption, many branches of the municipality must collaborate. An outsider may be perceived to be neutral enough, and should be chosen to be expert enough, to facilitate such sharing and cooperation.

Instead, one should think of “studies” carried out by the very officials and clients, followed by **experiments**. In our experience officials and clients understand well how corrupt systems work. They should be encouraged to share their knowledge without fear of recriminations—for example, through anonymous surveys or group work involving anonymous written contributions that are then discussed. We recommend that employees be involved centrally in the design and eventual evaluation of experiments with new systems of information, incentives, and accountability. This is in stark contrast to their usually peripheral involvement in grand studies by outside experts.

As an example, consider incentive reforms designed to deal with one of the key factors behind corruption, namely paltry wages and the failure to link rewards to performance. The municipality might select a few key functions, such as revenue raising, auditing, and the procurement. In each area, officials would be asked to work through the schematic outline in Box 7.

Box 7: Model Memorandum for Employees, as the Basis for Incentive Experiments	
1.	Quantitative summary of the current unsatisfactory situation. Because of X, Y, Z shortcomings (resources, incentives, capabilities), we are currently able to process only A% of the cases we should, and of those, only B% are processed adequately. As a result the city's government and its citizens forgo α, β, γ benefits and incur λ, ϕ, θ costs.
2.	Examples. Here are three recent examples of what we were unable to do that clearly led to foregone benefits or additional social costs.
3.	Measures of success. After considering our objectives and our organisation's key tasks, here are the measures of performance along which we believe it is fair that we be assessed. For example:
	<ul style="list-style-type: none"> ➤ quantitative measures of (a) activities undertaken and (b) results achieved;
	<ul style="list-style-type: none"> ➤ estimates of the quality of a sample of activities by peer group, outsiders, or clients, on the proviso that ratings also include "grades on a curve" so that not every person and activity is deemed "excellent;"
	<ul style="list-style-type: none"> ➤ statistical controls that "adjust" measures of performance to take account of the relative difficulty of the target group one is working with (e.g., for tax collectors, which suburb, type of economic activity, type of tax, etc., all of which affect the amount earned); ➤ performance-based contests among employees; and ➤ measures of staff morale and turnover.
4.	Proposition. If we have x, y, z (additional resources, incentives, capabilities), we will with K time period be able to achieve the following measurable (even if qualitatively) benefits and reductions in costs: 1, 2, 3, 4, etc. We are willing to make such-and-such of the incentives conditional on the attainment of so-and-so performance targets, which will be monitored in the following transparent ways: i, ii, iii, iv, etc.

The results of these studies would then be reviewed in workshops. Depending on the outcomes, the municipality might initiate *experiments* that follow up the proposition(s) under the fourth heading above. The incentives could include pay, but might also mean training, travel, professional recognition, reassignment, promotion, better working conditions, more independence, and so forth. Some of the incentives could be for individuals, but many would probably be for teams (offices, bureaus, departments).

Such radical experiments would be facilitated by technical studies, as described in Box 8.

Box 8: Examples of Technical Studies to Help Prepare Incentive Reforms

1. Summarise information about current pay scales and work conditions, especially for key technical jobs and top managerial functions. Examples of data that would be relatively easy to collect: numbers of people leaving their jobs, of posts vacant, and of underqualified people employed in higher skilled jobs; compare pay and fringe benefits of recent hires in the private and public sector for people with roughly equal levels of qualifications. Look especially at key positions in revenue raising, auditing, accounting, management, procurement, and investigation. Compare with other public sector and private sector employment.
2. Analyse the distortions occasioned by current “tricks” to take advantage of per diems and other benefits accruing to travel, training, board membership, task forces, and so forth. Suggest remedies. Possible method: interviews with 25 top officials; review of detailed budgets to estimate amounts now spent by unit and level of employee on per diems, travel, training, allowances, and so forth.
3. Develop data about existing performance contracts in the city and in the country’s public enterprises, including amounts expended, performance increments, how the “ratchet effect” was avoided, and political backlash (including resentment of their high pay). Derive lessons for experiments in the municipality.

An example of a highly desirable study is what has become known as a “vulnerability assessment.” Here employees themselves, or outside experts or both, take a systematic look through an organisation, a process such as procurement or hiring consultants, or an activity such as city works. Box 9 provides an outline for such a study.

Box 9: Outline for a “Vulnerability Assessment”	
A.	Is the general control environment permissive of corruption?
1.	To what degree is management committed to a strong system of internal control?
2.	Are appropriate reporting relationships in place among the organisational units?
3.	To what degree is the organisation staffed by people of competence and integrity?
4.	Is authority properly delegated—and limited?
5.	Are policies and procedures clear to employees?
6.	Are budgeting and reporting procedures well specified and effectively implemented?
7.	Are financial and management controls—including the use of computers—well established and safeguarded?
B.	To what extent does the activity carry the inherent risk of corruption?
1.	To what extent is the programme vague or complex in its aims; heavily involved with third-party beneficiaries; dealing in cash; or in the business of applications, licences, permits, and certifications?
2.	What is the size of the budget? (The bigger the budget, the greater the possible loss.)
3.	How large is the financial impact outside the agency? (The greater the “rents” the greater the incentives for corruption.)
4.	Is the programme new? Is it working under a tight time constraint or immediate expiration date? (If so, corruption is more likely.)
5.	Is the level of centralisation appropriate for the activity?
6.	Has there been prior evidence of illicit activities here?
C.	After preliminary evaluation, to what extent do existing safeguards and controls seem adequate to prevent corruption?

4.3 Involving the Private Sector and Citizens

The private sector has an important but often ignored role to play in fighting corruption. After all, it usually takes two to tango: for every government official receiving a bribe, someone in the private sector offers it. The private sector and citizens can help by supplying information about transgressions, by diagnosing inefficient and corrupt systems, and by helping police their own behaviour.

Citizens’ groups are becoming more active in the fight against corruption. In Ecuador, the government and business firms have applied a code of conduct for public contracts. The firms promise not to offer bribes and government employees promise not to solicit or accept them. Notice that firms have an interest that others do not pay bribes. Thus, firms that sign this code of conduct might band together in their own interest to police themselves—if penalties and a mechanism for investigation are put in place.

This leads to an interesting idea for city governments. Suppose the city requires all firms doing business with the city to sign a code of conduct. Then, if one business believes that another has won a contract through bribery, the aggrieved business can call on the other signees of the code of conduct and the city government to investigate. At the same time that the alleged transgression is investigated, a broader study should be undertaken of the class of actions of which the transgression is an instance. For example, if the alleged bribery takes place in procurement, the study interviews an array of private firms on a confidential basis and develops a description of how the corrupt system of procurement currently works. The study also makes recommendations for change. The results of both investigations would be published, although they would not have the force of law.

Adopting a simple code of conduct—one that is readily understandable by civil servants, the press, and the public—can be a valuable part of a campaign against corruption. It can be especially useful if there are mechanisms for the private sector to investigate and police itself.

Finally, the citizenry can help fight corruption in many ways. The greatest enemy of corruption is the people. Citizens are wonderful sources of information about where corruption occurs. The mechanisms include systematic client surveys, focus groups, hot lines, call-in shows, village and borough councils, citizens' oversight bodies for public agencies, the involvement of professional organisations, educational programmes, and so forth.

Box 10 provides another recent example from Bangalore, India. There, a non-government organisation used a variety of mechanisms of citizen feedback, ranging from client surveys to focus groups, to create a "report card" on municipal services. The study and follow-ups to it helped galvanise greater municipal efficiency and locate particularly bad areas of corruption.

Box 10: Bangalore's Report Card on Municipal Services

A non-governmental organisation in Bangalore, India, recently completed an innovative "report card" on how well various municipal agencies were doing, in the eyes of citizens. A variety of information-gathering devices was used, ranging from surveys to key informant interviews to studies of objective measures of agency performance. Among the topics dealt with was corruption. For example, in what percentage of cases did a citizen have to pay a bribe to receive a municipal service? Widespread corruption was documented, and the annual costs of corruption, admittedly difficult to gauge, exceeded the entire municipal budget by a factor of seven.

The results were controversial but had a galvanising effect on municipal leaders and the agencies involved. More important perhaps, the study serves as a baseline for further involvement of citizens in telling municipal agencies how well they are progressing (Paul 1995).

5 IMPLEMENTING REFORM

5.1 Organise the Fight against Corruption

After using the various assessment techniques in Chapter 4, let us suppose we now have a good understanding of the types and levels of corruption we are confronting. We would then work through the framework of Chapter 3 (Boxes 3) with our staff to brainstorm the possible costs and benefits of different actions. We would begin to locate areas where the costs of corruption seem high and the remedial actions seem relatively low—and that is where we would be tempted to begin.

But before we do, we must analyse both the problems and the alternatives from what might be called the perspective of implementation, by which we allude to the political, bureaucratic, and personal aspects of an anti-corruption effort. One of the political dimensions is how to use the battle against corruption as the lever for transforming city government.

For good and bad reasons, issues of who is in charge loom large in government. Preventing corruption and deterring it require the combined excellence of many government agencies. Of course every part of the city government has its own so to speak internal responsibilities of management, incentives, and control. But several functions have anti-corruption roles that cut across the others. Many of these are not inside the city government but outside, as in many countries is the case of the police, or so to speak above the city government at the prefectural, county, provincial, and national levels. Consider what functions would have to work well to prevent corruption. There would be accounting and auditing functions, some of which in most Latin American countries fall under the “Contraloría,” a kind of comptroller general. To this one would add police (often local, sometimes national under the Ministry of the Interior), prosecutors, courts at various levels, and the government ministry in charge of administration. One would also include the city council and perhaps the state or federal legislature. Revenue-raising functions are important, as are the bodies that carry out public works. Regulatory functions come in many varieties. The list could go on, and the lines are not clear across these areas. What is evident, however, is that the investigating, prosecuting, and obtaining convictions will not succeed unless a number of government agencies work together. Let us call this the problem of coordination. Let us call this the problem of coordination.

Experience suggests that there is a second need in campaigns against corruption: a focal point. Someone, some body, has to be in charge of a campaign against corruption: has to have the political authority, the public eye, and the personal accountability. But at the same time, because no single agency can do everything in the fight against corruption and therefore a coordinated effort is required, the “some body” has to be above all a facilitator of joint action, a mobiliser of the resources of many agencies of government. Not a boss, in other words.

The first question facing the political level of a government wishing to fight corruption is what sort of coordinating authority this should be.

Several answers are possible, and there is no one right answer for all settings. Hong Kong's Independent Commission against Corruption is one prototype. It is a kind of *super-agency* against corruption. It combines investigation (like a police force), prevention (like a management consulting agency), and popular participation (like a community relations office). Its powers are huge. So is its budget and ability to hire excellent staff—not only in enforcement but also accountants, economists, management experts, systems analysts, lawyers, and others.

There are examples of municipal units with wide-ranging powers, although not as grand as the ICAC's. Box 11 outlines an interesting example from New York.

Box 11: An Independent Office to Fight Corruption in New York City's School Construction

In 1989, New York City's newly created School Construction Authority was faced with rampant corruption in the multibillion dollar school construction programme (bid-rigging, price fixing, illegal cartels, racketeering, bribery, extortion, and fraud) in the City's construction industry. Its response was to form an Inspector-General Office (OIG).

Through institutional reform of the business practices of the Authority, the OIG has "fried some big fish," including employees of the Board of Education and the Authority itself; banned over 180 firms from competing for school construction contracts; saved millions in dollars for the Authority; and even prompted internal reforms in the supplier side of the industry.

Its key organising principles include:

1. Responsibility for combating corruption does not lie with law enforcement authorities alone. Managers and procuring officials must become proactive and must integrate their work with law enforcement agencies. Non-judicial administrative sanctions short of criminal charges are effective.
2. Many disciplines must collaborate if corruption is to be deterred in the first instance, detected and prosecuted when deterrence fails, and punished in a criminal trial to ensure credibility. These disciplines include lawyers, investigators, accountants, analysts, engineers, and experts in management theory and public administration.
3. The organisation (OIG) must be external to the School Construction Authority to preserve independence and autonomy. Communications with the Authority would occur informally through day-to-day collaboration and formally through a senior position within the Authority. Importantly, vesting one organisation with the authority to combat corruption avoids the trap to which so many anti-corruption efforts fall prey: imposing additional rules and regulations as well as multiple layers of oversight that in turn "contribute to organisational paralysis and dysfunctional conflict, thereby ironically increasing incentives [and opportunities] for corrupt payments..."

Deterrence (including financial recoveries) and opportunity blocking were the primary methodological ideas underpinning the OIG's efforts

1. Deterrence
Criminal prosecutions, using undercover agents, search warrants, wiretaps, and covert surveillance, with severe fines and incarceration as predictable results.
Civil prosecutions, with severe financial penalties (forfeiture, treble damages, injunctive relief).
Administrative sanctions, primarily banning firms from competing for school construction contracts, hitting the firms with a culture of corruption where it hurts the most—in the pocketbook. (Happily and predictably, other public agencies often follow these sanctions and debar the same companies).
2. Opportunity Blocking
Debarments, advisories, and certifications. Debarments block a firm from bidding on construction contracts. Advisories warn project managers about improprieties suspected in a particular vendor. Certifications required of the principals of some firms set the stage for rescinding contracts and recovering full monetary restitution if subsequent events show contract award was based on fraudulent inducement.
Independent auditing firm or private-sector Inspector-General. Funded by firms in cases in which adequate evidence exists for criminal prosecution but the public good mandates contracts not be suspended or the company banned, these independent bodies, selected by the OIG, monitor a vendor's performance.
Other initiatives. These include: vulnerability assessments to identify weaknesses in the Authority's business practices and contracting procedures; a Fair and Ethical Business Practice provision for contracts; and privatized labour law enforcement, paid for by offending vendors, to monitor violations of prevailing wage laws.
The primary tool that has led to the OIG's success is an elaborate bidder **prequalification process**. Each vendor that wants to bid on school construction contracts must complete a comprehensive (40-page) questionnaire that looks at traditional measures such as financial assets and wherewithal and experience as well as at the key people associated with and running the company. Prequalification has given the OIG access to information not traditionally available except through difficult and time-consuming law enforcement procedures.

A second idea is an inter-agency *coordinating body*. Cities are not countries, of course, and municipal leaders will not be able to control many of the agencies that matter. Still, it may be possible to get the important agencies together to improve the coordination of their work.⁷

In 1992 Robert Klitgaard spent some time in Venezuela with the many agencies involved in the fight against corruption: the police, the Contraloría, the prosecutors, the Supreme Court (which administers all the courts), and finally the Cabinet. The various agencies guarded their autonomy and did not want to meet in joint workshops—each wanted its own. Each agency’s staff told in those workshops the most extraordinary stories about how their own good efforts had been thwarted by the incompetence and, yes, the corruption of the others. Cases would disappear in the cracks in their theoretical path from information to investigation to prosecution to judicial decision. The result was agreed by all: widespread corruption and terrific demoralisation within each agency.

Before and after the workshops Klitgaard met with the heads of these agencies—the ministers and Chief Justice and Controller General—and he also met with the Cabinet. They agreed with the diagnosis of their senior civil servants. They also agreed to set up two inter-agency coordinating bodies. One was at the ministerial level, another was at the director general or top civil servant level. Among the missions of the latter was to follow important cases through the system. Both committees also worked on systematic issues: preventive measures, for example, and the closer coordination of their anti-corruption efforts.⁸

Within a year, these coordinating bodies logged dramatic successes. Individual agencies learned through their cooperation how to improve not only coordination but their individual operations (seeing ourselves through others’ eyes can be a shock, but it can also be what finally motivates us to

⁷ Which capabilities must be coordinated? Law professor Philip Heymann has outlined ideal preconditions for a campaign against corruption, which may be paraphrased as follows:

Internal Inspection Units. Specialized units with a mix of technical skills, experience, and concentration of effort should be tailored to the unique functional needs of the parent organization.

Specialized Police Units. Law enforcement is essential if anti-corruption cases are to have teeth—that is, if they are enforceable in a court of law. The long-term nature of most anti-corruption investigations, the requirement that information must be usable in a criminal trial, the intrusive and sensitive nature of investigations without a specific victim, and the highly technical nature of modern crime make it highly desirable to educate and train police in anti-corruption methods.

Able, Honest Prosecutors. As the public’s champions in the battle against corrupt activities, prosecutors must be skilled and objective in bringing charges against those who would operate outside the laws for personal gain. Often, in the public’s eye, the credibility and fairness of the entire political system depend on the prosecutor and his/her team.

Adequate Court Systems. The judicial system is the final arbiter of criminal cases. Especially when “frying big fish,” the system must be impartial in its judgments, independent of politics, and effective in trying cases in reasonable time at reasonable cost.

To these, we might add a fifth: an *External Inspection Unit*. This organization does not have to be large, only positioned external to and independent from the agency and equipped with interdisciplinary tools to act as an additional brake on corrupt activities.

⁸ In 1995 Venezuela set up a special anti-corruption office, independent of the coordinating committee, whose apparent function is educational.

do more exercise). Many more anti-corruption cases were moving through the system. One of them was a very big fish indeed: President Carlos Andres Pérez, who was impeached.

In 1995 Colombia introduced a version of a coordination model, which has some distinctive features. There is one coordinating body in government and a second that involves something like the Hong Kong idea of a citizens' oversight board. In the latter, seven citizens of distinction serve as a kind of interlocutor between the public and the governmental coordinating body. They relay complaints and diagnostic studies from the private sector and civil society to the governmental coordinating body, and they follow up to see what happens to those complaints. They also oversee the government's anti-corruption activities, from the level of high strategy to that of particular actions. It is hoped that the result will be much greater efficiency, transparency, and credibility in the fight against corruption.⁹

Whatever the solution chosen to the problems of coordination and a focal point, the anti-corruption campaign has to decide how to get started. Where should the effort begin?

5.2 Pick Low-Hanging Fruit

Let us suppose that municipal leaders have followed the steps of Chapters 3 and 4 above. They have applied the formula $C = M + D - A$ and used the framework for policy analysis (Box 3) to stimulate reflection on the kinds of anti-corruption measures that might be employed for various kinds of corruption. They have assessed their organisations and estimated the extent and impact of different sorts of corruption. They have recognised that not all kinds of corruption are equally harmful or equally easy to prevent. They have combined economic analysis with political assessment. They have asked, "What kinds of corruption hurt the most, and whom? What ways of fighting corruption are most effective, and what are the direct and indirect costs?"

Such analyses should focus on the externalities and incentives generated by corrupt activities of various kinds, not the amounts of money that change hands. As they used to say of government officials in Mexico, "They waste a million to save a thousand." Of particular importance is corruption that undercuts financial and banking systems or systems of justice. The externalities can be huge here. Ditto for corrupt activities that lead to policy distortions. The importance of basic services makes them candidates for special examination, particularly systems of procurement, eligibility for benefits, and distribution.

After all the analysis, there is a simple rule for where to begin: "Pick low-hanging fruit." That is, select a type of corruption where visible progress might be made soon, without too great cost.

⁹ As we write in February 1996, President Ernesto Samper of Colombia is threatened with impeachment for what are now admitted as illegal campaign contributions from drug moguls. We are not aware of the roles that the new anti-corruption bodies may have played in this episode.

This advice runs counter to the instinct to do everything at once, or to tackle the kind of corruption with the most serious costs (which may also be the most difficult and protracted battle and therefore not the place to begin).

Sometimes the rule will be slightly different. For reasons of politics or simply to generate support, we may wish first to attack the kinds of corruption that are most obvious to citizens or most hated by them, or that are most urgent. For political reasons, it is good to begin an anti-corruption campaign where citizens perceive it to be most evident and most annoying, or where the political leadership has given a field particular salience, or where it is believed that corruption is undercutting economic reform.

5.3 Align with Favourable Forces

It is important for city leaders to search for allies and for ways to align the anti-corruption efforts with broader forces in the society. Three examples illustrate the point.

First, suppose the national government may be pushing market reforms and privatization. It may be useful to emphasise these elements of one's anti-corruption strategy, in order to get national-level support and financing. Or if the federal government is currently stressing a battle against organised crime, the municipal government might give special attention to areas of municipal corruption where organised crime is suspected of playing a major role.

Second, the private sector and civil society may have ready allies for an anti-corruption effort. Perhaps the local organisation of accountants or lawyers or business executives has made corruption an issue. Perhaps civic leaders, non-government organisations, student groups, or labour unions have recently complained of fraud or extortion or kickbacks and can instantly be brought into the campaign. One might choose where to begin in part depending on what these possible allies put high on their agenda and where they might be most helpful.

Third, international organisations may play an important role in municipal works or in the move to decentralised government. Many of them have placed the fight against corruption high among their priorities, and it may be that special sources of support are available if municipal leaders seek them out.

5.4 Break the Culture of Impunity

Another aspect of implementation involves the culture of impunity, where citizens become jaded and defeatist. Here is an example from a newspaper column in Guatemala:

When in a society the shameless triumph; when the abuser is admired; when principles end and only opportunism prevails; when the insolent rule and the people tolerate it; when everything becomes corrupt but the majority is silent... [The laments go on for the entire piece, which then concludes:] When so many "whens" unite, perhaps it is time to hide

oneself; time to suspend the battle; time to stop being a Quixote; it is time to review our activities, reevaluate those around us, and return to ourselves.¹⁰

When corruption has become systematic, one must attack the pernicious perception that *impunity* exists. The public has grown cynical about corruption. Citizens and bureaucrats have heard all the words before. They've even seen a few minor prosecutions. But a culture of corruption may remain, especially the feeling of high-level impunity.

Fry Big Fish:

To break through this culture of corruption, experience indicates that *frying big fish* is essential. Big, corrupt actors must be named publicly and punished so that a cynical citizenry believes that an anti-corruption drive is more than words, more than a campaign against one's political opponents. Importantly, therefore, one of the first big fish should preferably come from the political party in power.

Here are some examples. In the case of Hong Kong, credibility for the new Independent Commission against Corruption came when the ex-police chief of Hong Kong was extradited from retirement in England and punished in Hong Kong. The ICAC also nailed the ex-number two and scores of other high-ranking police officials. To a skeptical public and a hardened civil service, frying these big fish sent a credible signal: "The rules of the game really have changed." As a former ICAC commissioner wrote:

An important point we had to bear in mind (and still have to) is the status of people we prosecute. The public tends to measure effectiveness by status! Will they all be small, unimportant people, or will there be amongst them a proportionate number of high-status people? Nothing will kill public confidence quicker than the belief that the anti-corruption effort is directed only at those below a certain level in society (Williams 1983: 23).

Italy's unprecedented success in attacking corruption has attracted world-wide attention. A crucial step was frying a top Mafia official, many top business executives, and several major politicians from the ruling party. This told citizens that if they came forward and denounced crime and corruption, they could make a difference.

Even though "frying big fish" is an indispensable step in breaking the culture of impunity, the emphasis on past offenders can be overdone. An analogy with health policy is germane. Individual cases of grave illness must be dealt with. But in the long run, prevention deserves priority. Therefore, after frying a few big fish, city officials must turn to prevention and the reform of institutions.

¹⁰ Marta Altolaquirre, "Cuando Sucede..." *La Prensa* (Guatemala City), 22 February 1990, our translation.

Make a Splash:

There are many other ways for an anti-corruption effort to garner credibility and publicity. The mayor may call a “summit meeting” on preventing corruption. With careful advanced preparation, he may then announce a systematic programme including revenue collection, public works, benefits, licences and permits, and the police. He may invite the public to denounce corrupt acts and offer a variety of ways to do so. And then in the weeks and months to follow, again with careful prior preparation, he may announce the arrest of “big fish.”

Here are other examples to illustrate making a splash to garner credibility; each is based on a real, national-level case, here extrapolated to the municipal level:

- The mayor organises a high-level workshop for top municipal officials and leaders of the private sector and civil society to address corruption and what to do about it. From this event ideas will emerge, including a six-month action plan. This workshop might be followed by other seminars in various key departments, public works, and the police.
- The mayor announces that all public officials will sign a standard of conduct that precludes the acceptance of bribes. At the same time, he says that no one will be allowed to bid on a public contract who has not signed a similar standard of conduct concerning the offering of bribes. The private sector will be enlisted to form an independent monitoring capability to investigate complaints.
- The mayor announces an experimental programme within the city’s revenue bureaus, whereby officials will be paid a proportion of additional tax revenues generated within the next two years. The bonus will amount to about 25 to 50 percent of existing pay and will only kick into play if revenues exceed a certain target increase (perhaps 25 percent). At the same time, officials will develop a performance evaluation system, where revenue targets are conditioned by region and activity and where non-revenue indicators of excellence and lack of abuse are included.
- The mayor announces the creation of a Corruption Prevention Unit. With the help of international consultants, this office will review all bureaucratic procedures with an eye to reducing opportunities for corruption and abuse: what the Hong Kong Independent Commission Against Corruption calls “vulnerability assessment.” The first agencies to be reviewed will be ones where the public perceives that corruption is systematic—for example, permit and licensing agencies, tax bureaus, procurement units, and so forth.
- The mayor seeks ways to involve the public in the fight for good government, in the ways mentioned above.
- The mayor designates teams of honest, senior civil servants and young, excellent university graduates to investigate reported instances of corruption and also to evaluate random samples of important cases of tax payments and exceptions, public procurement, and so forth.
- The providers of city services are challenged to develop measures of success against which performance may be pegged, and then to design an experiment linking increased

compensation to such performance. The incentives would be paid on a group basis, and again would be in the area of 25-50 percent of salaries for excellent performance. The sustainability of the experiment would depend on the prospect of user charges.

- The mayor announces publicly that the city will conduct some number of procurement “sting” operations during the next year. Even if only a few such operations are carried out, as part of a package of initiatives this step could deter potential bribe-takers.

5.5 Change Systems

Corruption is inherently precarious. “To engage in corruption, a government official and a private party have to identify each other as potential corrupt partners, and find a way to reach an agreement, and then deliver what each has promised without being detected. Each of these steps can be extremely difficult, for in each there are vulnerabilities to detection” (Heymann 1995: 14).

1. *finding corrupt partners* Corruption requires
2. *making payments all done inconspicuously*
3. *delivering what is corruptly purchased*

Systematic corruption means that opportunities have been identified and relationships established, mechanisms for payment exist, and deliveries routinely made. Collusion also requires formidable preconditions, as a recent analysis notes of auctions:

How do members know what objects to bid on at the main auction? How high should they bid? If an item is won by a member of the coalition do they own it? Do they need to transfer moneys to members of the coalition? If an item won by a member belongs to the coalition, how is ultimate ownership determined? How is the realised collusive gain shared among ring members? What incentives are there for cheating on the collusive agreement? How can the coalition dissuade and/or monitor members to deter cheating? (Marshall and Meurer 1995: 59).

Corruption prefers a stable, secretive environment. One tactic is to disrupt these corrupt systems. By creating enough discontinuity, uncertainty, and distrust, we hope to reduce corruption.

What does such disruption require? To some the automatic answer is “new laws.” In fact, systematic corruption often coexists with highly developed legal codes. Sometimes more rules and regulations not only strangle efficiency but actually create opportunities for corruption. New laws and rules are most welcome when they change incentives, reduce monopoly power, clarify or reduce discretion, and enhance information and accountability. Some examples of welcome new laws appear Box 12. But in general, we believe that new laws are not the automatic answer.

Box 12: Some New Laws That Would Help Reduce Corruption

Better laws can make a difference. Here are four examples, which go beyond the purview of a municipality's authority but would abet local campaigns to reduce corruption.

1. Financing political parties and campaigns

In many countries campaign financing involves coerced payments, and sometimes straight graft. When such behaviour becomes systematic, even an "honest" political party may feel compelled by the corruption of its competitors to shake down businesses with implicit promises or threats. Parties may use their members in municipalities to siphon off public funds for their political war chests. In some countries, parties and local politicians set up local "foundations" and non-government organisations into which public funds for "local development" can be channeled, without the usual government auditing procedures.

Pressures for these sorts of corruption can be reduced through strict limits on campaign activities and party finances, both externally audited, coupled with the public funding for campaigns and mandatory, balanced time allocations on television and radio. All foundations receiving public funds should be subject to audit.

2. Illicit enrichment

In some countries government officials can be prosecuted not only for direct evidence of having received a bribe—evidence which is always difficult to obtain—but also for possessing wealth beyond what can be explained as the result of lawful activities. Some countries have even reversed the burden of proof: a government official may be required to demonstrate that his wealth, and perhaps that of his immediate family, was acquired legally. In some countries there is no need to prove the individual is guilty of a crime.

Illicit enrichment laws carry risks. The power to demand proof can be misused. Excellent potential candidates for public office may be deterred by the possibility of having to open up their finances and the finances of their families to public scrutiny. In very corrupt situations such a law may simply drive corrupt officials to hide their wealth in secure places beyond the country's borders. Nonetheless, in Hong Kong the leverage obtained by a change in the law concerning illicit enrichment helped turn around the battle against corruption, as part of a wider-ranging package that included prevention and public participation.

3. Disclosure

Sanctions by administrative authorities may not merely reinforce the threat of criminal prosecution but may constitute an even more credible threat. For example, if bribery reporting is made mandatory to regulatory and tax authorities, the prospects change. Compared with police, these agencies usually have access to better information and have more expertise. It is relatively easier for them to impose sanctions. Such agencies may also play on a divergence of interests within corporate structures (auditors and board members who may be reform-minded or merely self-protective).

4. How anti-corruption efforts are structured

Some municipalities and departments have set up anti-corruption units; such units at the national level can abet a city's own efforts. On a less grand (and less expensive) scale, anti-corruption statutes may simultaneously (1) create an anti-corruption coordinator from among existing units and (2) enable and require various kinds of coordinating mechanisms and oversight functions, to ensure that the different pieces of the effort are articulated and that the public has the ability to monitor what the anti-corruption effort entails.

There are many other examples of better laws that can help control corruption, such as when a flat tax or a simplified licensing law reduce the scope for illicit activities.

A more promising approach is to prevent corruption by changing the underlying conditions of competition, discretion, accountability, and incentives. This means the careful consideration of, for example:

- Privatizing works or contracting them out, and focusing scarce municipal resources on inspection and monitoring of agreed-upon, measurable results.

- Adopting “second-best” rules and regulations which, though not optimal in some theoretical world, serve to delineate discretion and make the rules of the game easy to understand. Disseminating the rules of the game to citizens can be a key step (see Box 13).

Box 13: A Citizens’ Manual Helps Prevent Corruption

La Paz’s municipal government was riddled with routine corruption in part because municipal rules and regulations were both extremely complex and not transparent to the public. Trying to figure out how to get a certain permit, for example, was virtually impossible. Routine purchases under \$2000 required 26 steps within the municipality. Municipal employees could use both the delays and the obscurity to request speed money or in some cases to extort citizens by pretending that the regulations were something they were not.

Municipal employees were asked to describe exactly what every procedure entailed. They resisted mightily, and the effort to document all the municipality’s methods took over a year. Then two responses made a dramatic difference. First the procedures were simplified. The 26 steps were cut to 6. What had been supposed oversight and review of each and every case (necessarily cursory or nonexistent) became the careful review of a random sample of cases.

Second, the city published a citizens’ manual describing all the procedures. For many citizens it was their first chance to get straightforward, objective information on municipal procedures and regulations.

- New sources of information about results, including peer reviews, citizens’ evaluations, objective indicators, and the careful evaluation of samples of performance. The culture of non-performance leads to low, unvarying wages, which breed corruption and inefficiency.
- Innovative uses of computers to track possible beneficiary fraud, bid-rigging, underpayment of property taxes, and suspicious cost overruns or delays in public works.
- Use of citizen self-policing mechanisms.
- Radical experiments with incentives, as described earlier.

Another example is the Bolivian national government’s use of private agencies to evaluate bidders for public contracts. In fact, this process also fell afoul of corrupt temptations. But the argument is that international firms with a reputation to uphold probably have a greater incentive to police potentially corrupt principal-agent relationships than do underdeveloped government agencies.

5.6 Some Bureaucratic Tactics

For systematic change to occur, municipal bureaucracies must be enlisted, mobilised, and monitored.

Begin with Something Positive:

Experience teaches that it is unwise for municipal leaders to begin by seeming to attack their own officials and agencies, even if these are known to be vitiated by corruption. In the words of Justice Efren Plana, who successfully overcame systematic corruption in his wide-ranging reforms of the Philippines’ Bureau of Internal Revenue, “You cannot go into an organisation like the white knight,

saying that everyone is evil and I'm going to wring their necks." He took positive steps to help his employees first—not incidentally developing new measures of performance.

To the extent they wouldn't put their heart into their work, or would pocket some of the money that should go to the government, then you don't get efficiency. So, we needed a system to reward efficiency... So, I installed a new system for evaluating performance. I got the people involved in designing the system, those who did the actual tax assessment and collection and some supervising examiners.

Before, there was a personal evaluation by the supervisor, especially by the person who actually decided on the promotion. Now, instead of this I introduced a system based on the amount of assessments an examiner had made, how many of his assessments were upheld, the amounts actually collected—all depending on the extent and type of the examiner's jurisdiction.¹¹

Emphasise Information and Incentives:

Crucial ingredients for galvanising bureaucracies are new infusions of information about performance and new incentives linked to that information.

Too many managers focus on administrative reform in terms of (a) reorganisation or (b) adding competencies. Our contention is that when systematic corruption exists, neither step is likely to make much difference—unless what might be called the informational environment is radically altered and incentives (positive and negative) are transformed. In our judgment, as mentioned earlier, the best way to achieve these ends is with an experimental approach, one that involves the employees affected and that uses feedback from the city's clients and citizens.

Building better governments simply by strengthening Western-style bureaucracies has failed in many developing countries. The *context* in many developing countries is not conducive to successful government institutions. For example:

- Information and evaluation are scarce and expensive, which inhibits internal and external controls.
- Information-processing skills are weak at both the individual and institutional levels, due for example to low levels of education and few computers, as well as relatively few specialists such as accountants, auditors, statisticians, and so forth.
- Incentives are weak, in the sense that good performance goes relatively unrewarded and bad performance relatively unpunished. Box 14 provides some practical advice for reforming incentive systems.
- Political monopolies dominate, sometimes coupled with violence and intimidation.
- Countervailing institutions are weak, in part because of information and incentives problems but also because of hostile actions by the state.

¹¹ Excerpted from Klitgaard's interview with Plana in 1982.

- Consequently, good economic reasons explain the failure of government institutions to perform. One need not cite cultural or political factors, and one need not immediately turn there for solutions.

Box 14: Some Practical Advice for Incentive Reforms

The first question is: where do we get the money to increase pay? Mayor MacLean-Abaroa undertook radical cuts in personnel; many mayors will not have a crisis to excuse such a step. Experiments that begin with revenue-raising and cost-saving parts of the municipality can pay for themselves, even generate revenues that can be used to fund a second round of incentive experiments elsewhere in city government. User charges can be shared with employees. Foreign aid money can sometimes be used for “topping up” the salaries of key personnel.

Incentive reforms require the participation of employees themselves in the specification of each agency’s objectives, the definition of performance measures, and the structure of incentives.

Quantitative and qualitative outcome measures can be used. So can peer ratings, as long as ratings are forced to be “on a curve” (i.e., not everyone can be rated “excellent”).

Team incentives are often more feasible and desirable than individual incentives.

In designing performance measures, it is helpful to define “key tasks”—in other words, to analyse the organisation’s “production function” better.

Include information from clients.

Empower clients. Seek analogies to market power or joint management. In pursuing such reforms, continually think “information and incentives.”

Experiment with user charges and analogies to them such as in-kind contributions, part of the revenues from which can be used to augment employees’ salaries and benefits.

Remember the principle of the sample: incentives can be based on samples of performance. Especially in an experiment, there is no need for the comprehensive measurement of each and every outcome of each and every action.

Avoid incentive master plans for all agencies and all time. Learn by doing. Make sure affected parties take part in the evaluation of the incentive experiments.

Begin with the easiest cases. In particular, try reforms in areas where performance is relatively easy to measure objectively and where the revenues raised or costs saved can make the experiment self-financing.

Incentives include money but also other things: promotions, training, travel, special assignments, transfers, awards, favourable recognition, and simple praise. Even information about how well one is doing turns out to function as an incentive.

Cultivate political support, particularly from unions and foreign donors. The idea of an experiment reduces their worries and involves them in design and evaluation.

Make technical assistance (TA) by foreigners subject to competition and incentives. For example, use TA funds to finance experiments where local experts and even government officials carry out the required “studies” based on the participatory diagnosis of what is already known about problems and possible solutions. Pay TA people in part on results accomplished.

Privatize creatively. This can mean experimenting with hybrids of public and private sectors working together to provide services.

For more details see Klitgaard 1991 and Klitgaard 1996.

Correspondingly, the principles of reforming corrupt bureaucracies will include:

- Enhance information and evaluation. Put it in the hands of clients, legislators, and those with official oversight (regulators, auditors, judges, etc.).
- Improve incentives. Link incentives to information about the attainment of agreed-upon objectives. In a phrase, *institutional adjustment must be incentive compatible*.

- Promote competition and countervailing forces—including civil society, the media, the legislature and the courts, and political parties—and procedures that allow these different interests and voices to make a difference in policy and management.

This approach contrasts with approaches based on *more*: more training, more resources, more buildings, more coordination, more central planning, and more technical assistance. The argument is that *without systematic reforms*, “more” won’t solve the problem of inefficient, corrupt public administration in contexts like those found in many developing countries. In these senses, the fight against corruption can become the vanguard of a revolution in city governance. What happened in La Paz illustrates these points.

5.7 The La Paz Reforms

Mayor MacLean-Abaroa applied many of the ideas of this study in his first term of office, beginning in 1985. He understood that at the heart of institutional rot are broken-down systems of information and incentives. He took to heart the formula $C = M + D - A$.

Diagnosis:

His first step was to undertake a number of diagnostic activities. Where was the corruption, how bad was it, what were its causes and possible cures? Workshops with senior officials, which we earlier called “participatory diagnosis,” not only gathered useful information (Box 5) but also motivated these officials to devise their own strategies for reform. Special studies also helped, ranging from the highly informal (interviews with secretaries, a repository of institutional knowledge about transgressions) to systems analyses of procurement.

Strategy:

After sizing up his daunting problems, Mayor MacLean-Abaroa applied an early version of the framework for policy analysis (Box 3) to each of the city’s major activities (for example, works, revenue collection, permits and licences, procurement, auditing and evaluation). The city government undertook a number of impressive steps toward improvement.

Works. The mayor used the city’s financial crisis to excuse the firing of large numbers of employees, particularly labourers in the works area. He took this opportunity to redefine the city’s mission as carrying out emergency repairs but not major projects. In the latter case, it would supervise but not undertake the works. Mayor MacLean-Abaroa obtained foreign aid for municipal works and for reforming city administration. He used some of this money to “top up” the salaries of key officials. It was then possible to pay high-enough wages to attract real talent to the important jobs of planning and overseeing public works.

Which works? Mayor MacLean-Abaroa used a variety of techniques to estimate the value of various kinds of works to neighbourhoods and to the city more generally. These techniques ranged from surveys of local groups to benefit-cost studies using high-powered outside advisers.

Revenue collection. Revenue collection was assigned to banks rather than city employees, reducing the scope for bribery and extortion by city officials. The complicated system for evaluating the value of property was replaced with an “auto-evaluation,” wherein citizens would declare the value of their properties under the veiled threat that the city might purchase their properties for 1½ times the declared value. The result was a remarkable increase in city revenues.

Permits and licences. The mayor deregulated some activities, so that no permits were required and no bribes could be extorted. He abolished the office of price control.

He developed a single register of all applications for permits and licences. Applicants would come to a desk staffed by registry employees, not by those actually evaluating and granting permits and licences. Each application was entered into a system that enabled its progress to be monitored. The scope for bribe-taking was reduced, and the information gathered through the system could be used to help evaluate the performance of offices and individual employees. The system was never fully implemented, but it did make a difference.

He undertook a great effort to simplify and streamline the granting of permits and licences. Then he published a “Manual for Paceños” which described each process in detail, so citizens knew what to expect and were less easily extorted based on their ignorance.

For building permits, he involved private-sector architects under the aegis of the College of Architects. They took some responsibility for reviewing and warranting the quality and legality of the construction plans. Adding about 100 private sector architects speeded up approvals and improved, at least temporarily, the quality of the reviews.

Procurement. Systems that formerly took many steps, very difficult to monitor, were simplified to fewer steps, with more effort at monitoring carefully each step.

Personnel. Efforts were made to professionalise the city’s staff through meritocratic recruiting and promotion. Young people were brought in under a plan called “Bolivia Jóven.” Thanks to personnel cuts, enhanced revenues, and foreign aid, salaries were raised, to the point that within two years they were competitive with the private sector. Training was radically increased, and a special programme funded by the World Bank had as a central objective the upgrading of city personnel. A new Institute for Municipal Training was set up.

Auditing. A project was undertaken with a major consulting firm to design and implement an integrated financial management system, running from requests for materials and works through their

procurement, warehousing, and supervising. Unfortunately, this system was not completed before MacLean-Abaroa left office.

Implementation:

Mayor MacLean-Abaroa followed a sensible implementation strategy as well. He aligned with favourable national and international forces. He fired some “big fish” early on, and used their example to send a message that the old corrupt systems had changed. He didn’t attack his bureaucracy but helped it first, then went after corruption through a preventive strategy of systems reforms. He recovered a major city plan that had languished for eight years, including a number of large-scale studies that helped organise thinking about needed works and services.

The results were remarkable. Investment was up by a factor of ten within three years. Revenues soared. City salaries were competitive with the private sector within two years. By all reports, corruption was reduced. And Mayor MacLean-Abaroa was reelected twice.

Let us hope that this story, and more importantly the principles behind it, can inspire other municipal leaders to be as creative and diligent.

REFERENCES

- Audit Commission 1993. *Protecting the Public Purse. Probity in the Public Sector: Combating Fraud and Corruption in Local Government*. London: HMSQ.
- Bayart, Jean-François 1989. *L'État en Afrique: La politique du ventre*. Paris: Fayard.
- Blinder, Alan S. ed. 1990. *Paying for Productivity: A Look at the Evidence*. Washington, D.C.: The Brookings Institution.
- Etzioni, Amitai 1982. "The Fight against Fraud and Abuse," *Journal of Policy Analysis and Management* 2:4 (Fall).
- Galtung, Fredrik ed. 1994. *Accountability and Transparency in International Economic Development: The Launching of Transparency International in Berlin, May 1993*. Berlin: German Foundation for International Development and Transparency International.
- Gyawali, Dipak 1994. "Structural Dishonesty: Corruption Culture in Public Works," unpublished manuscript, Kathmandu: Royal Nepal Academy of Science and Technology.
- Heymann, Philip 1995. "Dealing with Corruption: The United States as an Example," unpublished paper, Cambridge: Harvard Law School.
- Klitgaard, Robert 1988. *Controlling Corruption*. Berkeley and Los Angeles: University of California Press.
- Klitgaard, Robert 1991. *Adjusting to Reality: Beyond "State vs. Market" in Economic Development*. San Francisco: ICS Press and International Center for Economic Growth.
- Klitgaard, Robert 1995. "Institutional Adjustment and Adjusting to Institutions," Discussion Paper No. 303. Washington, D.C.: The World Bank, September.
- Klitgaard, Robert 1996. "Information and Incentives in Institutional Reform," in Christopher Clague, ed., *Institutions and Economic Development: Applications of the New Institutional Economics to Growth and Governance in Less-Developed and Post-Socialist Economies*. Ann Arbor: University of Michigan Press.
- Laffont, Jean-Jacques, and Jean Tirole 1993. *A Theory of Incentives in Procurement and Regulation*. Cambridge: MIT Press.
- Marshall, Robert C., and Michael J. Meurer 1995. "Should Bid Rigging Always Be an Antitrust Violation?" unpublished manuscript, June.

Milgrom, Paul, and John Roberts 1992. *Economics, Organization and Management*. Englewood Cliffs, NJ: Prentice-Hall.

Mollen, Milton *et al.* 1994. *Commission Report: Commission to Investigate Allegations of Police Corruption and the Anti-Corruption Procedures of the Police Department*. New York: City of New York, July.

Moreno Ocampo, Luis 1993. *En Defensa Propia: Cómo Salir de la Corrupción*. Buenos Aires: Editorial Sudamericana.

Noonan, John T. Jr. 1985. *Bribes*. New York: Macmillan.

OECD 1995. Symposium on Corruption and Good Governance. Paris: Organisation for Economic Co-operation and Development, 13-14 March.

Office of Management and Budget 1982. *Internal Control Guidelines*. Washington, D.C.: OMB, December.

Orrego, Claudio 1995. "Citizen Participation and the Strengthening of Accountability in Chile's Municipal Governments" unpublished manuscript, April.

Paul, Samuel 1995. "Evaluating Public Services: A Case Study on Bangalore, India," *New Directions for Evaluation*, American Evaluation Association, No. 67, Fall.

Ramírez Torres, Francisco 1990. *Los Delitos Económicos en los Negocios*. Managua: Talleres de Don Bosco.

Sherman, Lawrence 1979. *Scandal and Reform*. Berkeley and Los Angeles: University of California Press.

Thacher, Thomas D. II 1995. "The New York City Construction Authority's Office of the Inspector-General: A Successful New Strategy for Reforming Public Contracting in the Construction Industry," unpublished case study, June.

Tirole, Jean 1992. "Persistence of Corruption," IPR55, Working Paper Series. Washington, DC: Institute for Policy Reform, October.

Werlin, Herbert W. 1994. "Understanding Corruption: Implications for World Bank Staff." unpublished manuscript, August.

Williams, Peter 1983. "Concept of an Independent Organisation to Tackle Corruption," paper presented at the International Conference on Corruption and Economic Crime against Government, Washington, D.C., October.

ABOUT THE AUTHORS

Robert Klitgaard is a professor of economics at the University of Natal, Durban. An American, he was formerly a professor at the Yale School of Management and at Harvard's Kennedy School of Government. He has worked in 26 developing countries. His six books include *Adjusting to Reality: Beyond "State vs. Market" in Economic Development* (1991) and *Controlling Corruption* (1988), which has been translated into Arabic, French, Portuguese, Russian, and Spanish.

At the time this document was first drafted in August 1995, **Ronald MacLean-Abaroa** was president of MacLean-Abaroa Consultores, S.A., and the Latin American coordinator for Transparency International. From 1985 to 1991 he served for three terms as mayor of La Paz, and the case study reported here is based on his experiences in his first term of office. In January 1996 MacLean-Abaroa was sworn in as mayor for a fourth time, this time for a term of 4½ years, and he is busy re-applying the lessons of this study.

H. Lindsey Parris is a management consultant on matters of organizational reform and political economics. He is based in Washington, D.C. His recent work has included a study of innovation and creativity in large organisations. As a colonel in the United States Air Force, he managed aspects of the Strategic Defense Initiative. He also served on the staff of the National Defense University.



**URBAN MANAGEMENT PROGRAMME
PROGRAMME DE GESTION URBAINE
PROGRAMA DE GESTION URBANA**

Mr Alioune BDIANE
Regional Coordinator
Urban Management Progr.
Plot 146 Airport West
P O Box 9698 KIA
Accra
GHANA
Tel: 233 21 772561
Fax: 233 21 773106/772561

Mr Nathaniel von EINSIEDEL
Regional Coordinator
Urban Management Progr.
WISMA APDC
Pesiaran Duta
P O Box 12224, 50770
Kuala Lumpur
MALAYSIA
Tel: 60 3 6512934/6512935
Fax: 60 3 6512932
E-Mail umpasia@ump.po.my

Mr Mounir NEAMATALLA
Regional Coordinator
Urban Management Progr.
3B, Bahgat Ali St.
7th Floor
Zamalek
Cairo
EGYPT
Tel: 20 2 3400052/3408284
3417879
Fax: 20 2 3413331

Mr Pablo TRIVELLI
Regional Coordinator
Urban Management Progr.
Av. Naciones Unidas 1084
Ed. Bco. La Previsoria
Torre b. ap. 612
Casilla 17-17-1449
Quito
ECUADOR
Tel: 593 2 462132/462136
Fax: 593 2 462134
E-Mail: lac@pgu.ec

Mr Emiel WEGELIN
Programme Coordinator
Urban Management Programme
Technical Cooperation Division
UNCHS (Habitat)
P O Box 30030
Nairobi
KENYA
Tel: 254 2 623218
Fax: 254 2 624264/624266/624267
E-Mail: emiel.wegelin@unep.no@internet

Ms. Sonia HAMMAM
Team Leader
Urban Management Programme
TWURD
The World Bank
1818 H. Street, NW
Washington DC 20433
U S A
Tel: 1 202 473 3461
Fax: 1 202 522 3232
E-Mail: shammam@worldbank.org@internet

Mr. G. Shabbir CHEEMA
Manager, Urban Development Unit
Management Development & Governance Division
(MDGD)
Bureau of Programme Policy and Support (BPPS)
UNDP
1 United Nations Plaza
New York, NY 10017
U S A
Tel: 1 212 906 5054
Fax: 1 212 906 5365/906 6471
E-Mail: g.shabbir.cheema@undp.org@internet