

Executive Summary

Corruption is now recognized as a major obstacle to social, economic, and political development throughout the world. Public opinion polls consistently show that eliminating or controlling corruption ranks near the top of citizens' concerns in industrial democracies and in the developing world.

Harvard's David Rockefeller Center for Latin American Studies and the World Bank Institute, working with the Carter Center, the Central America Project of the Harvard Institute for International Development, Harvard Law School, and Transparency International for Latin America and the Caribbean, jointly organized an interdisciplinary conference for scholars and practitioners to explore the state of research on corruption and its cures.

The meeting focused on the efficacy of specific techniques, programs, and initiatives that have been implemented to control corruption in the Americas. In the morning, four case studies of efforts to reduce corruption in various Latin America countries were presented, followed by comments from a faculty member on each case. In the afternoon, panelists assessed the international agenda for addressing corruption and concluded with a discussion of the lessons from the day's proceedings.

John Coatsworth from the David Rockefeller Center for Latin American Studies began the conference by defining corruption as the abuse of public power for private gain. He also defined the objective for the conference – to make an important contribution to reducing corruption by creating an interdisciplinary dialogue among scholars and practitioners looking to better understand these problems and to design more effective interventions to deal with them.

Discussion then turned to the specific cases. In Mexico City Chief Prosecutor Samuel Del Villar has undertaken significant reforms to address corruption. Del Villar prosecuted some 400 public servants in 1998, including 250 from the Attorney General's office. Additionally, 9,000 public servants took a two-week professionalization course, in which minimum standards of service were set and codes for public service were taught. Successful completion of these courses led to doubled salaries for employees. Del Villar noted the importance of such incentive-altering arrangements in the fight against corruption. Reform, he stressed, should be grounded in a concern for human dignity and the work of governments elected freely and equally by citizens.

Luis Moreno Ocampo of Transparency International for Latin America and the Caribbean has applied a different incentive-based strategy to the private sector. Any attempt to address corruption that focuses solely on the role of public-sector actors, he argued, is incomplete. He illustrated this point with a revealing case study from Salta, Argentina, in which a local businessman relied on civil society and the free press to expose a bribe-soliciting mayor.

Ronald MacLean-Abaroa, the former mayor of La Paz, Bolivia, outlined the structural nature of incentives leading to municipal corruption. Complex tax systems and burdensome licensing procedures often delay public works. Under conditions of hyperinflation in 1985, rent-seeking opportunities abounded for corrupt individuals. MacLean debunked the perceived dichotomy between the effective delivery of municipal services and integrity. As his time in office demonstrates, he suggested, government can be made more efficient while it is being made more transparent.

Citing the need for more empirical studies of corruption, Ernesto Schargrodsky, an Argentine economist, presented a survey of 33 public hospitals in Argentina. He demonstrated that the maximum price paid by a city hospital for medical inputs was, on average, five times higher than the minimum price paid for the same input by other hospitals. For some inputs, the maximum price was ten times the minimum. Though he outlined the shortcomings of his analysis – namely, that it is hard to tell how much of the price differential can be attributed to corruption – Schargrodsky called his study a work in progress. He also invited other scholars to contribute to a more systematic understanding of corrupt practices in the Americas.

Jennifer McCoy from the Carter Center then led a panel on the development of an international agenda for fighting corruption. She cited the Inter-American Convention of 1996 and the 1997 Organization for Economic Cooperation and Development (OECD) Convention against corruption as proof that the international community is now very interested in transparency. Additionally, international financial institutions are recognizing the impact of corruption on investment, development, and good governance. International civil society organizations like Transparency International also play a crucial role in raising awareness about corruption.

Fritz Heimann, Chair of the U.S. Chapter of Transparency International, discussed his views on the international anti-corruption agenda. Conventions are an essential tool in fighting corruption in the global economy, he said. There is a great need for coordinated, multi-national action to control the occurrence of bribery. For businesses, fear of losing market shares to corrupt competitors increases the need for concerted action. Additionally, strong monitoring processes are essential to making the conventions effective. But monitoring processes are seldom popular, and require the support of experienced criminal lawyers, civil society, and politicians.

Daniel Kaufmann of the World Bank outlined his institution's approach to corruption. He stressed at the outset that any anti-corruption "strategy" ought to be embarked upon with humility – and, in fact, that it is meaningless to speak of a World Bank "strategy" independent of each country's anti-corruption plans. Differences among countries should not be glazed over in an attempt to formulate grand principles. Still, the Bank has had some success in applying two general ideas: civil society should be actively engaged in anti-corruption efforts, and the power of information should not be underestimated. This marriage can inform policy-making and design, which can ultimately result in the implementation of effective reform programs. Such programs should – and will – vary from country to country.

Jeffrey Sachs of the Harvard Center for International Development commended Kaufmann and other students of corruption for their pioneering work. He agreed that corruption is symptomatic of underdevelopment, and that it probably worsens the lot of many people the world over. That notwithstanding, Sachs critiqued the involvement of developed countries in general, and of the U.S. in particular, in global anti-corruption efforts. He worried that corruption would serve as yet another lever for the IMF and World Bank, which, he believes, already exercise undue influence on the day-to-day operation of many developing nations. International lending institutions should not be the main engine of anti-corruption efforts; civil society is the key to lasting reform.

In a discussion chaired by John Coatsworth, lessons were drawn from the cases presented. Robert Klitgaard of the Rand Graduate School noted that combating corruption requires a combination of opposing forces: passion and discipline. Effective reformers must fuse moral outrage with systems analysis to produce remedies that are not moral revolutions, but rather better systems, which reduce the temptations, opportunities and rewards of corrupt behavior.

Philip Heymann of Harvard Law School concluded by noting that everyone despises visibly corrupt behavior, so exposure ought to be the first step in fighting corruption. From there, law enforcement and business management must work together. Governments must empower the work of civil society, law enforcement, and the business community by building more transparent systems.

EFFECTIVE STRATEGIES FOR ADDRESSING CORRUPTION IN THE AMERICAS

OPENING REMARKS JOHN COATSWORTH

John Coatsworth began the morning proceedings by defining corruption as the abuse of public power for private gain. Surveys demonstrate that corruption ranks near the top of citizens' concerns about government throughout the Americas. Coatsworth distinguished the kind of corruption related to the production and distribution of illegal substances from all other varieties. This distinction is important, as is the understanding that the two kinds of corruption interact frequently. Each kind of corruption has a history: each is related to the design of public policy, and is not specifically linked to particular cultures. Coatsworth argued that corruption measurably reduces economic growth and results in other tremendous social costs such as jobs lost. Strategies to deal with the problem of corruption are vital to strengthening democracy because corruption is often inimical to needed reforms.

Coatsworth described the collaboration of the David Rockefeller Center for Latin American Studies and the World Bank Institute, with the co-sponsorship of the Carter Center, the Central America Project of the Harvard Institute for International Development, the Harvard Law School, and the Latin American and Caribbean division of Transparency International, to address these critical issues. This conference is one of the results of that collaboration. The conference aspires to create an interdisciplinary dialogue among scholars and practitioners through the assessment of specific attempts to control corruption in the Americas, with the objective of better understanding these problems and designing more effective interventions to deal with them in the future.

REFORMING THE “CONTROL AGENCIES”: THE CASE OF THE POLICE AND PROSECUTORS IN MEXICO CITY SAMUEL DEL VILLAR

Samuel Del Villar summarized the conceptual framework and technical operations which he believes are critical to reforming law enforcement agencies in Mexico City.

As the Attorney General of Mexico City, Del Villar promised investigative and prosecutorial services consistent with effective rule of law, on the premise that reform should be a by-product of an emphasis on human dignity and the work of governments elected freely and equally by citizens. Such reform is predicated on efforts to protect human rights, and also provides a basis for government accountability.

Before outlining the program of reform undertaken in Mexico City, Del Villar first established four factors important to bear in mind when addressing the problem of corruption. First, corruption is a structural problem, not a circumstantial one, which

affects all institutional networks that are supposed to provide the basis of social and economic interaction.

“An effective democracy is inconceivable without an effective rule of law and effective rule of law is inconceivable without effective law enforcement agencies.”

Second, the view of law as fiction rather than as reality must be discussed. In Mexico there is a legal culture based on indoctrination rather than on the lively discussion of the law. There is also little role for judicial precedence that would provide for predictability and constitutionality of law enforcement. Third, training of lawyers and law-enforcement officials is doctrinaire rather than professional development. Fourth, there is a formalistic bureaucratic response to crime rather than preventive, investigative, and prosecutorial responses.

This complicated legal culture in Mexico creates a situation of popular distrust of law enforcement agencies. Citizens see that agencies have not only failed to protect fundamental human rights, but have actually violated those rights. This dynamic produces a lack of political willingness to grant agencies the necessary power to deal with institutional responsibilities. To add insult to injury, rhetorical legal reforms were made in Mexico City without regard for institutional realities. These “reforms” involved a misallocation of resources which, rather than producing modernizing effects, were a hindrance to institutional development. There was also major mismanagement of resources, which were allocated to law enforcement without any criteria for productivity or efficiency. As a result of these structural problems, Mexico City’s crime rate doubled between 1993 and 1997. In 1997, the first democratically elected government in Mexico City faced huge challenges. The government’s primary task was to then make operational changes to reduce crime and make institutional changes to launch its reform program.

Del Villar maintained that the program and reforms had to be radical. A clear strategy was important because efforts addressing the varied systemic problems required coordination in order to be effective. Two areas of strategy for the investigation of and the prosecution of corruption were identified: daily operational strategies to deal with particular crimes which most affect levels of security in Mexico City, and strategies for short-, medium-, and long-term reform.

The most significant effort linking reforms and outcomes was strong investigation and prosecution of every kind of corruption. In 1998, 400 public servants were prosecuted, including 250 from the Attorney General’s office. The basic guideline was zero-tolerance on corruption. Along similar lines, a comprehensive program to develop an improved civil service in the Attorney General’s office was also required. One cannot expect to deal effectively with corruption if the institutions do not require that public officials be held accountable for their actions. To this end, 9,000 public servants took a two-week professionalization course, in which minimum standards of service were set and codes for public service were taught. Successful completion of these courses led to doubled salaries for employees.

In the area of institutional reorganization, it was made easier for citizens to file complaints of corrupt activity. Technical modernization required the incorporation of technical means to prosecute more effectively. Finally, the program also emphasized the importance of an increasingly functional relationship between law enforcement agencies on local, federal, and international levels.

Del Villar contends that as a result of these efforts in 1998, for the first time in five years, crime rates were reduced and the crime trend reversed. Similarly, basic indicators of increased investigative and prosecutorial effectiveness rose as the crime rate declined.

COMMENTS PHILIP HEYMANN

Philip Heymann began by describing his experiences during the one week he spent in Mexico City, where he witnessed the implementation of a diverse package of strategies to deal with corruption. He was impressed both with the measures taken in Mexico City that could prove effective and the theory behind them.

Heymann described the situation facing the Attorney General in Mexico City when he took office. The most significant challenges included: a massive crime problem; a rash of kidnapping affecting tourism; a long history of police corruption, both in direct stealing and in accepting bribes for not enforcing the law; ineffective prosecution; extensive judicial and correctional corruption; heavy public cynicism and disconnection from the police; and a police force limited by laws hampering its ability to effectively enforce the law because the force was thought to be uncontrollably brutal. These factors together created an undesirable situation in which police require discretion to enforce laws, but cannot take on that authority because of the lack of public respect; a situation in which officers will not or cannot behave with honesty and dedication without a living wage.

It was necessary to proceed on all fronts simultaneously, Heymann concluded. If ten factors are identified as wrong, to change one alone will result in other corrupt elements compensating for that change. In Mexico City this effort to move on all fronts simultaneously was undertaken in intelligent ways, and was insightful and politically astute enough to understand how far change in one area should extend before emphasizing another factor requiring reform.

An example of an operational change was police force training to instill pride and responsibility in the force. Organizationally, Del Villar is moving towards decentralization, but also incorporating a centralized organized crime prosecution and centralized anti-corruption prosecution, which has prosecuted 200 of his own people.

In order for police to become honest they need to be paid a living wage, they need respect, and they must operate under high expectations. Heymann commended Del Villar for his good training programs, which increase salaries following participation in public

service professionalization and training programs. A final change will involve a law to allow police to exercise more discretion. The Attorney General must time all these changes judiciously so that they coincide with changes in public confidence.

“You are in something of a box, a bad box, a very hard one to get out of. You have about ten things going wrong at once, and if you change any one of them, it will quickly go back to its initial state because of the other nine there.”

The weaknesses in the strategy are attributable to many obstacles beyond the control of the Attorney General. First, the Attorney General of Mexico City controls only 20% of the City’s police. Federal police elements are beyond his control. Judicial corruption is also endemic, and the cost involved in applying new management techniques is often prohibitive. Finally, and perhaps most important, it often takes longer to realize gains in the fight against corruption than an executive’s term in office. Large-scale reforms often flounder due to a lack of institutional staying power.

Heymann concluded by expressing his admiration for the experiment underway in Mexico City, one that he judges as a truly remarkable effort.

POLITICAL INCENTIVES AND STING OPERATIONS: THE SALTA, ARGENTINA CASE LUIS MORENO OCAMPO

Luis Moreno Ocampo began by arguing that there are powerful incentives toward corruption in the private sector. Any attempt to address corruption that focuses solely on the role of public-sector actors, therefore, is incomplete. He offered the audience a case study as an illustration.

The hero (or victim) in his case was Carlos Visuara, the chairman of a refuse-collecting company called Premio Salta. From 1989-1993, Premio Salta had been contracted for refuse service in the city of Salta, Argentina. Premio Salta’s contract had been extended on a provisional basis between 1993 and 1996. In 1996, because of financial difficulties, the city delayed payment of \$2 million to the refuse company. With annual sales of \$2.2 million, Premio Salta’s viability was being threatened by this debt, and the payroll had been delayed for two months. Visuara decided to take up the matter with the city’s treasurer.

The treasurer said that the mayor demanded a bribe of 33% of the \$2 million. Unwilling to pay into the system, Visuara retained Moreno Ocampo’s legal advice. There was some question as to whether the treasurer was acting alone or upon the advice of the mayor, so a meeting was arranged with the city’s chief executive. Visuara met with the mayor wearing a micro-camera in his tie. The mayor, careful to avoid being audiotaped, swore on his children that he never requested such a bribe, loudly claiming that 33% was an

outrageous figure. Simultaneously, he scribbled the number “20” on a piece of paper and pushed it across the table, indicating a counter-offer of a 20% bribe.

Visuara’s travails did not end there. Infuriated by the mayor’s impertinence, he took his case to the governor of the province. Visuara’s appeal did him little good; the governor told him that he was unwilling to start a scandal and promised a prompt, discrete resolution of the problem instead. He proceeded to inform the mayor that he had been caught soliciting a bribe on video. After many machinations, the mayor called Salta’s city prosecutor – a friend of his – and filed extortion charges against Visuara. A judge issued a warrant for Visuara’s arrest.

Faced with little other alternative, Moreno filed a counter-suit on behalf of his client and went public with his videotape. The footage of the mayor requesting a bribe was nationally broadcast on a Thursday; by the next Monday, the governor had called the provincial congress into session and jailed the mayor. A new mayor was eventually appointed, but he represented the same party as the governor and the previous mayor. His predecessor served a four-month sentence and is currently seeking reelection, though his chances of winning are understandably small. Meanwhile, Predios Salta went bankrupt. Carlos Visuara continues to litigate for the money owed him by the city of Salta.

Moreno Ocampo noted that there are several important lessons to be drawn from this case. The role of an active civil society and free press, he argued, are manifestly important. Also, the incentives facing private-sector actors must be made to discourage corrupt practices. His unfortunate conclusion is that the majority of business leaders in Argentina believe that paying a bribe is a normal, hassle-free way to solve a problem with government officials. The Salta case is typical of Argentina, but Moreno hastened to add that 80% of the world’s population lives in countries with corruption problems worse than Argentina’s. As in most developing countries, he concluded, there reigns in Argentina a market environment that makes corruption financially favorable. There is a weak institutional contract that must be strengthened in order for more effective governance to prevail.

COMMENTS
ROBERT KLITGAARD

Klitgaard opened a dialogue by asking about details of the Salta case. Evidently, the city government of Salta did not pay Visuara because it was bankrupt. But Moreno replied that the city’s finances were not transparent, so there was no way to confirm its fiscal situation. Two firms competed for the Salta contract, but there was no discussion as to whether the initial procurement process was fair. In effect, the firms were competing for a bribe, because the mayor was in control of the market. Klitgaard argued that there is a need for an environment where people can tell the truth without suffering the dangers that Moreno Ocampo’s client faced.

The political situation is complicated because politics is expensive: it is critical to pay attention to the connection between money and power. Moreno believes information is needed for civil society and for the World Bank, to pressure governments from both sides into addressing the corruption issue.

Jennifer McCoy commented that Latin Americans often want to see “big fish fry,” and that the shock appeal of sting operations is necessary to convince the public that high-level offenders can be caught. McCoy asked for comments on whether such high-profile stings were the right course of action. Del Villar responded by affirming that “big fish fries” were the best way to bolster public confidence. One must sweep the stairs from top to bottom, not bottom up, he suggested. The issue of the time and expense involved in attacking the major players is countered by the positive publicity and restored public confidence in rule of law.

John Coatsworth asked about the possibility of entrapment. Del Villar discussed the restricted legal framework in which he must operate, where to induce a crime is itself a crime for which the Attorney General could be held criminally liable. Moreno commented that the Salta case was not one of entrapment because the client did not offer money or induce a crime. As corruption is the tradition in Latin America, Moreno’s team extends great effort to present a clean case; the evidence is not gathered through bribes and the actions of his firm are well documented. As a consequence, the Supreme Court of Argentina and other courts have returned decisions favorable to Moreno’s clients, indicating the courts’ support of this type of anti-corruption work.

Moreno also made a comment about the big-fish idea: Earlier in his career, he prosecuted generals for human rights offenses, and as a consequence they were removed from power. With the issue of corruption, and in the Salta case, one big fish is often exchanged for another big fish. Going through judicial channels, the mayor was removed, but he was replaced with a new mayor equally connected to the corrupt power structure.

An audience member from Argentina who lived in Salta commented on the particularly feudal power structures in Salta where the government owns the mass media. She argued that the incidents in Salta were not representative of all of Argentina. For example, a law creating a National Auditor based on the Canadian system has been passed, along with other legal mechanisms for addressing corruption in the country at large.

Moreno responded by saying the Salta case is special because it is humorous and the money is small. In Buenos Aires, the money is bigger but the problems are the same. The problem with institutions is that the politicians attempt to keep power in their own hands and in the hands of those institutions. For this reason, in developing countries there are no free and independent prosecutors and press to threaten the stores of power. The issue at hand is how to get the institutions on the side of the people.

Juan Enríquez then commented on Coatsworth’s distinction between drug corruption and business-as-usual corruption. Enríquez said that in Mexico City, it is necessary to point

out other distinctions between forms of corruption. For example, since they cannot be funneled into the civil service at the end of their terms, many elected officials attempt to stock up on graft during their last year of service. Addressing that form of corruption, which the Mexicans call “Años Hidalgos,” might require a different strategy. Second, as the mayor of Mexico City is presently running against the president, a new array of political crimes to embarrass candidates and implicate them in illegal activities may arise. Third, Enríquez was unsure of the effect of globalization on the corruption problem; the continued opening of borders may or may not lead to more corruption.

Del Villar said that prosecution of judicial corruption should have as high a priority as other forms. In regard to the drug problem, he distinguishes between the cartel problem and the smaller-scale drug problem affecting public order. The drug cartel problem is too big for the prosecutors to handle, and the type of violence and magnitude of the problem is beyond the scope of the office of a district attorney in Tijuana for example. A more manageable problem is drug-related crime in the cities, over which Del Villar’s office is attempting to gain jurisdiction. Corruption associated with the end of governments is a big problem. Del Villar’s office is attempting to investigate, prosecute, and prevent that sort of procurement corruption. He hopes that by convicting the big fish, one sends a strong preventative message to all other possible perpetrators. As to the question on electoral politics, he does not anticipate major criminal conduct related to next year’s election in Mexico City.

Coatsworth attempted to re-state the question, asking if in the heat of transitional politics in the year 2000, we will see crimes requiring extraordinary prosecutorial advances such as the electoral crimes committed in 1994. He wondered if there is any way to prepare for such incidents.

Del Villar said there is clearly an enormous amount of unpredictability. For the first time in Mexico’s recent history, the president will not choose his political successor, and it is thus unlikely that he will remain active through his successor.

Coatsworth then asked Robert Klitgaard if globalization would be good or bad for corruption. Klitgaard outlined several different focal points from which the problem of corruption can be analyzed – from the point of view of the individual in a corrupt agency or an agency head in a corrupt government structure, for example. The macro view of the problem is prevalent, which is that larger economic environments matter more, and that the managerial, lower-level attempts at change are futile.

In reference to globalization, studies have demonstrated an inverse relationship between an economy’s openness and levels of corruption. That is, open economies have less corruption. There is also the possibility of a U-shaped relationship: the “rules of the game” change quickly as an economy opens and moves away from oligopoly. At first, the rules are unclear, and the perception of corruption increases initially, but it decreases once the rules are firmly in place. What the studies do show is that in the long-term there is a strong relationship between openness and a decline in corruption. Klitgaard also

noted that democracy is not an automatic antidote to corruption, and that the positive effects of openness take some time to manifest themselves.

Coatsworth then commented that for many years the U.S. has had laws against bribery, and now the European Union has similar laws. He asked what the prospects might be for a more universal law of that kind. Klitgaard suggested that Coatsworth's question could not yet be answered, but noted that he remains skeptical about the prospects for universal bribery laws.

Coatsworth asked Moreno if the situation would have been different had there been a big international firm competing for the contract in Salta. Moreno responded by emphasizing that while the world is economically global, it is not yet politically global. These dealings take place within municipalities, which for the most part are similar to Salta. International business knows that the easiest way to deal with governments is to offer money. Therefore, whether international or local companies are involved, the incentives favoring corrupt business practices are strong.

REFORMING MUNICIPAL SERVICES: INSTITUTIONAL CHANGE IN LA PAZ, BOLIVIA
RONALD MACLEAN-ABAROA

Ronald MacLean-Abaroa opened by examining the different levels of attack on corruption: the micro-level of institutional reform in the mayors' offices and ministries, and the macro-level political problem of corruption. On a macro-level, MacLean has tried to make integrity and efficiency trademarks of his political career. In Latin America, the public demands integrity and transparency, but also expects the government to perform and provide services. An apparent trade-off has arisen: effectiveness and efficiency versus values of democracy, freedom, honesty, transparency, and integrity.

MacLean demonstrated the wide acceptance of this idea with two examples. The Adhemar De Barros governor in Brazil said publicly, "I steal, but I get things done." Also, the famous Mexican politician Hank Gonzales stated, "Un politico pobre es un pobre politico." (A politician who is poor is a poor politician.) These demonstrate the incorporation of corruption into the political culture of Latin America. Many governments have used this assumption about the inverse relationship between effectiveness and integrity to justify their corruption, saying that there may not be freedom, but things get done. MacLean challenged the new Latin American democracies to create a bridge between integrity and performance and to defeat the idea that theft is tolerable as long as government services are provided effectively.

MacLean emphasized that we must first address the problem of institutional development at the macro-political level. Politicians need electoral majorities to maintain their offices. The necessity for a lot of money to garner votes links politicians to corruption as they attempt to finance their campaigns. To solve this problem, MacLean suggests that campaign finance regulation is needed in order to create a level political playing field.

MacLean stated that it is not necessary to solve national corruption problems in order to make progress at the local level. However, political will, honesty, and effectiveness are always necessary. When he became mayor of La Paz in 1985, MacLean did not have an anti-corruption agenda, but rather tried to address the problems involved in delivering the goods and services that he had promised in his campaign. The extreme economic situation of hyperinflation in Bolivia created structural corruption in which the incentives to corruption had been drastically increased. The real wages of citizens, including some on the payroll of the local government, were below the living wage level, providing ample incentive to participate in systematic corruption.

To illustrate how corruption affects municipal services, MacLean used the example of the mayor's office in La Paz, a typical municipal unit with more than 4,000 workers. On a regular basis, the city's gasoline and machine parts were being stolen. Huge tractors were looted and sold in parts. Also, formal plans for urban development were thwarted by the extra-legal use of construction machines in private developments. This made MacLean's work especially difficult: after promising to improve a particular neighborhood, he would find that the machinery needed was being used in a private development on the other side of town.

MacLean outlined several problems that contributed to corruption in La Paz. The tax system was very complex, which lent itself to indiscretion and fraud on the part of tax collectors. There was also tremendous over-regulation of permits and licenses – everything required a permit. This led to long delays in construction, which meant that the city lost investment. The greatest symbol of mismanagement and corruption in the city was “the Cashier,” an inflation peddler and speculator who understood how the system worked under hyperinflation. Wealthy and powerful, he could fix any problem, for a price. In procurement, there was great collusion of companies, many who either refused to work with the city or charged the city a much higher price. The kickbacks were pre-established at about 20%. And although a process to control corruption existed, it was very complicated and generated more cynicism and delays than a reduction of fraud. The effects of these pre-existing conditions on the city were the prospect of imminent financial collapse and deterioration of performance.

. . . corruption is a crime of calculation, not passion. Thus, those people participating in corruption make an implicit cost/benefit analysis of the benefits and the penalties, which is affected by the likelihood of being caught.

When MacLean intervened as mayor, he followed three steps: diagnosis, development of strategy, and implementation. In the diagnostic phase, MacLean addressed the problem of the payroll, which exceeded the bounds of the city budget. He worked to involve people in municipal institutions, creating a participatory diagnosis that helped to identify the type and value of the corruption, as well as winners and losers from the corruption. This prioritized the problems and highlighted which areas it would be most effective to address first.

MacLean emphasized that developing strategy is the most important phase of eliminating corruption. A framework to

guide the analysis and an emphasis on institutional adjustment are integral aspects of this strategic development. Corruption, stated MacLean, equals a monopoly plus discretion minus accountability. Also, he stressed that corruption is a crime of calculation, not passion. Thus, those participating in corruption make an implicit cost/benefit analysis which is affected by the likelihood of being caught.

To implement the strategies he had developed, MacLean considered destroying the impunity of the “big fish.” He moved against the Cashier, destroying his corrupt trade. Additionally, MacLean made an effort not to attack the people, but to involve them in the implementation. The office of public works, previously a construction unit, was reinvented as a promoter and a regulator, involving the private sector and promoting competition. In personnel, as salaries were increased to be comparable to the private sector, the quality of personnel improved. Two new innovations were implemented. First, young, motivated Bolivians were hired, and second, this local talent was combined with high-caliber international students from universities like Harvard and MIT. The procurement process was simplified and de-regulated to promote transparency. A manual of information was created to make the permit process more accessible to citizens, and private architects and engineers were licensed to substitute for public officials. The introduction of self-evaluation of property helped to simplify and speed up the tax process by empowering citizens to fulfill what before was done by public officials.

As a result of these changes and the halting of hyperinflation, MacLean contended, revenues soared, investment in public works improved, corruption decreased, and he was re-elected in 1995 for his fourth term as mayor. His experiences have led him to conclude that the dichotomy between efficiency and transparency is not real. Integrity and effective governance can go hand-in-hand, as the case of La Paz suggests.

COMMENTS **MERILEE GRINDLE**

Merilee Grindle commended MacLean for exemplifying how much can be accomplished with a thoughtful, strategic approach to municipal corruption. Indeed, MacLean seems to have transformed what many considered “political suicide” into a long and productive political career.

From the case studies presented earlier, Klitgaard draws the conclusion that corruption at its worst is an equilibrium phenomenon, where corruption at one level reinforces corruption at other levels, and out of which it is very difficult to break. Breaking away from this equilibrium requires a shock to change expectations and break the comfort zone with the corrupt status quo.

Grindle emphasized that the success of this initiative in La Paz was based on its attention to gathering information, assessing that information, analyzing it, and using the entire process to develop a strategy for how to deal with corruption. The framework that Mr. MacLean used, developed by Klitgaard, isolates the issues by asking a few simple questions: How can we estimate the magnitude of the problem? Who is gaining and who

is losing? What are the causes and what are some potential cures? This analysis does not solve the problem, but creates the basis for developing a strategy that is economically, politically, and bureaucratically feasible.

“The success of this initiative in La Paz was based on its attention to gathering information, assessing that information, analyzing it, and using the entire process to develop a strategy for how to deal with corruption.”

As MacLean demonstrated in La Paz, this kind of broad approach deals with different kinds of corruption at different levels, but in clear, thoughtful ways. It is dependent on strong leadership, as someone at the top needs to be willing to take the initiative and bear the political risks involved. The focus is on institutional change, looking at the incentives that people within organizations have to behave in certain ways, as well as the incentives that organizations have to behave in certain ways. It involves thinking about the rules and procedures that organizations adopt, and how they are used in practice. Finally, this approach considers the day-to-day management of organizations.

These issues usually do not capture the public imagination. They are difficult, time-consuming, and frequently dull. Grindle applauded the slogans that earlier presentations had utilized, such as “fry the big fish,” “sweep the steps from top to bottom,” and “pick the low hanging fruit.” Images such as these stick in one’s mind, but unfortunately, there are not many such vivid images for institutional and managerial change. Grindle stressed the necessity of developing such images that will capture the attention of the public and help to think through problems of institutional change.

Grindle closed by questioning the sustainability of institutional change, echoing Heymann’s earlier concerns. It takes time, ongoing effort, and long, sometimes boring work to embed institutional changes within a system so that the public’s business is done well on a day-to-day basis. There remains, for a long time, the risk of reversion. So much institutional change is dependent upon motivation at the top level that years of work can be undone by the transfer of a single position to an unscrupulous leader. Grindle left the audience with the question: How much time does it take until public organizations are working routinely on the basis of incentives, rules and procedures, and management systems and styles function appropriately, efficiently, and effectively?

TRANSPARENCY AND ACCOUNTABILITY: THE CASE OF PUBLIC HOSPITALS ERNESTO SCHARGRODSKY

This case examined budgetary spending by the 33 public hospitals of Buenos Aires. In September of 1996, the Argentine health secretary began monitoring hospital expenditures on medical inputs. Supply prices were to be reported by each hospital and compared by the secretary’s office. The policy change was designed to make the purchasing process more transparent and to evaluate the efficiency of hospital officers.

Each public hospital acquires its own inputs through an annual budget assigned by the health secretary. The purchase officer has no incentive to save on inputs, since money earmarked for that purpose cannot be applied toward any other expenditures. Some purchase officers have been removed after charges that they misappropriated these funds. A survey of physicians and patients revealed that the process is considered moderately to highly corrupt.

One important caveat is that this analysis of input purchase by public hospitals is not being done on the assumption that corruption in this area is particularly severe, but simply because the health secretary shared the data. Physicians and other public health officials believe that corruption in public hospitals is equal or lesser than corruption found in other areas of government.

The data under analysis was acquired from hospitals between August 1996 and December 1997, which includes the prices, quantity, brand, supplier, procedure, date, and additional information involved in input purchasing. Specifically, there is a database of 1,850 transactions for a sub-sample of 15 products that were chosen because they had the largest number of transactions and because they are homogenous products, so that the analysis can control for difference in quality among these products.

Unless all purchase officers were corrupt, the researchers expected to find a market price for these goods and to find that some hospitals were paying more for these goods, due to corrupt practices by purchase officials and the hospitals. If there were no market price, tremendous price disparities would exist.

The data shows that the maximum price paid by a city hospital was, on average, five times higher than the minimum price paid for the same input by other hospitals. For some inputs, the maximum price was ten times the minimum. The problem was more complicated than had been expected. The data not only varied among hospitals but also within hospitals. The same hospital would often pay different prices at different times for the same inputs.

In order to make sense of the data, other factors were considered: hospital sizes, purchase amounts, time effects, and compliance with transparency requirements. The conclusion from these regressions is that larger hospitals paid lower prices, particularly when larger purchases were made. When transparency requirements were tighter, prices were lower. But even when all of these controls were included, the explanatory power of these regressions remained low. It is likely that other factors – such as the fluctuation of prices within the industry and differences in input quality – complicate the statistical analysis. It is difficult to detect corruption because of these significant price dispersions.

Next, the effect of closer monitoring by the health secretary's office on prices was analyzed. Analysis revealed a significant initial drop in prices and price dispersion with the advent of monitoring, most notably a 17% drop in average prices. However, this effect appeared to be transitory. Prices were lower at the end of the monitoring period,

but the permanent effect was smaller than the immediate effect. Perhaps for this reason, the health secretary tightened transparency requirements in January 1998.

The database was also analyzed to show whether price differences across hospitals were related to the wages of public officers. An index of prices paid by each hospital was obtained. There appears to be no relationship between efficiency wages and prices paid by hospitals. Schargrodsky suggested that several conclusions could be drawn from this last comparison. Perhaps there is no corruption involved in input purchases, or perhaps there is some limitation in the method of data collection used in his study. It is possible that the study did not look at the correct factor; it may not be the case that the wages of purchase officers influence purchase prices.

COMMENTS JUDITH TENDLER

Judith Tandler commended the authors on their serious piece of empirical research, which was greatly needed. Co-author Rafael Di Tella of Harvard Business School apologized for the tenuous results of the study, but admitted that it is a work in progress, and that it had made very serious steps in the right direction.

Tandler then suggested that one of the second-generation hypotheses that could emerge from this paper is that corruption is not an explanation for price differentials. The data showed that, with respect to input purchases, the average corruption level was moderate. Furthermore, surveys showed that corruption in input purchasing was seen as no greater than corruption in society at large. Perhaps that is why publishing price differentials did not have a lasting effect on prices.

There are other possible reasons for price differentials. We should investigate what causes the price differentials, rather than what is the role of corruption in the price differentials. In research, one cannot assume that the cause is corruption.

One potential explanation for the price differentials is simple inertia. There was no incentive to save money, and it takes time to research the market. So purchase officers would tend towards the quickest and most familiar way to purchase. Certainly, a modification of incentives might help in this area.

Second, price differentials might reflect differences in quality and service. In hospitals, timely delivery is extremely important, for example, and purchasing officers must take this into account.

One would also want to know whether smaller purchases “lump” together into large purchases. Corruption often manifests itself in the 5, 10, or 15% taken off the top of large purchases.

Corruption often takes forms other than kickbacks. In many countries, corruption takes the form of other perks, so that it would not necessarily be evident in price differentials.

For example, where government purchasers can retire early, the choice of suppliers can be influenced by a desire to gain post-retirement positions with firms. It is unclear whether this would cause price differentials. Corruption varies with the nature of the task, transaction, and potential punishments for corruption. One needs to look at the corruption characteristics of input purchasing versus other kinds of activities.

Tendler ended with a note of caution: there is no denying that corruption is a wide-spread phenomenon, but there are other reasons for poor performances that are often obscured. Corruption has become an all-purpose explanation for poor government performance. When doing field work on corruption, it is important to ask people how the process works. She suggested that it is not as difficult to get people to talk as we sometimes assume.

An audience member commended Ronald MacLean-Abroa's honesty and efficiency, and asked how mechanisms can continue to be effective without so effective a leader at the helm.

MacLean responded that sustainability is an ongoing experiment; that success cannot yet be claimed. The situation in La Paz is probably just as bad now as it was when he first took office. However, looking at the larger picture, Bolivia has advanced in some interesting ways. MacLean's successor was the first mayor who was jailed for corruption. There is more transparency, and the institution has learned that corruption is harmful to itself. Secretaries are keeping copies of checks which trace corrupt dealings, waiting for the opportunity to give them to the press. Finally, the willingness of the press to expose corruption has been a tremendous improvement.

Another audience member asked MacLean who the losers in this anti-corruption scenario might be.

MacLean listed three losers: the people in the mayor's office who learned the hard way that corruption was destroying their income and employment; the suppliers, who could not contract with the mayor's office because of rampant corruption; and the public at large. It was first necessary to convince people that the institution was sick, and that cooperation would be required to fight it together. Second, MacLean had support from organizations in society, such as the architects and engineers who provided data and evidence of corruption to use in his campaign. Third, there is a perception that the city was doing better under MacLean than under its present leaders.

John Coatsworth asked how much of a wage/salary differential there was between the highest and the lowest paid hospital purchase officers. Schargrodsky replied that the difference may not be great enough to have an impact on behavior, and it may even work in reverse – higher paid officials have higher spending horizons and are more likely to be corrupt.

Schargrodsky explained that there is some variability in nominal wages, but no significant results have been found. There are substantial differences according to age, seniority, education, and other factors in efficiency wages, which is what his team is investigating. There are people with positive or negative efficiency wages. Perhaps the right controls are not being imposed. Currently, however, the results are not significant.

Rafael Di Tella added that there is something to be said for breakthrough work in finding and not finding results. It is possible that too much attention is being given to raising public sector wages, and the results of this study suggest that perhaps wages are important in conjunction with another element.

Schargrodsky also made note of the strong transitory effect; in that when the industry secretary examines prices, and the newspapers announce that there may be actions taken on these prices, there is a price drop for a short period of time before the prices increase again. When the health secretary looked at the prices in this case, they naturally dropped. This conference may even have an effect on those prices.

Robert Klitgaard added that one must study something in order to change it. Schargrodsky's study, he suggested, is perfectly consistent with other industrial research. As soon as a group of employees is studied, their efficiency rises, and once the study ends, efficiency drops off.

Luis Moreno Ocampo suggested a need for people outside the state system to receive information on these studies. Tendler pointed out a similar problem for research, if there is a belief that the procurement officers themselves are corrupt. To cite a positive example however, a study by an association of engineers and architects revealed them to be proud as professionals, and to be adhering to professional norms of conduct. On the whole, it is easier to strengthen sub-groups of professionals than to root out a corrupt element.

MacLean noted that corruption itself can be good for removing corruption. In his career he made a point of not referring to how bad corruption was. Instead, MacLean went to different sectors in the city and managed to show them that they could have better jobs, salaries, and working conditions if corruption were not present. The effects of corruption are sometimes its most effective cure.

**ASSESSING THE INTERNATIONAL AGENDA FOR ADDRESSING CORRUPTION
CHAIR: JENNIFER MCCOY**

There have been several positive signs of international cooperation against corruption in the past few years. Two important developments are the Inter-American Convention of 1996 and the 1997 Organization for Economic Cooperation and Development (OECD) Convention. Other global conferences are proliferating, including a recent conference addressing corruption led by Vice-President Al Gore. In addition, international financial institutions are recognizing the impact of corruption on investment, development, and

good governance. International civil society organizations like Transparency International also play a crucial role in raising awareness of corruption.

The Carter Center has recently become involved in helping build political will and motivation to tackle corruption in this hemisphere by working with former and current leaders, particularly in Ecuador, Jamaica, and Costa Rica. One of its priorities is to examine the areas of access to information and privatization. The Center is interested in building partnerships by bringing political leaders together with members of civil society.

This panel focuses on the role that international organizations like these play in the fight against corruption. Growing international awareness of corruption raises serious questions. If international conventions and accords have no sanctions, will they be effective? In the body of data that the work that the World Bank has collected, how can one measure different forms of corruption? How serious are these international organizations about fighting corruption? For example, has the World Bank cut any loans as the result of verified corruption? The need to answer public skepticism about the role of the international community in its enforcement of anti-corruption standards is critical.

THE ROLE OF INTERNATIONAL CONVENTIONS

FRITZ F. HEIMANN

Heimann began with a brief history of Transparency International (TI). Since the founding of TI six years ago, it has expanded to 70 chapters worldwide, demonstrating that corruption is now a globally recognized problem and that there are people everywhere devoting their energies to fighting it. TI was founded on the premise that governments and international organizations cannot alone fix corruption and that both the private sector and civil society must be involved. Public accountability requires public participation.

International conventions are an essential tool in fighting corruption in the global economy. There is a great need for coordinated, multi-national action to control the occurrence of bribery. From a business perspective, the fear of losing market share heightens the reluctance to stop bribing without assurances that competitors will also stop. On the demand side, mutual legal assistance programs and control over money laundering is required. International conventions help spur this action, for they represent highly visible public commitments to agreed standards – commitments which can be used as leverage against resistance to change.

In the last three years, substantial progress has been made. The most significant achievement to date is the OECD convention, which entered into effect on February 15, 1999. It criminalizes the bribery of foreign officials in all 34 signatory countries and explicitly spells out the steps that these governments must take to fight corruption. The OECD is the ideal forum to strike at the supply side of international bribery, since most major international companies are headquartered in OECD countries. In addition, over 70% of world exports and 90% of foreign direct investment comes from OECD countries.

The second example of progress is the Inter-American Convention, which has a broader scope than the OECD agreement. It covers not only the supply side but also the demand side of corruption, including the solicitation of bribes by government officials. However, it is much less specific in its requirements than the OECD convention, which leaves it as a “to do” list of issues for individual governments.

International conventions to combat corruption are being sponsored by the Council of Europe, with its focus on Central and Eastern Europe. The Global Coalition for Africa has also launched regional initiatives. The next few years will likely see a system of regional anti-bribery conventions. It remains unclear whether the proliferation of regional conventions is appropriate, or whether following the OECD model should work for a broader, more coherent system of international conventions such as the World Trade Organization (WTO). But political pragmatism pushes in the direction of regional conventions at the moment.

These international conventions have a poor track record of implementation. Signing ceremonies become media events and often remain ceremonial. Conventions are often not ratified, and when they are, domestic laws passed to comply with them are often ill-enforced. Effective follow-through is critical in fighting corruption. Conventions will fail if some countries implement laws with loopholes or fail to enforce laws. All signatories must be held to enforceable standards.

A strong monitoring process is essential to making the conventions effective. This is a difficult and controversial undertaking which requires experienced criminal lawyers, adequately staffed monitoring programs, experts, and political support. The administration of criminal laws is often seen as a domestic issue and international monitoring programs are often regarded as intrusive. However, the monitoring process is unlikely to be effective if governments analyze each other from behind closed doors. Active participation by NGOs, business groups, and professional groups should be encouraged. Public opinion and media have created the impetus to maintain support for reform.

The OECD Convention should be applauded for its three objectives. First, it requires a follow-up monitoring process for signatories; second, the anti-bribery working group which drafted the convention will conduct the monitoring process, ensuring continuity and experience; and third, the monitoring process is based on the financial action task force program for monitoring money laundering laws, which will provide an excellent model.

However, TI has several persistent concerns. The OECD Secretariat will need more people to work on monitoring – reviewing the laws of 34 states is a formidable undertaking. Transparency remains controversial; an open process needs encouragement and support.

Turning to the Inter-American Convention, the key shortcoming is that it lacks provisions for a monitoring process. There is also no existing group comparable to the OECD working group that could undertake a monitoring program.

TI and the Organization of American States (OAS) are working on a program to promote implementation of the convention including national workshops in a dozen countries, but

“A strong monitoring process is essential to make the convention

process effective.

Governments that are prepared to impose the

conventions’ required

reforms need

assurance that all

signatories will be held

to high standards”

this does not substitute for monitoring groups. Anti-bribery monitoring programs will become a reality in the Americas this year and next year. OAS can build upon this to establish anti-bribery working groups.

Heimann stated that it is an embarrassment that the U.S., as one of its principal sponsors, has not yet ratified the Inter-American Convention. Until the U.S. ratifies the convention, it is not in a credible position to promote monitoring programs.

There is concern that there is a limited window of opportunity in showing real progress in curbing corruption. Apathy, cynicism, and denial have been overcome, but not widespread doubts as to whether corruption can be cured. International conventions such as the OECD’s must produce tangible results in the next three to five years. Effective monitoring will provide results and maintain public confidence.

THE “WORLD BANK STRATEGY” FOR ADDRESSING CORRUPTION: A MISNOMER?

DANIEL KAUFMANN

Daniel Kaufmann began by admitting that any general “strategy” for addressing corruption has its limitations. While it would be wonderful if the same World Bank strategy for attacking corruption could be applied in all developing client countries, a country-by-country approach to fighting corruption is more realistic. “World Bank Strategy” is a misnomer because the countries involved have to fight corruption for themselves.

Strategies can, however, be adopted within each organization attempting to collect data and propose solutions. As an example, before the new president of the World Bank, James Wolfenson, took office, it was taboo to speak of corruption. The word never even appeared in World Bank documents. Instead, it was called the “C-word,” and economists creatively called it “rent-seeking.” Thanks largely to Wolfenson, corruption is now much more openly discussed. And although corruption affects the World Bank organization itself, there is an increasingly transparent and activist pursuit of a zero-tolerance policy regarding corruption. The World Bank cannot pretend to be comprised only of saints.

Kaufmann is Chilean, and notes how he used to proudly count Chile amongst the best developing countries in terms of governance. It was sobering for him, therefore, to watch as news unfolded about the Salt Lake Olympic Committee having given bribes to international Olympic committee members, among them some Chileans. It is interesting to note how more attention was paid to those who took bribes than those who gave them. The scandal, Kaufmann concluded, is a rude reminder that no country can put a claim on the Holy Grail of complete honesty.

Kaufmann stressed that the World Bank strategy had to be evaluated with no small degree of humility – particularly with respect to its limitations. To summarize, the approach is based on the union of two very powerful forces: the participation of civil society in anti-corruption programs and the power of information for use in programs for dissemination and desensitization. This marriage can inform policy-making and design, which will ultimately result in the implementation of institutional reform programs of a very basic nature. Such programs will vary from country to country.

He outlined several lessons learned in the application of the World Bank strategy thus far. A good place to start is the Bank's worldwide database of institutional variables, governance, and corruption. The World Bank has made a cross-country comparative analysis of corruption as a point of departure. By examining this initial analysis, one can discern weaknesses and early warning flags within a country in terms of regulatory problems, correlated with such things as the viability of its rule of law.

Second, Kaufmann noted the Bank's more in-depth empirical diagnostics and internal country analyses. This information has been compiled as part of an ongoing, participatory process of coalition-building between civil society, governments, and the private sector. All this analysis will eventually be gathered, presented, and discussed at major participatory workshops. Hopefully, at the end of such workshops, country leaders will be able to present to their governments tailor-made blueprints for action. The implementation of such plans would take 12 to 15 months, and would focus on fundamental institutional reforms that are associated with the fight against corruption. Third, Kaufmann discussed the Bank's capacity to trace trends in corruption on a country-by-country basis. In Russia and Indonesia, for example, corruption is high and increasing. The worldwide database clearly debunks the myth that corruption is invariant over long periods of time, as shown in the evidence of El Salvador and Poland, which have demonstrated improvement in fighting corruption where high levels of institutional reform have been implemented.

Subsequently, it is necessary to move from the umbrella word of 'corruption' to specifics. Bribery in the judiciary can be different from bribery in the bureaucracy, for example. There is also variation across countries: administrative and bureaucratic bribery is more prevalent in Eastern European countries, which are countries in transition, while in Latin America the judiciary is much more prone to bribery. This begins to suggest that there is no one homogenous picture of bribery throughout the world, and that it is essential to get into the specifics for each country or region.

Worldwide trends suggest that bribery often has similar roots in very different places. The stability of a country's regulatory environment – including the level of regulatory discretion in the hands of bureaucrats and politicians, the degree of civil service professionalism, and the effectiveness of rule of law – is correlated predictably with corruption.

One new finding is the significant correlation between the degree of civil liberties in a country and the ability of that country to control corruption. This gives enormous importance to the notion that the participation of civil society can combat corruption.

Because of increasingly large stores of available information, it is relatively easy to suggest a strategy for fighting corruption. One could, theoretically, draw up a matrix of 30 or so factors and tell a country to follow whatever plan seems to compute. Such formalistic approaches do not, argued Kaufmann, look promising. Countries should instead be focused on making whatever immediate improvements they can to their quality of governance.

No attempt to deal with corruption can be complete without a deep awareness of a country's specific characteristics. Once that is clear, anti-corruption activists should draw heavily from local information including mapping data from surveys of households, enterprises, and public officials. Researchers have been pleasantly surprised by the extent to which these public officials are willing to speak openly about the problem. With these instruments, one can begin mapping the prevalence and causes of many corrupt practices.

Manipulation of the legal system is, for instance, extremely important in Russia, and would be totally missed in examining only instances of bribery. Corruption can be sorted into many discrete practices. Buying a degree, buying a particular grade or an honors degree, and extorting payment for access to public schools should, suggested Kaufmann, be examined as separate corrupt practices. The major issue of theft should be broken down into categories such as the misappropriation of public funds or of donor aid, and also into patronage and influence peddling.

Such multi-faceted diagnostic tools demand a shift toward specially designed experiential questions based on hard experience and data. There should be rigorous technical requirements for these surveys. It is not just a matter of passing out questionnaires; the World Bank and local partner institutions need to work closely together.

Kaufmann then proceed to outline the type of information that could be generated from the data collected. It would be very useful, for instance, to have a bribe-fee list for each country—one that outlines how much government services illicitly “cost” taxpayers. Data collected a few years ago shows that the visit of a tax inspector in Russia costs a firm \$250. This may not seem to be a lot of money until one realizes the visits are quite regular, and that by the end of the year, a small 30-person firm in Ukraine or Russia pays \$30,000 a year as a result of extortion. One begins to magnify the cost in terms of private sector development for this type of problem.

Countries must take the helm at developing priorities in the fight against corruption. For Georgia, a country in transition, bribery is the key problem; corrupt government procurement practices may be more of a problem elsewhere. Caution must also be used in translating the findings of research into immediate policy design. Other factors must be taken into consideration, but from this data countries can begin to see where their main vulnerabilities lie. Data should always be complemented by focus-group discussions and specific knowledge of state agencies. A good study alone is not a basis for good policy.

Kaufmann also suggested that data collection should focus on the vulnerability of specific institutions to corrupt practices. Whenever possible, he said, efforts should be made to address “pockets of corruption,” holding accountable those specific agencies and officials who are most likely to be corrupt.

A recent World Bank survey of public officials, noted Kaufmann, suggests that government procurement is another vast front in the battle against corruption. There is an unexpectedly large amount of information to be gleaned from government sources. In Albania, for example, 60% of public officials were very open to questions and responded that they had purchased their positions through bribes. How much they paid for their jobs is an excellent indicator as to how much they expected to make in bribes during their tenures. Such data allows us to focus on a more constrained set of elements; plans can be drawn up to change the incentives facing specific public officials instead of countries as a whole.

Corruption is a symptom. What is needed is an understanding of the incentive structure that drives the behavior of these public officials, as well as knowledge of their vulnerabilities, and most importantly, the gap between their informal work and the official rules. This gap reflects the effectiveness of public services rendered.

In Latin America, the World Bank is involved in national and municipal programs that are being implemented with a good deal of support. In countries not ready for such programs to be implemented at the national level, effective work has been done at the local and municipal levels. There is a great deal of support for these efforts in Latin America. This approach is complemented with programs for the media in workshops for investigative journalists and programs for parliamentarians.

Sustainable and effective institutional reform can be as financially costly as it is politically difficult. It is therefore important that the operational side of the World Bank understand that such programs must be supported through loans. Lending can be used as leverage in implementing reforms, which may in turn make a dent in attacking corruption.

The logic of collective and participatory action underlies all these studies of corruption. Real participation and oversight by civil society elements is the surest guarantee we have of transparency. And rigorous empirical evidence can empower civil society. A focus on prevention and systemic weaknesses is preferable to enforcement and the wholesale

jailing of corrupt officials. There is a need to move beyond diagnostics to the prioritization of action programs for institutional, regulatory, and financial reform.

Kaufmann concluded by stressing the importance of humility and realism in any anti-corruption program. There is hope to reduce corruption, as a study by the Harvard Institute for International Development in Davos demonstrated, where countries in Latin America implemented targeted changes and saw improvements over five years. But there is no room for complacency, as corruption is not a constant. Deterioration of systems can also take place in relatively short periods of time. The clear message is that the combination of rigorous data work and a participatory, coalition-building approach can make a difference.

A CRITIQUE OF THE MULTILATERAL AGENDA **JEFFREY SACHS**

Jeffrey Sachs agreed with the comments of the other panelists except on the role of the operational side of the World Bank. Corruption, he argued, is a topic best handled by civil society. There is a problem with it becoming part of the Washington agenda, for Washington itself also suffers from the ills of corruption. Its motivations are not pure. The damage being done by the International Monetary Fund (IMF) is profound, and excessive U.S. influence would make the situation worse.

Corruption is a cause of failure of development, though probably not the primary cause, and there is a danger of giving corruption too much prominence. Undoubtedly, there are many countries where corruption fights for attention. Sachs urged the audience to think of Venezuela, where corruption is probably the number one issue of public concern. Recent public opinion surveys in Venezuela show how corruption wrongly takes the blame for the country's economic situation. When people were asked if Venezuela was rich, they answered yes; when asked if they were rich, they answered no. When asked what would be the way to restore their income level, their answer was to end corruption. There have been several fallacious campaigns based on this erroneous perception.

Corruption exists in Venezuela, but the problem is more basic. Venezuela was once rich because it pumped a lot of oil per capita, but since this amount has declined in terms of its purchasing power, so have per capita income and the overall economic situation. There is a great failure to understand the real economic situation in the country. Sachs cautioned against using corruption as a scapegoat. It eclipses debate about what is really ailing the country: its failure to overcome total oil dependency.

The same scenario, Sachs contended, prevails in Africa. The lack of good governance is used as the explanation for Africa's impoverishment, whereas horrific health conditions, infectious diseases, the destruction of the environment due to over-population, and the lack of agricultural productivity are problems which are far more severe than a lack of good governance. However, these issues are seen as technological and scientific problems not to be addressed by the international system. International conferences in

Africa are not on malaria but on governance. This has quickly become the rubric of how Washington will intervene in the poor countries of the world.

The “knowledge bank” within the World Bank is an excellent organization, but, said Sachs, the lending or operational part of the World Bank is obsolete. There are many banks in the world and there is no need for another one in Washington. Knowledge that is empowering civil society should not be used by the Bank’s operational side, which will likely misuse it.

Sachs also noted a growing frustration with Washington’s control over the world economy. A third to a half of developing countries are in crisis, governments are crumbling, and the IMF is becoming the surrogate government for most of the world. This, he argued, is an abominable way of running the world. Paradoxically, just as our information technology and the spread of democracy allow civil society to play a role, civil society is as much crushed as it is helped by the heavy hand of Washington-based institutions in the way they intervene in these matters.

Sachs cited different models for intervention by international financial institutions. The old model being phased out is “lending to bums.” There is more honest discussion about lousy governments. In another model, the IMF lends to everyone, but with strings attached. This leads to almost complete control by the IMF over these countries. According to Sachs, this “conditionality” model is wrong because of its heavy-handedness and lack of sensitivity to the fragility of local economies.

Sachs considered the collapse of the IMF program in Brazil last November. The IMF made a dreadful agreement with Brazil to tide-over the Brazilian economy and New York banks until the election. The program broke down in seven weeks. The new Central Bank governor flew to Washington the very day after the election because, it seems, this was where his power lay.

It is problematic to see Washington as the answer to these economic problems. In Russia, where Sachs served as an economic adviser, he called the attention of the U.S. government to the high levels of corruption there. The 1995 shares-for-loans deal, an unsophisticated operation that allowed Yeltsin’s colleagues to steal Russian natural resources as long as they put a fraction of them back in the form of a campaign war-chest for his reelection campaign, involved stealing, privatization, and campaign finance. The senior officials at the U.S. government, the World Bank, the IMF, and the OECD showed no interest in this corruption. A few months ago the *New York Times* revealed that the White House had been advised of the high level of corruption, but addressing the problem ran against Washington’s foreign policy aims in Russia: Yeltsin’s reelection at any cost. The idea that Washington is the watchdog is ridiculous. Washington has its own motives and interests. Civil society must solve corruption, not official institutions whose lending capacities are a mix of foreign policy and commercial interests.

Corruption is a barrier to development. Corruption in the financial system, particularly the banking system, is the most pernicious and hurts the entire country. IMF intervention

has generated more panic than real solutions, and has brought down the banking sectors of various countries through actions related to pressures from Wall Street. Sachs's bottom-line conclusion was straightforward: power corrupts. The answer is to strengthen civil society rather than give Washington more power.

Although, as Fritz Heimann discussed, government agreements are important, the difference between the OAS and the OECD is clear: the OAS fears Washington and the OECD does not. Giving more intrusive power to the U.S. is not a solution. Civil society and information technology, tied to democratization in the developing world, are incredibly powerful tools. There should also be more democracy in international governance. The IMF should not be a voting club of a few creditor governments. It is still the most secretive international institution, though pressures in recent years have forced it to open up a little. Finally, argued Sachs, Washington and the G7—which represent about 12% of humanity—must stop pretending that they can really speak for the world.

Fritz Heimann then offered a slight dissent from Jeffrey Sachs's comments: the concern that corruption is receiving too much attention is, at this point, not a real threat. The problem is that corruption received no attention until three to four years ago, which means that this field will require constant attention for decades. In addition, civil society is incredibly weak almost everywhere in the world, and the U.S. has a huge job to do in helping to build civil society. This is one area in which the U.S. can do things right. The rest of the world can learn from the U.S.'s traditions of civil society.

Mario Carraso from Costa Rica then made the point that the premise of distinguishing drug corruption and normal corruption is false. What is "normal" corruption? Two particular distinctions that are important are corruption deriving from public sectors and corruption deriving from private sectors. Costa Rica is often heralded as a country that does not have the problems with corruption that other countries do. Since 1982, there has been a strong influx of foreign assistance that was used to support civil society, which was then considered to be the private sector. This made a big difference to the economy.

In reference to the issue of government roles, Luis Moreno said that in the 1970's, the Argentine government was killing its citizens. He feels that the issue of corruption in the south must be addressed from the business angle. Civil society needs media to be connected, and media is in the hands of big corporations. Argentina can do nothing against Microsoft. If one does not trust one's own government, (he noted he does not trust his) there is little hope for public-sector anti-corruption efforts.

A World Bank representative in the audience then noted that one important issue that relates to intervention by the World Bank and other institutions is whether inaction amounts to corruption.

Samuel Del Villar suggested that the application of the role for civil society is complicated. The role of law enforcement agencies cannot be replaced by civil society. There seems to be the same problem for economic institutions. The World Bank cannot be a tax collector, nor should it organize political structures. Civil society may be able to deal with issues of role assignment by establishing public domestic institutions.

Fritz Heimann seconded Sachs's suggestion that U.S. interest at times is both self-serving and harmful. He asked Sachs to confirm that he is saying our interventions have served our banks and our people, and that it would be better not to get involved at all. Sachs responded by affirming his belief that the fewer the dials, the better.

Daniel Kaufmann responded to Sachs by challenging his notion of which indicators most accurately reflect development. Quality of life issues, argued Kaufmann, are particularly salient. Even in the face of economic growth, corruption blocks a myriad of social services – like effective medical treatment – and generates waste. Estimates of total dead-weight losses associated with corruption range from \$60 million to \$600 million each year.

Sachs responded that U.S. involvement in foreign countries should be applauded when it bolsters human rights and democratization. The problem, however, occurs when the U.S. runs weak, dependent countries. He noted the difference between actively citing human rights abuses and running bankrupt governments, which inevitably weakens the civil societies of countries. For governments that are living from month to month on financing, everything depends on the IMF. This scenario is a far cry from the U.S. leading democratic governments. Sachs challenged the U.S. and World Bank to let countries succeed or fail without making unrealistic demands. The IMF is another instrument of control without responsibility. It is important to reorient money to huge scientific and technological research where real action will take place.

Fritz Heimann expressed his view that forcing U.S. dominance in anti-corruption efforts is not high on its international agenda. Kaufmann concurred, and noted that even if money were redirected to specific developmental challenges suggested by Sachs—to malaria research, for example—the effective delivery of such funds would still depend on safeguards against corruption. He ended by quoting an old Spanish saying: “if corruption were to shine, we would not need electricity.”

DRAWING LESSONS FROM THE CASES

CHAIR: JOHN COATSWORTH

ROBERT KLITGAARD

Robert Klitgaard opened the final session by noting that the study of corruption requires both passion and discipline, and cited a few reminders of why we are interested in this subject today. He read an excerpt from *The Economist* which detailed the horrendous circumstances under which President Olusegu Obasanjo recently took office in Nigeria. The article notes that the most imposing challenge facing the new president will be to

eradicate Nigeria’s “culture of theft.” Nigeria is the world’s eighth largest producer of oil, but for the past five years, it has suffered a fuel shortage. Theft and mismanagement have resulted in a situation where the only system remaining is corruption, where some public servants will try to stay honest, but most will not lift a finger without a bribe. Nigeria’s public and private institutions, including foreign companies, are being eaten away by corruption.

Closer to home, a recent letter to the *Harvard Business Review* criticized the view that educational reform is the most important need of developing countries. Instead, rather the lack of institutional development, particularly the underdevelopment of legal systems, was the key. Every country with a speedy justice system, Klitgaard noted, is a developed country. Countries like Portugal (the subject of the Harvard Business Review letter) have the economic resources to develop but are overwhelmed by the widespread feeling that citizens have little legal recourse. This sentiment discourages many potential entrepreneurs or tempts them to emigrate, as in the example of India’s intellectual exodus. For ideas to flourish, there must be clear intellectual freedom, transparent copyrighting and patenting processes, and the assurance that institutions will not be arbitrarily or unfairly jeopardized through corruption. Klitgaard concluded that corruption is indeed a symptom—the product of systems that are chronically out of order. Although the problem is moral, the solutions proposed are rarely moral reforms, primarily because academic institutions and governments do not know how to institute the kind of moral reforms that some religious groups have created.

For morally involved leaders, combating corruption requires a combination of opposing forces – passion and discipline – which earlier cases have demonstrated. These leaders fuse moral outrage with systems analysis to produce remedies that are not moral revolutions, but rather better systems, which reduce the temptations, opportunities and rewards of corrupt behavior.

“How do we get a person earning \$30 a month to turn down a \$1,000 bribe?”

From the case studies presented earlier, Klitgaard draws the conclusion that corruption at its worst is an equilibrium phenomenon: corruption at one level reinforces corruption at other levels. Breaking away from this equilibrium requires a dramatic change in the expectations of public and private actors. Their confidence in the corrupt system of statecraft must be shaken. In the short-term, one solution is to fry one of the big fish – a corrupt official at the top level. However, in the long-term, this shock of public exposure must be followed up with an analysis of the corrupt systems. Many of the failed approaches that have characterized civil service or public sector management reforms have tended to be supply-side solutions, overlooking the importance of the demand-side. Klitgaard then posed a difficult question: How do we get a person earning \$30 a month to turn down a \$1,000 bribe?

Earlier in the conference, he had pointed out how examples from Mexico and Bolivia demonstrate the importance of positive reinforcement in combating corruption, such as training programs leading to pay increases. In Bolivia, we saw how incentives were

changed so that a person who did well would see an increase in rewards, and a person who was corrupt would have a higher chance of suffering significant costs. It is difficult to reward what one cannot measure. Therefore, obtaining feedback and information on these corrupt systems and making this information public has proved crucial in eliminating corruption.

Klitgaard concluded by suggesting two ideas for getting better information and for involving extra-national institutions like TI and the World Bank. First, diagnostics about how corrupt systems work are needed. Researchers should interview leaders in fields such as hospital supply, taxes, or court systems to determine how things really work. Twenty of these confidential interviews would provide a snapshot of the workings of corruption that could help create a baseline for systematic analysis and reform. Second, anti-corruption programs should be modeled after those which we know to be working. Conferences like this one make deposits into a knowledge bank from which anti-corruption practitioners can draw.

PHILIP HEYMANN

Philip Heymann began by delineating the conditions that would lead one to take a bribe. He finds the immediate conditions to be (1) a large amount of money offered relative to the salary of the person, especially when the worker is not earning a living wage, (2) a decision that would be invisible to a worker's superiors, or one involving so much discretion that it could not be deemed irregular, and (3) a situation in which the bribe is socially acceptable. The business of fighting corruption is one of eliminating these conditions. This can be effected by reducing government monopolies, reducing the discretion of officials by increasing rules or instituting review, developing changed attitudes, or increasing the visibility of corruption and eliminating the despair that nothing can be done about the prevalence of corruption.

Everyone despises visibly corrupt behavior, so the first step in fighting corruption is exposure. From there, the process of reducing corruption requires three levels of concern. First, law enforcement and management must work together. Additionally, there must be an adequate set of powers to support law enforcement and management, and a set of structures that invoke these powers and are designed to care about corruption. Above all, a seriousness of purpose of government is needed to allow and encourage the organizations that have been set up to use the powers available to make corruption visible. Every form of corruption has its vulnerability to detection, but it is not natural for officials at the highest level to want to expose corruption – it loses votes, betrays friendships, and suggests that the corruption of subordinates reflects corruption at the top. However, by allowing the public to react with righteous anger to corruption, the government can demonstrate seriousness of purpose, thus undermining the belief that everyone participates in corruption.

Heymann concluded by arguing that if charges of corruption can be brought against people thought to have impunity, leaders are likely to take the steps to make corruption, even systemic corruption, visible.

CONCLUSION

Luis Moreno questioned what an NGO such as Harvard can accomplish with respect to the necessity of information and the need to involve civil society.

John Coatsworth replied by outlining two things that Harvard does well that may be of use. First, it produces or calls attention to knowledge, and second, it can convene people committed to the topic. He suggested that the University will continue to do more work on the subject, producing more case studies which will shed new light on the phenomenon of corruption.

Daniel Kaufmann commented that Heymann was missing the role of incentives, that few lawyers and economists are working to diminish the incentives of corruption. Heymann replied that he included the role of incentives and disincentives of corruption under the powers that support law enforcement and management. For example, in the United States, if any company or governmental employee discovers fraud in a contract between the company and the government, he or she receives 33% of what the government saved. This type of disincentive to corruption could be easily applied to other countries.

Ronald MacLean then brought up the connection between corruption and organized crime, noting that corruption is sometimes not exposed out of fear of retribution. This becomes increasingly complicated as drug-related corruption enters the political fabric of countries and becomes implicated in political campaigning.

The final comment was made by Kaufmann, who stressed that dialogue and discussion must not end with the conference. He suggested the possibility of creating a virtual discussion through the Internet, such as one which has begun at <http://www.clad.ve>, in which successful cases in Latin America could be highlighted, and where any new innovations and ideas could be explored.