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WORLD BANK ECONOMIC INSTITUTE

SPEECH DELIVERED AT THE

INTERNATIONAL CONFERENCE ON FIGHTING CORRUPTION

PLENNARY SESSION:

Economic Governance, the Private Sector  
and Corruption

PRESENTATION BY DANIEL KAUFMAN-N

Wednesday, February 24, 1999

[TRANSCRIPT PREPARED FROM A TAPE RECORDING.]

## PROCEEDINGS

MR. STUART EIZENSTADT [US Under-Secretary of State, who chaired this plenary session in the Conference]:

Let me introduce the speaker, Daniel Kaufmann, who heads the Governance, Finance and Regulatory Reform Group at the World Bank Institute. He will speak about demand side of structural reforms and the use of these new diagnostic surveys.

He is considered a leading expert and advisor in the field of governance. He has published widely on academic and policy issues and [inaudible] new empirical methodologies with his colleagues at the World Bank and with academics.

He previously served in a number of positions for the World Bank and was a visiting scholar at Harvard University where he provided policy advice to emerging economies and concentrated his research on empirical assessments of causes and consequences of corruption and methods to improve governance.

A Chilean national, he received his **PhD** and Master's degree of economics at Harvard and a BS degree in economics and statistics from Hebrew University in Jerusalem.

We really have the pleasure of hearing one of the genuine experts in this area who again has developed some very innovative diagnostic tools along with his colleagues at the World Bank.

Daniel.

MR. KAUFMANN: Actually I am humbled, not only by your comments, but because much of what we have done has really been done in partnership with many others. I see many faces here. I am particularly encouraged to see that there are people here today who represent some of the work that we have been doing in partnership with emerging economies.

I think that what I am going to say could be said more eloquently by some of my friends, whom I see among the well-recognized faces.

I am going to be very frank, and I am known in general as being quite frank. So I hope you won't mind, and for the sake of stimulating the discussion, I will start with two quick anecdotes. One just happened to me.

Let me start by saying that I truly believe that we are making progress in the struggle against corruption. I came here by cab and when we arrived here the driver asked me "What is going on here? All these huge cars and big guys? Who is in town?" When I explained what the conference was about he couldn't stop laughing--he thought it was totally ridiculous. This is a good example of the credibility issue we all face. The regular man in the street feels a great deal of skepticism about the topic.

And I have also been recently humbled about my own emphasis on empirics. I am a big believer in empirics and fully realize that it is a complementary tool to many others. But here we look at data all the time and we analyze it profoundly.

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As Steve said before, I am from Chile and I am very proud of it. Usually, I refer to Chile as an example of an emerging country that is doing better in terms of corruption and **incidences** of bribery than are many OECD countries. The data speaks for itself. Botswana and Chile appear better statistically than do many OECD countries. However, I was humbled recently when a Chilean Olympic **official** was named during the Olympic scandals. It was a tough reminder that there is, after all, no country without corruption, including the United States. There is no room for complacency.

I am now going to go through the list of causes and costs of corruption that have been mentioned before. They are well-known already. But I am going to be much more focused on a number of points, and only mention that one of the consequences of corruption that we are becoming more and more painfully aware of is how it corrodes particular institutions both in the public sector as well as outside of it.

But, in particular, given the topic of the conference today, I would like to suggest the importance of also looking at the consequences of corruption in general in a country in which there is institutional corrosion of the judiciary and of the security apparatus.

Why is that important? In my view, it is important because before we can think of the judiciary and security institutions as part of the solution, we have to acknowledge that in many parts of the world they are also part of the problem.

By first acknowledging that, we have to begin thinking about how to address the fact that they are part of the problem. Before we do that, we cannot think about them as part of a solution.

That leads me to three quick interrelated points that I wanted to make from this perspective, coming from one who works on and originally comes from an emerging economy.

In terms of issues of enforcement, where much of the emphasis is today, tomorrow, and the day after, enforcement issues are obviously very, very important. But let me suggest three points for debate.

One is lateness. Enforcement comes late in the stages of a corrupt transaction. So instead of focusing on catching a few big fish that bite a lot, we have to first think that in a place where many people are breaking the law, how can that be prevented in the first place? How can we make sure that the people, citizens, and **officials** are not breaking the law?

This immediately suggests that the task at hand in terms of prevention and education is at least as daunting and as important as the enforcement process and should complement it.

Second, is the issue of complementarity. So, the first issue is lateness. The second is the complementarity with large fundamental political and public sector management reforms. Let's face it, the notion of working to improve judiciary and security institutions is predicated on two assumptions, two premises -- first, a transparent and effective political process, an open political process, and second, an effective and functional public sector management system as a whole.

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Let's be frank, in many settings these assumptions do not hold. So as long as these assumptions do not hold, the overly-narrow focus on security and the judiciary is not going to work. One has to begin by looking at broader challenges in terms of a need for institutional, economic, and political reform.

In terms of our institution, the World Bank, we do not get involved in the political reform process, but we do get involved with institutional economic reforms. There are a number of programs in many countries that assist the reform efforts.

A third interrelated point is one of privatization and sequencing. It is relatively easy nowadays with all we have learned about corruption to set-up a powerful presentation with seven main components of an action program on corruption, with each component having six sub-components, and that makes forty-two, a list of forty-two daunting tasks which need to be done in the next fifteen months. That is not doable, that is not implementable. And at the end, because of the political and institutional constraints, nothing happens.

So it is extremely important to be realistic in this area and suggest the four or five key priorities in each country that one has to start with. And from my experience of working with so many partners, one thing is very clear -- those priorities change from country to country. One needs a country-specific type of work and prioritization as a result.

That leads to the next point-- getting beyond these general remarks and saying these are the main components of a strategy-and instead asking a much tougher question: What is meaningful process that would lead to real action, to real results?

And from our experiences where we have been observing and working with partners in emerging economies, let me suggest three interrelated aspects. Once again, this comes from the perspective of an emerging economy.

One point was mentioned before-- coalitions, coalitions of civil society involvement, the need for some combination of political will, at least a few champions within government that want reforms to happen. The private sector also needs to be involved.

An interesting example of a coalition in this case is the far-reaching reform that has taken place with the police force in Colombia under General Serrano. He has basically achieved an enormous amount not only by internal reforms within the public sector, by using civil society in a very effective way, but by creating more monitoring boards and utilizing services in other ways.

So even police forces in some areas of the world are using a broad and participatory process to engage in reforms.

The second point I want to make is the power of aid and the power of empirics-- that has been mentioned before. I will elaborate a little bit in a second. But let me just say that this is not a managed research tool, but it is a very proactive tool not only for awareness but for real action as well.

And third is the need to think in each particular setting of the type of innovative institutional response needed to complement the conventional response, going beyond traditional rule of law type of approaches, like alternative dispute resolution

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mechanisms adapted to particular countries. This seems to work in countries where the official rule of law in institutions is dysfunctional, for instance.

Television programs throughout Latin America are the equivalent of people's courts here, but are much more adaptive, and show the population what a court's proper function is in a highly disseminated, powerful way.

Vice President Gore mentioned public procurement mechanisms this morning. In one Latin American country, the Governor of a particular province undergoing reform was very, very nervous about seeing a particular contract bid for a major procurement contract for computers. He decided to have a public audience, and brought in experts on computers and on that type of technology, and the costs, not of the bidding process itself, but the costs of setting-up the rules of the game in a proper fashion.

After the public audience took place, after the rules of the game were completely redrafted, the costs went down by about 80 percent. There was an enormous difference in terms of results once the public got involved.

That is certainly an example of a marriage between the power of data, civil society involvement, and innovative institutional approaches-- which we very much need in this area.

Let me move forward now to the particular tools that have been mentioned in terms of new diagnostics utilized within countries. First of all, I would like to emphasize the point that this is only one tool kit and one approach and one input within a much broader set of instruments and goals and it should by no means be used in isolation. That won't work.

And secondly, it is very much done in partnerships. We suggest the methodological approaches, a set of questionnaires; we can provide technical assistance but ultimately the partners in the countries themselves, the partner institutions and the others involved completely take over the implementation of the process which we support to the extent needed. But it is very much a demand driven process led by the country itself. The countries request that.

Let me make five points about the new diagnostic empirical tools. We first start by looking at the worldwide database and at an analysis of the worldwide database that we already have at our disposal before we even do the in-depth diagnostics within a country.

We have been gathering a lot of data that already exists from surveys, from international comparisons and so on, also data on the correlates in an institutional environment, regulatory areas and so on.

That allows us to begin seeing what a country is like in a comparative sense within the region, mixed with the other regions and so on. And it allows us to identify what we call the early warning flag. Is the problem in this area as opposed to that area, at least in a comparative sense?

That is not enough for action, but it at least provides a very important guide for what should be the focus during the in-depth diagnostic.

In some countries one already knows beforehand that the regulatory environment that acts as a constraint in some countries and is related to corruption, is not actually a constraint in this particular country. It is, rather, the judiciary. So one can already direct the diagnostics in that country.

Then, the in-depth diagnostics take place in conjunction with a lot of field work and adaptation within the country itself. After that -- and I will say something about the diagnostic -- but after that a major workshop takes place, with hundreds of people from civil society, government, **NGOs**, and so on. After the data has been analyzed, working groups prepare draft action programs in each area of reform. The objective is that by the end of the workshop an announcement is to be made by the leadership, as has been done in the case of Bolivia, about the types of action programs the leadership is committing itself to and that will be implemented. It is in general a very integrated civil society participatory process.

What do these diagnostics try to measure? First, they not only measure the type, extent, and cause of corruption -- misappropriation and diversion of public assets and resources, how much corruption in cases of procurement, for instance, how much for bribery, for obtaining licenses or regulations and other goodies like telephones and so on, the cost of public positions and jobs, judicial outcomes, and then bribes for public service delivery of the most basic nature, as we heard from Jeremy Pope of Transparency International.

That leads us to analyze the causes of corruption in a number of areas. For instance, we have found that in a number of Eastern European countries the poor bear a disproportionate cost of corruption in terms of public service delivery. They end up paying more for bribes as a proportion of their income, than do better-off people. The same holds true with firms.

Also, one can measure the tax equivalent cost, as was suggested in the morning. In some countries we have seen that enterprises are paying between 15 to 20 percent of their total revenue, which is an enormous amount if the government were instead to get rid of corruption.

That not only suggests the cost of corruption for those firms, but it is also a powerful message for Ministers of Finance as to how much revenue they may be foregoing because of the existence of corruption.

We can send the same message by asking a lot of questions about how much they would be prepared to pay if regulations were streamlined. So it is a way of measuring costs throughout the public sector, and not only about corruption.

In terms of the types of surveys that are done, there are three independent types of surveys. One, for households and citizens; a second for firms; and a third for public **officials**.

This is complemented by harder data, harder data that can come from customs analysis in terms of customs receipts and a comparison of procurement prices which reveals enormous differences, for example in different types of hospitals. This is then complemented by focus-group discussions to find out what is behind many of the problems identified by the empirical diagnostics.

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Just a few more characteristics of this approach, in terms of the rigorous questionnaires that are given out as opposed to the old-style questionnaires which used to be used. They asked for opinions and general questions, like "In your country do you believe that there is a lot of corruption or a little corruption and please answer on a scale of one to five?" This is interesting, but it is not very useful for policy.

Here, the questions are often exponential in nature. Firms, citizens, and public officials are asked about actual experiences using dollars, and cents, and with percentages. Basically they relate to actual expenses that they have been observing, without incriminating anyone--it is totally anonymous and the question is never "How often did you do this?" But rather, in a situation like this, where you work, how prevalent is A, B, C or D?

Very rigorous technical requirements for implementation and analysis of quality control are important for successfully implementing this approach. We have had good experience with local partners who are very quick in absorbing this technology and we expect that over time they basically will run with this alone and will do many more surveys, and will monitor them over time.

There is also a conceptual framework behind it, with a much broader focus on corruption. I mean, ultimately, one wants to understand the incentive structure, and the sets of carrots and sticks that drive this type of behavior. Sometimes in the public sector there are obviously many official rules of restraint that come from the procedures, from the guidelines, **from** the laws. But they are weakly enforced, if enforced at all, and instead what prevails are more informal rules and other rules of behavior both in the public sector and outside.

And so the challenge is to understand through this type of study the driving force behind this actual behavior and from that to suggest what makes sense in terms of reform.

For further details, there are papers available on that topic outside. And I would like to just move to a summing-up of the overall points that were made here.

First, what is important is coalition, of the civil society, the private sector, and the government. And as Maria Lavanastao [ph.] mentioned before, what comes out very clearly from the data itself is that there is a logic of collective action. Basically, everyone is saying very, very, clearly how much they are losing collectively because of corruption. That does not mean that each individual firm has reacted alone in saying no to bribery. There is a real logical collection action between themselves and the different groups.

The second point here is the importance of rigorous empirics as a powerful tool to empower coalitions that function as an input to the action programs. The expression in English is "sunlight is the best disinfectant." And much funnier, but I don't know if there is an appropriate expression in Spanish, the equivalent one I found is that if corruption could sign, we will need electricity.

[Laughter.]

MR. KAUFMANN: It sounds better in Spanish, but it serves to suggest how much of a problem we still have in some other places.

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The third point here in summing up is the crucial importance of focusing on prevention-by looking at the incentive structure, and systemic reform of an institution, as was mentioned before by Stuart Eisenstadt and others.

Fourth, the importance of institutional innovations. Not just traditional approaches alone or Western implants of taking the same type of agency that has worked in a country in the OECD and transplanting it to an emerging economy. In many cases an implant will not work in isolation for the reasons we discussed before.

And fifth, we need to think beyond diagnostics itself. Basically, let's look at the diagnostic tools as one of a number of inputs. We heard this morning also from the President, Mr. Wolfensohn, that it is absolutely crucial to start with real actions and credible reforms and then to move beyond diagnosis. Actions and reforms start at home. I was very pleased to hear how he announced very, very **frankly** that there are also problems in that context within the World Bank, a few cases, but even a few cases is a few too many.

Ultimately we have to recognize that corruption is a symptom; it is a very important and damaging symptom but is a symptom of an underlying systemic weakness of the state. We think that it is very important to recognize that ultimately the assistance that we can give to countries may not be yet another anti-corruption campaign.

There have been so many anti-corruption campaigns around the world, and each time with a number of people locked up, and then not much happens, and obviously that is insufficient. So I think we have to also concentrate on serious institutional reforms like setting examples for procurement, deregulation and the whole program of institutional reform in Bolivia.

Indeed, in Ecuador we found customs administration reform; in Latvia tax administration reforms, civil service reforms in Albania, Yemen, and in Uganda; procurement reforms in five other countries; and deregulation in seven or eight other countries we are working on where it is made explicit in the loans, that one of the main objectives is to address corruption, however, it is mainly addressed to the systemic weaknesses.

I think it is very important to have a note of humility and sober expectations again. I think -- and I detect that a lot of progress has been made compared with only two or three years ago -- but it is only the beginning.

The problem of corruption around the world is daunting. Smashing success cases basically don't exist, not recently, maybe they do in particular institutions but there are no major countries that have made enormous, enormous progress in a short period of time. That is impossible, to begin showing results even with the utmost political will which is absolutely crucial, taking our assessment between five and ten years.

So for the long haul, we have to have realistic expectations and, above all, ultimately the responsibility in terms of political will to sustain these reforms, and continuously work towards that and to involve civil society. We believe that it is also a politically smart type of approach.

I am encouraged to see that there are some very important members of civil society here, but I am very curious to see the breakdown, because I understand that

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for each country it was voluntary how many civil society members to bring. I detected that a number of countries see civil society as the opposition rather than as a potential partner in fighting this problem.

This problem is not like building a dam or another type of project. It is absolutely crucial to involve the population, but, more specifically, particular groups outside the government and the private sector that can be enormously powerful in helping address this problem.

Thank you.

[Applause. ]

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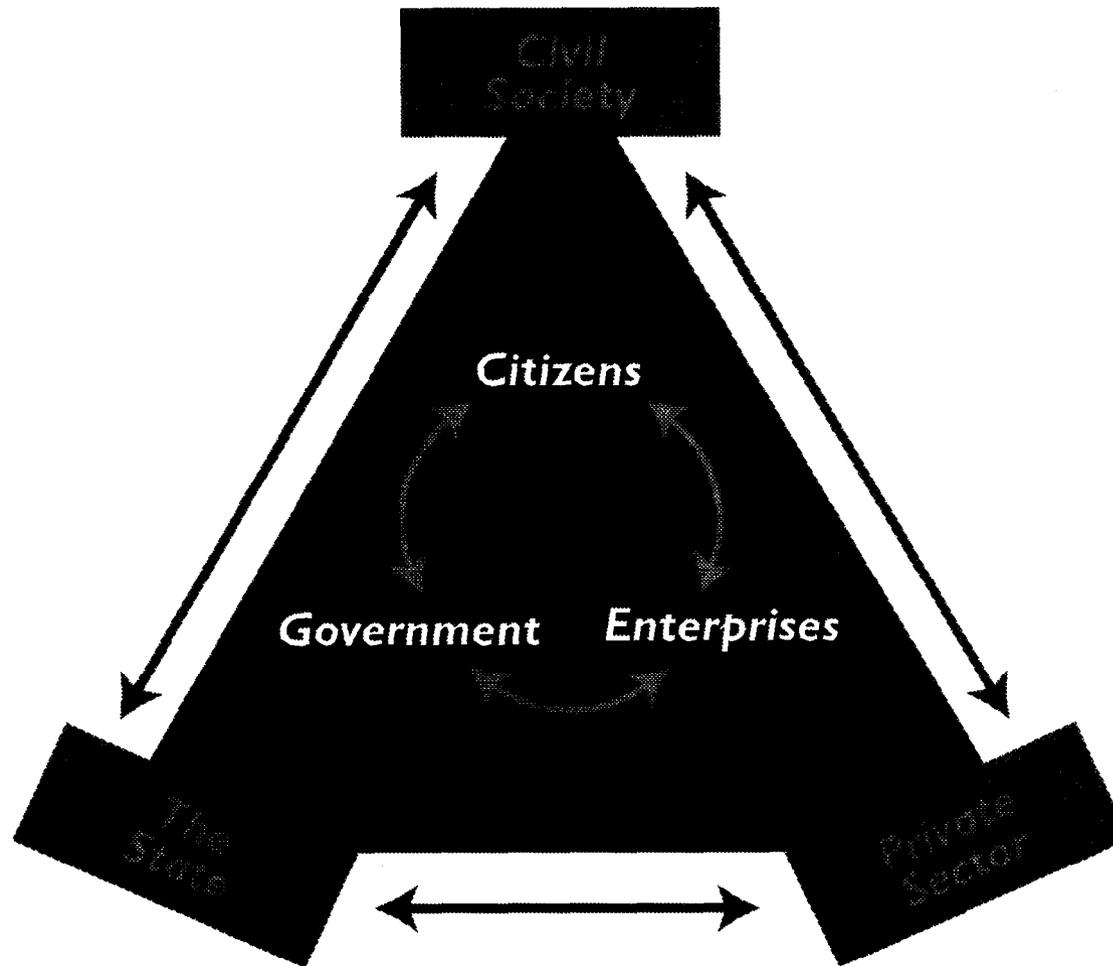
# **New Diagnostic Empirical Tools to Address Corruption:**

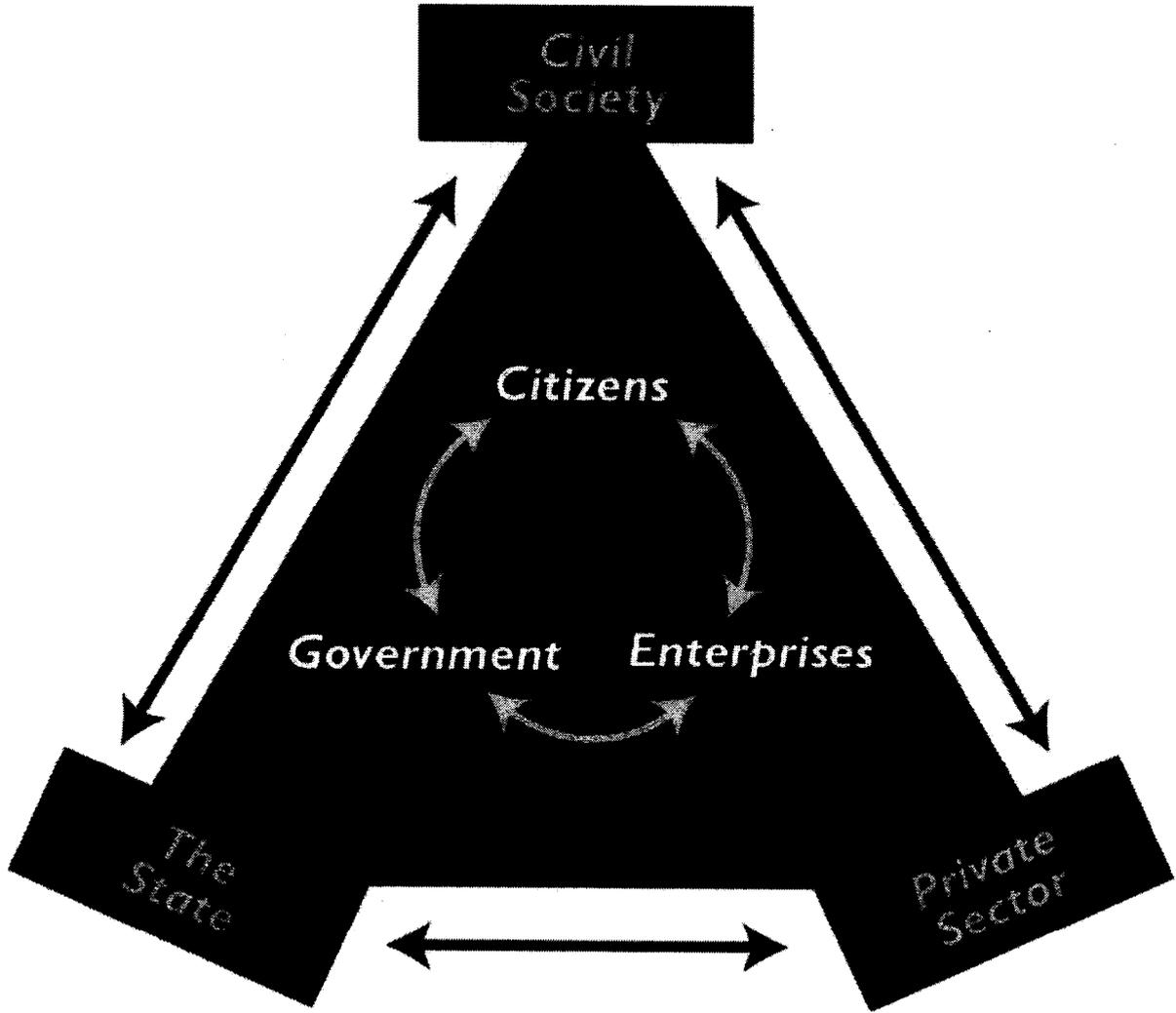
## **Methodology, Data, Knowledge Sharing, and Coalition-Building**

**Background for Plenary Presentation  
at VicePresident Gore AntiCorruption Conference  
February 24th, 1999  
Washington, DC**

*Daniel Kaufmann and Colleagues*  
**World Bank Institute in Collaboration with  
DEC-ECA Prem LAC**

# Coalition-Building and Diagnostics for Addressing Corruption





# **New Diagnostic Empirical Tools: Basic Approach**

**@Worldwide Database and Analysis as departure**

**@Determinants of Corruption: Cross-country “flags”**

**@In-Depth Diagnostics and Analysis within country**

**@Workshops and Action Program Design**

**@Integration with Civil Society Participatory process**

# Salient Features of the New Diagnostic Tools

- **households, firms and public officials [‘triangulation ’], complemented by hard data.**
- ***Experiential* (vs. ‘opinions’/generic)**
- **Specially *designed* and tested *closed* questions**
- ***Conceptual framework*: broader focus than corruption**
- ***Rigorous technical* requirements for *implementation and analysis*: how to work with *partners* in implementing, etc.**

# **Country Governance Empirical Assessment**

**Measuring the type and extent of corruption:**

- . Theft of public assets and resources**
- . Sale of licenses and regulations**
- . Sale of judicial outcomes, law enforcement**
- . Bribes for service delivery**

**Data sources:**

- . Firm-level, household, and public officials surveys**
- . Estimates of unofficial economy**
- . Customs data, procurement prices**

# Developing and Implementing an Anti-Corruption Strategy

- High-level political support
- High-level Steering Committee
- Working Groups for key areas
- Diagnostic work (mapping & identifying corruption)
- Work plan to develop and implement strategy
- Monitoring and evaluation

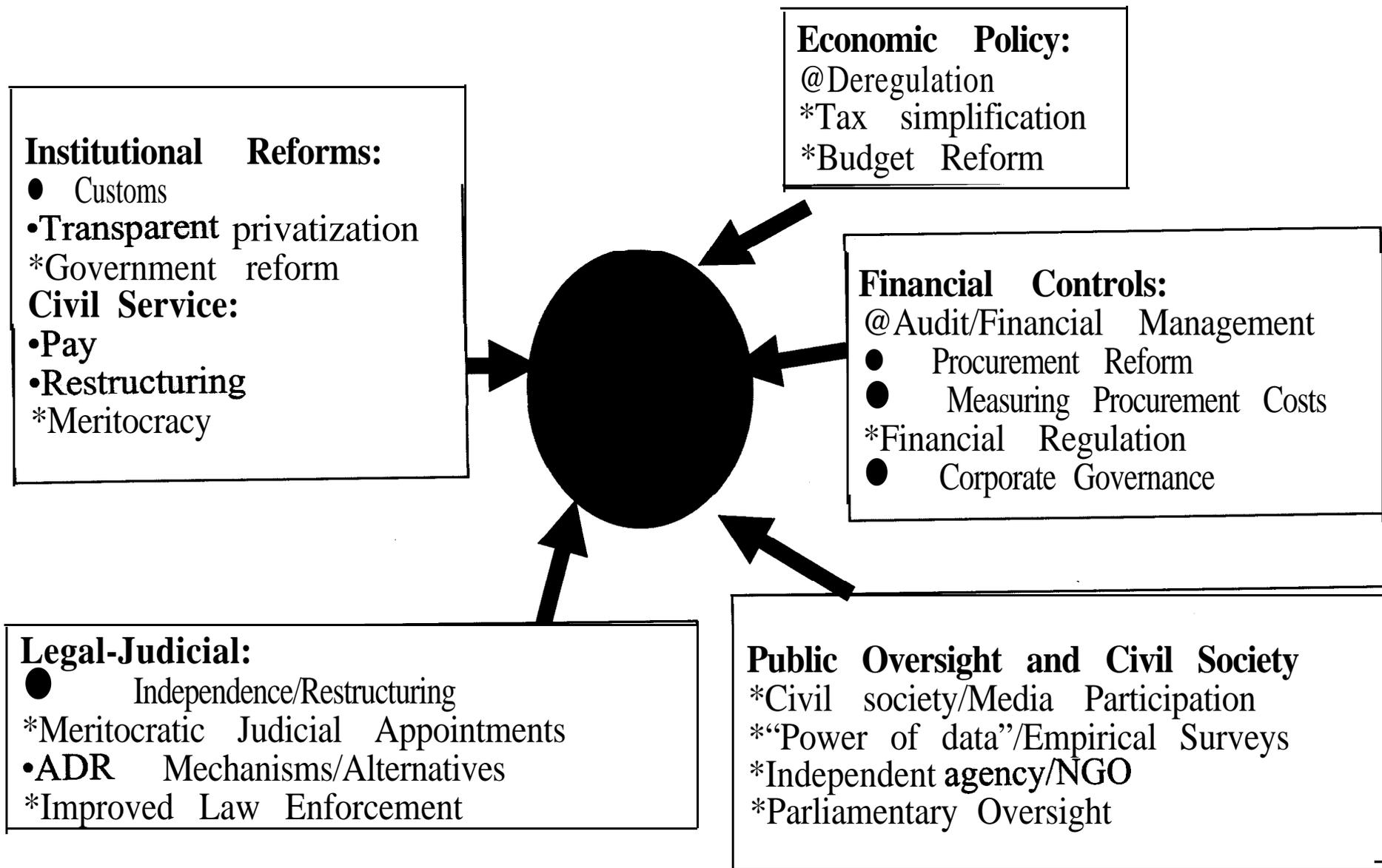
# Beyond Mapping, Costing and Diagnosing Corruption:

## How to elicit Operational Data for Program Design?

*In Surveys of Public Officials, focus on Measuring:*

- *Incentive Structure*
- *Official Rules of Restraint and their Weaknesses*
- *Informality within the Public Sector: actual rules of behavior*
- *Actual Performance of Public Sector Agencies*
- *Public Service Delivery*

# A Multi-pronged Strategy for Combating Corruption



# Summing: Up

1. *Collective and Participatory Action: Logic*
2. Rigorous *Empirical Evidence* Does Empower
3. Focus on *Prevention and Systemic Weaknesses*
4. Institutional *Innovations* (non-western.. .)
5. Beyond Diagnostics: *Prioritized* Action Program
6. *Institutional*, Regulatory and Financial *Reforms*
7. *Humility and Realism*

## Examples of Ongoing Bank-assisted Reform Programs:

- *Customs Administration* (Guinea-Bissau, Ecuador)
- *Tax Administration* (Latvia)
- *Judicial Reform* (Albania, Guatemala, Morocco)
- *Civil Service Reform* (Albania, Yemen, Uganda)
- *Procurement reform* (Benin, Georgia, Colombia)
- *De-licensing* (Georgia)
- *‘Institucionalidad’* (Bolivia)