

# ICPS newsletter<sup>®</sup>

## The world is fighting corruption. Yet it was once seen as a positive phenomenon

*The Spring issue of Local Governance Brief, a journal published by the Open Society Institute, looked into the problem of fighting corruption and finding appropriate approaches. The issue also presented opinions about the World Bank's strategy and the activities of various organizations combating corruption. Given the EU's expansion in May, the journal also provided a review of the battle with corruption waged by European funds and new EU members. The section "Case studies" included reports on the results of anti-corruption initiatives in different countries*

In his 1996 speech to the Annual Meeting of the World Bank (WB) and the International Monetary Fund (IMF), current WB President James Wolfensohn declared that donors needed "to deal with the cancer of corruption." This public recognition of a movement that had been gathering steam since the early years of the decade marked a turning point in donor policy. Until the 1990s, donors rarely spoke out against the rampant corruption in some borrowing countries or the widespread misuse of donor funds. Moreover, there were no projects or programs that were directly aimed at dealing with the issue of corruption. Yet, the situation has changed for all donors, right across the board.

### Attitudes towards corruption changed when the Cold War ended

The great political upheavals of the early 1990s changed the way donors approached foreign aid and ushered in an era of good governance and the attachment of political conditions. A combination of factors—such as the rise of neo-liberalism and economic liberalization, ever-shrinking aid budgets, and increased media attention towards dictatorial Third World regimes that squandered foreign aid—forced donors to start offering support for the removal of authoritarian governments and the spread

of democracy in the Third World. This came in the form of help organizing elections, judicial reform, media training, and support for civil society. Concurrent with assistance for democratic initiatives, there has been growing concern with the effects of corruption on economic development and increasing emphasis within the donor community on the need to provide assistance for anti-corruption programs.

### Corruption was seen as a positive factor in 1960s

The new understanding of corruption is based on research in the second half of the 20th century. Interestingly, in the 1960s and 1970s, one group of scholars saw a direct link between modernization processes and corruption, and argued that corruption was inevitable and thrived in countries at similar stages of development, regardless of cultural differences. Some insisted that corruption helped social and political integration during times of great social change, and filled needs not met by official channels. Some experts even thought that bribes could overcome the obstacles presented by inefficient bureaucracies. They argued that corruption might help political development by stimulating economic development, as long the players were not wasting resources, such as engaging in capital flight, investing inefficiently, wasting skills, and losing foreign aid.

Samuel Huntington wrote that higher levels of corruption coincided with rapid social and economic modernization and helped to offset a slew of destabilizing factors brought about by such upheavals. He made the point that, even though corruption tended to weaken political development, it could also shore up a political system by strengthening opposition parties and other institutions that otherwise lacked access to the state.

### Economists say corruption is bad

But this notion that corruption served a number of developmental functions was criticized by a new generation of scholars, mostly economists, in the late 1970s. It is this school of thought that has influenced the current donor agenda. Earlier in the 1970s, economists such as Gunnar Myrdal and Alan Krueger developed the idea of "rent-seeking," defined as "situations where people use resources both for productive purposes and for gaining advantage in dividing up the benefits of economic activity." As Krueger explained this idea, forms of corruption that are connected to rent-seeking, including bribery, "grease money," smuggling, and black markets, not only do not cut down on red tap or open the state to the excluded, but actually add costs to transactions involving the state. Instead of speeding up the bureaucracy, rent-seeking actually encourages civil servants to slow processes down so that they can collect more bribes.

This approach to the impact of corruption on development gained a great deal of attention through the work of two economists in particular: Susan Rose-Ackerman and Robert Klitgaard. Both worked as consultants to the World

Bank on corruption issues and continue to have a great influence on the direction this work has taken. Both argue that a free market is essential for combating high levels of corruption and that “incentives for corruption are the nearly inevitable consequence of all government attempts to control market forces.” Looking at corruption primarily in terms of bribery, the two offered solutions that were taken up by the World Bank and other development agencies. Rose-Ackerman’s direct recommendations to the Bank on corruption included:

- tackling corruption in its own projects and being ready to cancel projects if corruption is detected;
- supporting international efforts to reduce bribery and establishing universal financial management standards; and
- creating grant and loan projects that foster an environment for economic growth and poverty reduction.

### The Hong Kong success story: attitudes to corruption changed

The Hong Kong Independent Commission Against Corruption (ICAC), in particular, has attracted much attention since it was first initiated in 1974, following a number of high-profile scandals. Some of those who were involved in the ICAC’s work from the beginning have found great success as consultants to donors and governments interested in replicating the ICAC model elsewhere.

The ICAC model involves a three-pronged “directed attack”: investigation, prevention and education. This is based on the premise that it is not enough to prosecute cases of corruption and put in place preventive measures, but it is also necessary to change people’s attitudes towards corruption. The ICAC three-part strategy is reflected in its organizational structure:

- Operations Department: conducts corruption investigations;
- Corruption Prevention Department: provides policy advice to public and private organizations;

- Community Relations Department: educates the public about corruption issues.

This model has been replicated in countries as diverse as Singapore, Botswana, and Australia, among many others, with varying degrees of success. Donors have supported many of these anti-corruption commissions, including, for example, in Malawi, Papua New Guinea, Sierra Leone and Zambia.

The ICAC has had a visible impact on corruption in Hong Kong. For example, in 1974, 45% of corruption reports involved the police, while in 1994, this was down to 18%. Significantly, in 1977, 38% of residents surveyed thought corruption was widespread, while only 7.8% thought so in 1994. Indeed, the ICAC has been so successful in tackling public sector corruption that the majority of reported incidents nowadays involve the private sector.

### The World Bank introduces anti-corruption measures

The World Bank’s approach to combating corruption was described in the follow-up report to the 1997 strategy document: “The World Bank views corruption as a symptom of underlying institutional dysfunction, and thus employs a proactive and holistic approach that attempts to help clients strengthen governance and public sector management, to improve economic policies and legal/judicial systems, and to develop and implement specific anti-corruption measures.”

All sectors within the Bank are encouraged to adopt these recommended measures and approach to “mainstream” governance activities in their own work, be it health, education, water, transport, or other areas. Specific anti-corruption initiatives often form part of the introduction of a National Integrity System in partnership with Transparency International (TI). Other areas with an anti-corruption component include improving regulations, privatization, public participation projects, decentralization, and institutional and judicial reform. This comprehensive approach to combating corruption is reflected in all four aspects of the World Bank’s strategy, and

especially in the second one: “helping countries that request the Bank’s support in their efforts to reduce corruption.”

According to Ian McDonald, editor of *Finance&Development*, a journal published by the IMF, “Like the mythical Hydra, corruption is a many-headed foe that insinuates itself into every part of social life, weakens the body politic, and jeopardizes prospects for economic growth.” This literary analogy is illustrative of how the World Bank is approaching anti-corruption work—by tackling its impact in every sector of the Bank’s work, from public sector management, to health, forestry, and so on. In order to “kill the beast,” the World Bank is trying to attack it at its institutional core rather than chopping off one head at a time. ■

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